

ORIGINAL

Decision No. 66169

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of General Telephone Company of California, a corporation, and Sunland-Tujunga Telephone Company, a corporation, for an Order of the Commission; (a) authorizing General Telephone Company of California to acquire all of the outstanding stock of the Sunland-Tujunga Telephone Company and to issue shares of its common stock in consideration therefor; (b) authorizing the Sunland-Tujunga Telephone Company to merge into General Telephone Company of California and to cease public utility operations; (c) authorizing General Telephone Company of California to enter and engage in the telephone business in the territory now served by the Sunland-Tujunga Telephone Company.

Application No. 45646
Filed August 5, 1963

Albert M. Hart for applicants General Telephone Company of California and Sunland-Tujunga Telephone Company; R. W. Russell, General Manager, by Charles E. Powers, for the Department of Public Utilities and Transportation, City of Los Angeles, interested party.

O P I N I O N

In this application, General Telephone Company of California seeks authority to acquire all of the outstanding capital stock of Sunland-Tujunga Telephone Company in exchange for shares of its common stock, and the latter seeks authority to merge into the former.

After due notice, public hearing in this matter was held before Examiner Gielegem on September 12, 1963 at Los Angeles, at which time evidence was adduced and the matter was submitted.

Under the terms of the proposed merger, Sunland-Tujunga Telephone Company (hereinafter designated "Sunland") will be merged into General Telephone Company of California (hereinafter designated "General"), and its utility operations and obligations terminated. Sunland now has outstanding 375,991 shares of common stock of the par value of \$5 per share, having earlier called for the redemption of all of its outstanding preferred stock, which was redeemed and retired as of July 31, 1963. In addition, Sunland has redeemed in full and retired its long-term obligations to Occidental Life Insurance Company of California in the amount of \$1,775,000, such redemption having been effected on July 1, 1963.

All of the presently outstanding stock of Sunland, consisting wholly of common shares, is owned by General Telephone & Electronics Corporation (hereinafter designed "GT&E"), which also owns all of the outstanding common stock of General Telephone Company of California. General proposes to purchase said common stock of Sunland from GT&E and to issue to GT&E, in consideration therefor, common shares of General, par value \$20, in an aggregate amount equal to the book value of the common stock of Sunland as of date of transfer, anticipated to be prior to December 31, 1963. General, as the surviving corporation, will succeed to all the rights and properties and will be responsible for all the debts,

liabilities and obligations of Sunland, pursuant to the provisions and requirements of Section 4124 of the Corporations Code of the State of California.

General proposes to transfer to its books of account the balances in the plant and related reserve accounts, and other asset, liability and reserve accounts of Sunland subject only to such changes as may be required by the nominal adjustment of the capital stock accounts to eliminate fractional shares, and to eliminate intercompany items for purposes of consolidation of the accounts. The proposed accounting to effect the merger, as set out in Exhibit D to the application, supplemented by oral testimony of applicants' witness, appears to be in conformity with prescribed accounting applicable to telephone utilities.

For reasons of economy, General desires that it not be required to maintain a separate set or segregation of accounts relating to the Sunland properties and their operation. Applicants' witness testified, however, that in lieu of maintaining such separate records, it would be possible, at nominal cost, to provide within the framework of General's machine accounting procedures, an identification and coding of Sunland's property and operating accounts and transactions sufficient to enable it to provide such information to the Commission should it be required. The order herein will require that the accounting records be maintained in such manner, to be elected by General, permitting reasonable access to accounting data relating to the investment in and operation of the Sunland system, should such data be required by the Commission.

In presenting this matter to the Commission, applicants assert that the proposed exchange of stock and subsequent merger of the two companies, when consummated, will result in a surviving corporation with substantially greater financial resources and better able to obtain more economical financing for anticipated growth in the Sunland area. In addition, consolidated operations and centralized purchasing and warehousing should also produce cost savings. The testimony and exhibits show that estimated annual savings of \$147,600 are projected to result from the merger; that it is not contemplated that the merger will result in increases in rates for service to the customers of either company; and that there will be no adverse effect on the salary and wage levels, fringe benefits or advancement opportunities of present employees of Sunland. Substantial savings are also anticipated in subscriber billing, accounting and administrative functions now performed by Sunland.

There were no appearances at the hearing by any party in objection to the proposed merger.

General proposes to adopt Sunland's tariffs as they now are in effect, subject to subsequent changes which would normally develop through additional offerings of service and other changes in tariff offerings. General proposes to continue providing itemization of multi-message unit calls on monthly billings to subscribers in the Sunland-Tujunga area, and is considering plans to provide similar detailed listing of message unit calls for its subscribers within the Los Angeles

Extended Area. Implementation of such latter plans is being deferred pending the outcome of certain proposals by The Pacific Telephone and Telegraph Company in Application No. 44201, with respect to elimination of certain message unit routes in the Los Angeles area, and conversion of the remaining message unit routes to toll. General preliminarily estimates additional costs and revenue reduction totaling \$142,900 as the estimated cost of introducing detailed message unit billing for General subscribers.

General has estimated capital requirements of approximately \$3,400,000 for debt refinancing, retirement of preferred stock and construction programs for 1962 through 1965, as financial needs inherent in the acquisition and anticipated growth in the Sunland-Tujunga area. The larger financial resources and more extensive financing experience of General should prove beneficial in obtaining such capital funds at reasonable cost.

The testimony indicates that there will be no unusual or extraordinary income tax consequences as a result of the proposed merger; that depreciation practices with respect to the properties of Sunland will be continued with no materially different policy or procedure by General; that no union problems are anticipated in that Sunland employees, not now represented by a union, may join and will be represented by the Communications Workers of America after the merger; that there will be no sales tax applicable to the transfer of properties and assets resulting from the merger; and that there will be no significant

dilution in per share earnings of General as a result of the merger under the terms proposed.

Upon a full review of the application and of the testimony and exhibits presented at the hearing, we are of the opinion, and so find, that the proposed merger will not be adverse to the public interest; that the money, property or labor to be procured or paid for by the issue of the shares of stock herein authorized is reasonably required for the purpose specified herein; and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income. We will enter an order granting the application.

The authorization herein granted is not to be construed to be a finding of value of the properties or the shares of stock of the two companies, nor indicative of amounts to be included in future proceedings for the purpose of determining just and reasonable rates. Such authorization is for the purpose of this proceeding only and is permissive only.

O R D E R

IT IS ORDERED that:

1. General Telephone Company of California is authorized to acquire, on or before January 31, 1964, all of the common stock of Sunland-Tujunga Telephone Company and, in consideration therefor, to issue shares of its common stock having an aggregate par value equal to the book value of the

common stock of Sunland-Tujunga Telephone Company as of the date of transfer, but in no event in excess of 150,000 shares.

2. Sunland-Tujunga Telephone Company is authorized to merge into General Telephone Company of California.

3. General Telephone Company of California, as the surviving corporation in the merger, is authorized to assume all the debts, liabilities and obligations of Sunland-Tujunga Telephone Company; to exercise all rights and privileges under the franchises, permits and rights to be acquired from Sunland-Tujunga Telephone Company; and to enter into and engage in the telephone business in the territory now served by Sunland-Tujunga Telephone Company.

4. Upon consummation of said merger, Sunland-Tujunga Telephone Company is authorized to cease public utility operations in, and withdraw from, its territory.

5. General Telephone Company of California shall file, within five days after the effective date of the merger, a notice of adoption of the presently filed tariff schedules of Sunland-Tujunga Telephone Company.

6. The tariff schedules of Sunland-Tujunga Telephone Company, now on file with this Commission, shall be refiled within thirty days after the effective date of the merger, in accordance with the requirements of General Order No. 96-A, except that General Telephone Company of California may withdraw such of Sunland-Tujunga Telephone Company's rules and

standard forms as are substantially identical with those of General Telephone Company of California, and the withdrawal of which will not result in increases in rates or more restrictive conditions than the presently filed tariffs of Sunland-Tujunga Telephone Company.

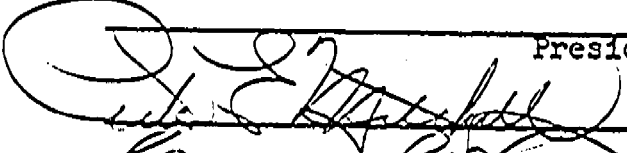
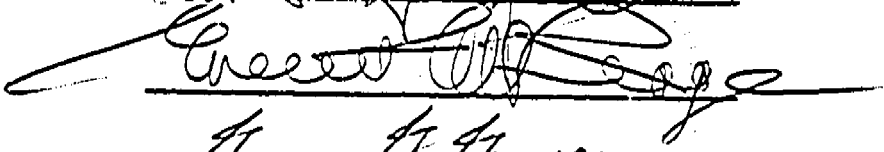

7. General Telephone Company of California shall maintain its records in such manner so that plant investment and related rate base accounts and amounts and revenues and expenses of the Sunland-Tujunga properties herein authorized to be transferred may be separately and readily determined at any time. Commencing in 1964, and until further notified by the Commission, General Telephone Company of California shall file with the Commission, on or before March 31 of each calendar year, a summary of earnings statement, including rate of return, for the Sunland-Tujunga area operations for the preceding calendar year.

8. General Telephone Company of California shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

9. Within sixty days after the consummation of the merger, General Telephone Company of California shall file with the Commission a copy of each journal entry used to record the merger on its books of account.

10. The authorization herein granted shall become effective on the date hereof. Unless exercised, such authorization will expire on January 31, 1964.

Dated at San Francisco, California, this 22nd day of OCTOBER, 1963.

 President

George T. Grover
 Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.