

ORIGINAL

Decision No. 72665

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)
California Water & 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 California Water & Telephone)
Company, a corporation, from)
General Telephone & Electronics)
Corporation; (b) authorizing)
General Telephone Company of)
California to issue 2,575,000)
shares of its common stock in)
payment to General Telephone &)
Electronics Corporation for all)
of the outstanding stock of)
California Water & Telephone)
Company; (c) authorizing)
California Water & Telephone)
Company to merge into General)
Telephone Company of California;)
(d) authorizing General Telephone)
Company of California to assume)
the obligations of California)
Water & Telephone Company to its)
debentureholders and bondholders)
by executing Indentures of)
Assumption; (e) authorizing)
General Telephone Company of)
California to enter and engage in)
the telephone business in the)
territory now served by California)
Water & Telephone Company, and (f))
authorizing California Water &)
Telephone Company to withdraw from)
the utility business.)

Application No.49356
Filed May 9, 1967

Bacigalupi, Elkus, Salinger & Rosenberg, by Claude N. Rosenberg and Charles de Y. Elkus, Jr., for California Water & Telephone Company, applicant;
A. M. Hart and O'Melveny & Myers, by Graham L. Sterling, for General Telephone Company of California, applicant;
R. W. Russell, Chief Engineer and General Manager, Department of Public Utilities and Transportation, by K. D. Walpert, for City of Los Angeles, interested party;
Manley W. Edwards and Sidney J. Webb, for the Commission staff.

O P I N I O N

This is an application for an order of the Commission authorizing California Water & Telephone Company to merge into General Telephone Company of California, together with related transactions including the issuance of 2,575,000 shares of the latter's \$20 par value common stock in exchange for all the outstanding capital stock of the former.

After due notice, a public hearing in this matter was held before Examiner Donovan in Los Angeles on June 7, 1967, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

General Telephone Company of California is a California corporation engaged in business as a public utility providing telephone service in portions of the Counties of Fresno, Los Angeles, Orange, Sacramento, San Bernardino, San Joaquin, Santa Barbara, Tulare, Ventura and Yolo. All of its outstanding common stock is owned by General Telephone & Electronics Corporation, a New York corporation. The latter is the sole stockholder of California Water & Telephone Company, a California corporation.

operating public utility telephone systems in portions of the Counties of Imperial, Los Angeles, Riverside, San Bernardino and San Diego.

In this proceeding General Telephone Company of California requests authority to acquire from its parent company all of the outstanding capital stock of California Water & Telephone Company and, in exchange therefor, to issue 2,575,000 shares of its \$20 par value common stock in the aggregate par value of \$51,500,000. Upon consummation of such transaction, California Water & Telephone Company, subject to receiving authorization from this Commission, proposes to merge into General Telephone Company of California as the surviving corporation. The latter would assume all obligations and liabilities of, and enter into and engage in the telephone business in the territory now served by, the former, which would cease public utility operations in, and withdraw from, said territory. In addition, General Telephone Company of California seeks authority to execute and deliver (1) a Twenty-Fifth Supplemental Indenture and Indenture of Assumption with respect to the outstanding bonds of California Water & Telephone Company and (2) a Fifth Supplemental Indenture and Indenture of Assumption of Obligation under Debenture Indenture with respect to the outstanding debentures of California Water & Telephone Company.

Page 1 of Exhibit No. 6, filed in this proceeding, sets forth condensed balance sheets of the applicants as of April 30, 1967, together with adjustments and a pro forma balance sheet

giving effect to the proposed merger, from which are obtained the following:

<u>Assets</u>	<u>General Telephone Company of California</u>	<u>California Water & Telephone Company</u>	<u>Adjustments Dr. or (Cr.)</u>	<u>Pro Forma</u>
Intercompany accounts receivable	\$ 1,486,912	\$ 507,339	\$ (11,216)	\$ 1,983,035
Other assets	<u>880,739,224</u>	<u>145,726,986</u>	<u>-</u>	<u>1,026,466,210</u>
Total	<u>\$882,226,136</u>	<u>\$146,234,325</u>	<u>\$ (11,216)</u>	<u>\$1,028,449,215</u>
<u>Liabilities and Capital</u>				
Intercompany accounts payable	\$ 4,429,967	\$ 510,915	\$ 11,216	\$ 4,929,666
Other liabilities	500,284,669	73,272,767	-	573,557,436
Common stock	280,000,000	51,500,000*	-	331,500,000
Other capital	<u>97,511,500</u>	<u>20,950,643</u>	<u>-</u>	<u>118,462,143</u>
Total	<u>\$882,226,136</u>	<u>\$146,234,325</u>	<u>\$ 11,216</u>	<u>\$1,028,449,215</u>

* Aggregate stated value of the 1,000 outstanding shares of California Water & Telephone Company's common stock to be exchanged for 2,575,000 shares of General Telephone Company of California's \$20 par value common stock.

As justification for the proposed merger, applicants allege that: (a) it will benefit the public because both are presently serving the same general areas in southern California and, in certain instances, they have contiguous boundaries and their service divisions for operational purposes can in some cases be combined for greater efficiency and economy; (b) the surviving corporation has larger financial resources and a larger force of experienced executives, engineers and other technical personnel

to devote to the operation and development of California Water & Telephone Company's properties; and (c) centralized warehousing of applicants' inventories, centralized training of employees and a combination of accounting functions of the two companies will result in cost savings and operating efficiencies.

The Commission has considered this matter and finds that:

(1) the proposed merger and documents will not be adverse to the public interest; (2) the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purpose specified herein; and (3) such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application should be granted.

In issuing our order herein, we place General Telephone Company of California and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return the company should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of the value of the company's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

For rate-making purposes the Commission deems it necessary for the surviving corporation to maintain its records in such manner as will enable the company, upon request by the Commission or its staff, to prepare separated earnings statements

for a particular exchange or group of exchanges exclusive of inter-company toll and intercompany multi-message unit operations, and the order herein will so provide.

O R D E R

IT IS ORDERED that:

1. General Telephone Company of California may acquire all the outstanding capital stock of California Water & Telephone Company and, in consideration therefor, may issue not exceeding 2,575,000 shares of its common stock having an aggregate par value of \$51,500,000.

2. California Water & Telephone Company may merge into General Telephone Company of California, which transaction they may consummate as of July 1, 1967 for accounting purposes.

3. General Telephone Company of California, as the surviving corporation under the merger herein authorized, may assume all the debts, liabilities and obligations of California Water & Telephone Company.

4. General Telephone Company of California may execute and deliver Supplemental Indentures and Indentures of Assumption in the same form, or in substantially the same form, as Exhibits Nos. 3 and 4 filed in this proceeding. It is understood that the last paragraph on page 17 of Exhibit No. 4, and the heading thereto, may be deleted.

5. General Telephone Company of California, as the surviving corporation under the merger herein authorized, may enter into and engage in the telephone business in the territory now served by California Water & Telephone Company.

6. Upon consummation of the merger herein authorized, California Water & Telephone Company may cease public utility operations in, and withdraw from, the territory served by said company.

7. Within thirty days after consummating the merger herein authorized, General Telephone Company of California shall notify the Commission, in writing, of that fact.

8. Within five days after the effective date of the merger herein authorized, General Telephone Company of California shall file with the Commission, by advice letter, a notice of adoption of the presently filed tariff schedules of California Water & Telephone Company.

9. The respective tariff schedules of California Water & Telephone Company and General Telephone Company of California, now on file with this Commission, shall be refiled within ninety days after the effective date of the merger herein authorized under the name of General Telephone Company of California, in accordance with the requirements of General Order No. 96-A, except that General Telephone Company of California may withdraw such of the merged corporation'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 nor more restrictive conditions than the presently filed tariff schedules of either merged company.

10. After consummation of the merger herein authorized, General Telephone Company of California shall maintain its records in such manner as will enable it, upon request by the Commission

or its staff, to prepare separated earnings statements for a particular exchange or group of exchanges exclusive of inter-company toll and intercompany multi-message unit operations.

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

12. Within sixty days after consummation of the merger herein authorized, 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.

13. On or before the end of the third month after consummation of the merger herein authorized, General Telephone Company of California shall cause to be filed with the Commission, in such form as it may prescribe, an annual report, or reports, related to the operations of California Water & Telephone Company covering the period commencing with the first day of the current year to and including the effective date for accounting purposes of the merger.

14. The effective date of this order shall be ten days after the date hereof. Unless exercised, the authority herein granted shall expire on December 31, 1967.

Dated at San Francisco, California, this 27th day of JUNE, 1967.

[Signature]
President

[Signature]

[Signature]

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