

Decision No. 13862.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of REDONDO HOME TELEPHONE COMPANY,)	
(a corporation), for a revision of)	Application No. 9560
its rates for telephone service.)	

D. Joseph Coyne, for Applicant.

Frank L. Perry for the Cities of Redondo Beach and Manhattan Beach.

C. A. Bridge for the City of Hermosa Beach.

Frank L. Perry, J. E. Barker and C. A. Bridge for the Cities of Redondo Beach, Hermosa Beach and Manhattan Beach.

SHORE, COMMISSIONER:

O P I N I O N .

Redondo Home Telephone Company, in its application, asks for a revision of its present rates for service and for such other and further relief, that it may be able to obtain sufficient revenues to enable it to secure funds with which to carry out its completed program for additions to its plant and betterments to its service.

Applicant claims that on account of the great increase in number of subscribers that its system has become inadequate in many localities and that its facilities must be extended immediately, both to afford to its present subscribers service for which they have already applied and to provide means to serve the future demand for service. Applicant further claims that the rates now in effect do not yield sufficient revenues to enable it to meet its actual and reasonable maintenance and operating expenses, together with a reasonable depreciation annuity, and to give a return on the fair value of its properties used and useful in rendering service to the public so that it can sell its securities in order

to obtain funds with which to make necessary additions and extensions to its properties.

Applicant operates a manual telephone exchange in the City of Redondo Beach, furnishing exchange service throughout the cities of Redondo Beach, Hermosa Beach and Manhattan Beach. Toll or long distance service is available to the subscribers of applicant over the lines of the United States Long Distance Telephone and Telegraph Company and The Pacific Telephone and Telegraph Company. The population as shown by the cities' directories as of July 1, 1923, totals 14,355 for the three cities served by applicant. These cities are rapidly growing and it is now estimated that the present population will be increased to at least 37,000 by the year 1930.

The development of applicant's system, as of February 1, 1924, shows that telephone service is furnished to 1,710 subscribers by means of 579 lines. This telephone development is equivalent to one telephone station to each eight people, or twelve telephones to every one hundred people. This is a relatively low telephone development when compared with other towns of similar size. In California towns having a population of from ten to twenty thousand, the population per telephone station varies from 4.6 to 7.2, which is an average of six persons to every telephone or sixteen telephones to every one hundred people.

There has been considerable complaint to the effect that applicant has not sufficient facilities necessary to render service as has been demanded. This condition is indicated by the above figures and it is also admitted by applicant.

Applicant submitted, through Mr. Ernest Irwin, an inventory and appraisal of its properties as of June 1, 1923, together with additions and betterments made subsequently, bringing the valuation up to January 1, 1924. A summary of this appraisal, representing the historical reproduction cost of applicant's properties, is shown in the following table:

SUMMARY OF VALUATION OF PLANT
o f
REDONDO HOME TELEPHONE COMPANY.

	Valuation as of <u>June 1, 1923</u>	Additions and Betterments June 1, 1923 to <u>Jan. 1, 1924</u>	Valuation as of <u>Jan. 1, 1924</u>
Organization	\$ 1,000.00		\$ 1,000.00
Franchises	500.00		500.00
Land	1,600.00		1,600.00
Central Office Equipment			
Switchboard	13,726.55	\$ 8.69	13,735.24
Other equipment	480.76	32.20	512.96
Station Apparatus	14,582.92	1,983.54	16,566.46
Station Installations	3,443.90	865.29	4,309.19
Private Branch Exchanges	1,065.21	171.65	1,236.86
Exchange Pole Lines	24,697.70	229.84	24,927.54
Exchange Aerial Cable	14,792.13	334.79	15,126.92
Exchange Aerial Wire	22,152.77	2,866.81	25,019.58
Exch. Underground Conduit	5,376.86	212.08	5,588.94
Exch. Underground Cable	6,844.09	22.88	6,866.97
Furniture and Fixtures	3,535.41	29.80	3,565.21
Store and Shop Equipment	33.00		33.00
Garage Equipment	3,443.52	1,105.51	4,549.03
General Tools	<u>266.36</u>	<u>100.75</u>	<u>367.11</u>
 T o t a l	 <u>\$117,541.18</u>	 <u>\$ 7,963.83</u>	 <u>\$125,505.01</u>

This inventory and appraisal has been checked by Mr. F. M. Casal, Assistant Engineer of the California Railroad Commission, and with the exception of the item of "Organization", the above figures may be accepted as representing a reasonable historical reproduction cost of applicant's operative properties as of January 1, 1924.

A statement showing the results of applicant's operations during the past year, together with the Commission's check of operating revenues and expenses for the year ending January 31, 1924, are as shown in the following table:

OPERATING REVENUE AND EXPENSES

o f

REDONDO HOME TELEPHONE COMPANY

	<u>Applicant's Exhibit No. 5 1 9 2 3</u>	<u>Railroad Commission's Exhibit No. 1 Feb. 1, 1923 to Jan. 31, 1924.</u>
<u>REVENUE</u>		
Exchange Service	\$43,058.14	\$44,381.60
Toll Service	5,733.06	5,844.15
Miscellaneous	26.85	2.25
T o t a l	<u>\$48,818.05</u>	<u>\$50,228.00</u>
<u>EXPENSES</u>		
Maintenance	\$11,790.55	\$12,607.00
Traffic	9,454.84	9,501.00
Commercial	3,140.06	3,170.00
General	6,489.32	6,541.00
Taxes	2,934.16	2,896.00
Uncollectible Bills	380.54	400.00
T o t a l	<u>\$34,189.97</u>	<u>\$35,115.00</u>
Net for Interest and Depreciation	14,628.08	15,113.00
Depreciation	<u>5,170.28</u>	<u>5,052.00</u>
Net for Interest	\$ 9,457.80	\$10,061.00

Applicant's net earnings of \$9,457.80, as shown in its Exhibit No. 5, are equivalent to a return of 7.7 per cent and the net return for interest of \$10,061.00, as determined by the Commission and as set forth in the above table, is equivalent to a return of 8.3 per cent on a reasonable rate base as herein found reasonable. It is apparent, from these figures, that under present conditions of operation applicant needs no relief in the form of increased rates.

Applicant's plant as a whole is, and has been for some time, very congested and overloaded. New subscribers cannot be furnished service except in case of a vacancy resulting from a discontinuance of an existing service or by degrading an existing service. To relieve this condition and in order that applicant will be in a position to render a service which the subscribers and public are entitled to enjoy, it will be required to make immediate expansion and addition to its present plant. Applicant has definite plans providing for an increase in its plant, which it believes will correct the present conditions and enable it to take care of the present and future demands of service.

Applicant has already contracted for additional central office equipment and associated apparatus, costing approximately \$9,000. and which it contemplates will be installed during the latter part of this year. The installation of this board should afford the necessary relief required in central office capacity. Applicant's plans for outside plant construction, including aerial and underground cable and suburban construction will involve the expenditure of \$65,000.00 and these facilities will be installed during the years 1924 and 1925 as the needs for service demand. These figures have been checked and I am of the opinion that applicant will be

required to expend at least this amount to bring its plant into a condition that satisfactory service may be rendered.

Applicant in this proceeding asks that this Commission allow it to make effective certain increases in rates, over those now existing, in order that it might be in a position to finance its proposed construction program. Although it is a proper procedure for a utility to request the opinion of this Commission relative to the propriety of making certain expenditures, yet this Commission cannot allow a utility to charge and collect rates in excess of those which are reasonable, either for the payment of capital expenditures or that the utility might finance itself under more favorable conditions. If, however, a utility wisely makes investments that adequate and efficient service will result, then that utility may expect rates which will take account of expenditures.

Applicant's average investment during the year 1923 was \$72.00 per station and its operating revenues and expenses as shown in the preceding table for the year 1923 amount to \$29.60 and \$23.60 per station respectively. Under conditions which should normally exist after applicant has completed additions to its plant necessary to serve the present undeveloped business and to adequately provide for future business which may be expected, applicant's investment will total approximately \$92.50 per station. Operating expenses for this same period should amount to not more than \$26.00 per station and under these conditions, assuming the present rates to be in effect, the resulting return to applicant will then amount to approximately seven per cent. On this basis applicant may be entitled to an increase in rates. The time at which such an increase may become effective, will, however, depend upon the time when applicant is able to bring its system up to the point where adequate and satisfactory service

will be rendered. This may be determined upon proper showing before this Commission that such condition exists and at the time this is done the relief set forth in the order following, if then needed, will be granted by supplemental order.

The modifications in the present rates, which appears should be made and, if made, will result in an increase in rates sufficient to give applicant a reasonable and fair return, will be an increase of 25¢ per station for individual line business and residence service and an increase of 25¢ per trunk for private branch exchange service. The Company has also, at the present time, a number of hand microphone sets and the proposed rate for this service is the rate for wall set plus 75¢.

At the present time applicant is furnishing an eight party service to both business and residence subscribers within the primary rate area. It does not appear to be in the interest of the subscribers to continue this service and this particular class of service should be eliminated.

After an investigation which the Commission has made it appears that certain modifications should be made in the boundaries of the primary rate area that most economical and satisfactory service may be rendered. The order following will provide that the area which is to be included in the primary rate area will be that set forth in applicant's Exhibit No. 2 in this proceeding. Under the proposed set of schedules the service to be rendered within the primary rate area is individual two and four party service and within the suburban area, suburban service under suburban rates in which no change is contemplated. Subscribers may also obtain the individual two and four party service by paying primary rate area rates for

these services, plus mileage charges.

The Commission also made an extensive investigation relative to the various methods which applicant has been following in rendering service during the past, the results of which are part of this proceeding through the testimony of Assistant Engineer E. V. Rhodes. It seems advisable that certain changes should be made in the methods now being followed by the applicant and as these changes can be best carried out by cooperative work between applicant and the Commission's Engineering Department, the order will provide that applicant make such changes as it may be informally directed from time to time by this Commission.

O R D E R .

Redondo Home Telephone Company, having made application to this Commission requesting certain revisions in its present rates for service and for such other and further relief that it may be able to obtain sufficient revenues to enable it to secure funds with which to carry out its completed program for additions to its plant and betterments to its service, a public hearing having been held, the matter being submitted and now ready for decision,

The Railroad Commission finds as a fact that the present rates and charges are just and reasonable rates for the service which applicant is now rendering under the present conditions of operation and that the Railroad Commission further finds as a fact that when applicant will have completed the construction program now in progress and when applicant is in a position to render an adequate service reasonably meeting the demands for service, that the present rates and charges will at that time be unjust and unreasonable insofar as they differ from the rates set forth in the order following.

Basing its order upon the foregoing finding of facts and other facts contained in the opinion preceding this order,

IT IS HEREBY ORDERED that Redondo Home Telephone Company be, and it is hereby authorized, to file and make effective the following modifications to its existing rates and charges, and Primary Rate Area upon completion of such additions and changes in its telephone plant and system that adequate service will be rendered to existing subscribers and that all reasonable demands for service may be met, and to make effective such other changes in its rates or service as may hereafter be found reasonable by this Commission, and upon proper showing before this Commission that such additions and changes have been made to its system and that adequate service is being furnished and that such relief is necessary and upon issuance of a supplemental order by the Railroad Commission.

Modification to Existing Rates.

(a) Individual Line Service:

The rates for individual line business and residence service to be;

<u>Service</u>	<u>Rate per Month:</u>	
	<u>Wall Set</u>	<u>Desk Set</u>
Business Service - Individual Line	\$ 3.50	\$ 3.75
Residence Service- Individual Line	2.75	3.00

(b) Private Branch Exchange Service:

The rates for trunk lines to private branch exchange to be;

First Trunk	\$ 5.50 per month
Each Additional Trunk	4.50 " "

(c) Press Service:

The rate for trunk line for press service to be the individual business line wall set rate.

(d) Hand Microphone Sets:

The rate for a hand microphone set to be the wall set rate plus 75¢ per month.

- (e) Eight Party Line Service Within Primary Rate Area:
Eight party line business or residence service to be discontinued within the Primary Rate Area.

Modification to Primary Rate Area Boundary.

The boundary of the primary rate area to be in accordance with the proposed boundary as set forth in Applicant's Exhibit No. 2 in this proceeding.

AND IT IS HEREBY FURTHER ORDERED that the Redondo Home Telephone Company make such modifications and changes in its records and procedures affecting service as it may be informally directed from time to time by the Railroad Commission.

The foregoing opinion and order is hereby ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 5th day of August 1924.

C. Severy
H. B. Boudier
James Marshall
Ernest Shore
J. T. Whittney
Commissioners.