

Decision No. 11035

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

**ORIGINAL**

In the matter of the application  
of Santa Paula Home Telephone Com-  
pany for an order increasing its  
rates.

Application No. 6349

Max Thelen, for applicant.  
Arthur H. Blanchard and H. Clyde Harms,  
for Santa Paula Chamber of Commerce and  
its Committee on Public Utilities.

BY THE COMMISSION:

O P I N I O N

Santa Paula Home Telephone Company, petitioner in this proceeding, owns and operates a telephone system serving the City of Santa Paula and contiguous territory. On January 25, 1916, this Commission issued its Decision No. 3061, in Application No. 1655, authorizing Santa Paula Home Telephone Company to purchase from The Pacific Telephone and Telegraph Company and consolidate with its own system, the local plant and system of the latter company in Santa Paula and vicinity. By the terms of Decision No. 3061 the Santa Paula Company was permitted to apply its then-existing rates to all subscribers of the consolidated systems, with certain modifications, which rates were continued in effect until May 1, 1919, at which time the present rates were made effective by an order of the Postmaster General of the United States authorizing the same. The present rates

are as follows:

	<u>Business Service</u>		<u>Residence Service</u>	
	<u>Wall Set</u>	<u>Desk Set</u>	<u>Wall Set</u>	<u>Desk Set</u>
1 Party Line	\$ 3.50	\$ 3.75	\$ 2.50	\$ 2.75
2 " "	3.00	3.25	2.00	2.25
4 " "	--	--	1.50	1.75
10 " Suburban Line	2.50	2.75	2.50	2.75
Extension Sets	1.00	1.25	0.50	0.75

In its application petitioner sets forth that operating expenses have increased to such extent since the consolidation was effected and since the increased rates authorized by the Postmaster General were made effective on May 1, 1919, that the net income has not for some time been sufficient, after making an adequate reserve for depreciation, to meet fixed charges and provide a reasonable return on its plant, system and equipment. It sets forth further that the increased operating expense consists chiefly in the wages paid its operators and other employees. The rates which petitioner desires to make effective are as follows:

	<u>Business Service</u>		<u>Residence Service</u>	
	<u>Wall Set</u>	<u>Desk Set</u>	<u>Wall Set</u>	<u>Desk Set</u>
1 Party Line	\$ 4.25	\$ 4.50	\$ 2.75	\$ 3.00
2 " "	3.75	4.00	2.25	2.50
4 " "	--	--	2.00	2.25
10 " Suburban Line	3.00	3.25	3.00	3.25
Extension Sets	1.00	1.25	0.75	1.00

A public hearing in this matter was held in Santa Paula on June 14, 1922, before Examiner Satterwhite and submitted upon condition that if counsel for the Chamber of Commerce may desire an opportunity for cross examination after examination of various exhibits presented on June 14, a further hearing would be held on July 14. It having since been indicated that further hearing is not desired the matter is now ready for decision.

At the hearing petitioner presented various exhibits covering its property appraisal, its revenue and expense accounts, estimated revenue and expense statements and related matters. There were also

presented by the Commission's engineers an appraisal report and estimates of revenues and expenses under the present and proposed rate structures.

In the appraisal presented by petitioner the value of the property as of June 30, 1921, is represented to be \$76,731.61. Net additions down to April 30, 1922, and the average net additions for the remainder of the year 1922 bring the total appraised value of the property claimed by the company to \$79,026.17. The appraisal of the Commission's engineers covering the same period is \$66,806.00. This amount is determined by deducting from their appraisal as of June 30, 1921, \$64,390.00, the appraised value of non-operative and duplicate property, \$584.00, and adding to the sum thus determined, \$1,000.00 for actual net additions to December 31, 1921, taken from the company's records, plus estimated average net additions for the year ending December 31, 1922. Each of these appraisals is based on what this Commission terms the historical reproduction method. As between the two appraisals it will be seen there is a difference of approximately \$12,200.00. This difference is due in part to differences in inventory quantities appearing in the respective appraisals but chiefly to differences in unit costs of labor applied by the engineers of the Commission and the company's engineers. As to differences in inventory quantities, a recheck which has been made subsequent to the hearing indicates that such adjustment as may properly be made to reconcile them would not materially alter the appraisal. As to labor costs it is our opinion that the amounts allowed by the Commission's engineers are reasonable and that the total valuation found is a fair valuation for the purposes of this proceeding.

Petitioner has presented an income statement, taken from its books, for the five years 1917 to 1921 inclusive. This statement shows net earnings of approximately \$2,500.00 and \$250.00 respectively for 1917 and 1918, and gross receipts approximately equal to gross expenses for 1920. For 1919 and 1921 net operating losses of approximately \$4,700.00 and \$1,650.00 are shown. So far as this showing of net operating losses is concerned it appears that the amounts set aside on the company's books for depreciation reserve in 1919, 1920 and 1921 are excessive and that net earnings would be shown if operating expenses were not charged with these excessive amounts. Petitioner has also presented estimates of revenues and expenses for the year 1922 under present and proposed rates showing net operating income of \$1,932.00 under present rates and \$5,277.00 under proposed rates. These amounts would represent net earnings of 2.45% and 6.68% respectively on the company's appraisal. An examination of the company's records and a careful analysis of its revenue and expense accounts has been made by the Commission's engineers and estimates of revenues and expenses for the year 1922 have been prepared and submitted. These estimates show that in 1922 petitioner's net income under present rates would probably be sufficient to earn approximately 3.8% on the value of the property shown in their appraisal, as compared with 2.45% shown in petitioner's statement, and that under the rates proposed by the company the net income would probably be sufficient to earn approximately 9.3% on this valuation, as compared with 6.68% shown in petitioner's statement. While it thus appears that petitioner is entitled to higher rates than those now in effect it also appears that the proposed rates should be modified. We suggest the following schedule:

	<u>Business Service</u>		<u>Residence Service</u>	
	<u>Wall Set</u>	<u>Desk Set</u>	<u>Wall Set</u>	<u>Desk Set</u>
1 Party Line, per mo.	\$4.25	\$4.50	\$2.75	\$3.00
2 " " " "	3.75	4.00	2.25	2.50
4 " " " "	--	--	1.75	2.00
Suburban 10 Party Line per mo.	3.00	3.25	2.75	3.00
Extension Telephones " "	1.00	1.00	1.00	1.00

It is estimated that these suggested rates will produce gross revenues, inclusive of toll service and miscellaneous revenues, amounting to approximately \$31,450.00 which, after deducting operating expenses, depreciation reserve, taxes and miscellaneous revenue deductions, will leave a net income of approximately \$5,400.00. This will represent a net return of approximately 8.1% on a valuation of \$66,800.00.

In the matter of service petitioner during the year 1921 completed certain improvements in its system by which its four-party lines were converted from biased to harmonic ringing and its suburban lines were changed from magneto to common battery operation with full selective ringing. These changes have brought about improvement in the service. As to its business management, however, complaint is made that prompt and proper attention is lacking in matters of interest to subscribers which frequently arise, due to the fact that the entire time of the company's manager is not given to the Santa Paula exchange. His time is now divided between this exchange and the exchange of another telephone company in Oxnard of which he is also the manager. If, under petitioner's present plan of management, it were shown that the service is inefficient the Commission may require such change to be made as may be found to be necessary to provide efficient service. Such showing however has not been made. The employment of a manager who would give his entire time to Santa Paula would involve an additional operating expense for which an allowance has not been included in the estimates of the Commission's engineers. It is our opinion, in the absence of sufficient showing that the public interest requires the employment referred to, that only such rates as present

operating conditions require should now be authorized. Should it later appear however that the service requires such employment and if in order to meet the expense thus involved a further change in rates should be made petitioner may then present the matter for the further consideration of the Commission.

Regarding the rates proposed by petitioner: In addition to the rates appearing in the preceding as the proposed rates, authority is asked to file certain supplemental rate schedules covering intercommunicating, joint user service and mileage rates. The rates set forth in these supplemental schedules and shown in applicant's Exhibit No. 9, are the same as the present standard rates for the same service generally in effect in this State and we see no objection to their adoption in this case. To make the rates therein provided for effective it will be necessary to establish a primary rate area beyond which the mileage rates may be made to apply. In the consideration of this matter counsel for the Chamber of Commerce and its Public Utilities Committee asked that there be included within the primary rate area a certain section of the City which is not included in petitioner's proposal. It appears that the section here referred to is being built up with homes and should be included. Petitioner has agreed to include it. We are willing to authorize the filing of these supplemental schedules subject to the filing of a map by petitioner defining the primary rate area for the Commission's approval.

#### O R D E R

Application having been filed with the Railroad Commission by Santa Paula Home Telephone Company for an order increasing its rates, a public hearing having been held and the matter having been submitted,

The Railroad Commission Hereby Finds that the present rates of Santa Paula Home Telephone Company are unjust and unreasonable and that

the rates hereinafter authorized are just and reasonable rates.

Basing its conclusions on the foregoing finding and on the other findings of fact referred to in the opinion preceding this order,

IT IS HEREBY ORDERED that Santa Paula Home Telephone Company be and it is hereby authorized to file with the Railroad Commission within thirty (30) days of the date of this Order and to make effective on and after October 1, 1922, the following schedules of rates, provided that all present rates not specifically provided for in said schedules shall be continued in effect until or unless changed by further order of this Commission:

Party Line Unlimited Service	Business Service		Residence Service	
	Wall Set	Desk Set	Wall Set	Desk Set
1 Party Line, per mo.	\$4.25	\$4.50	\$2.75	\$3.00
2 " " " "	3.75	4.00	2.25	2.50
4 " " " "	--	--	1.75	2.00
Suburban 10 Party Line, per mo.	3.00	3.25	2.75	3.00
Extension Telephones, " "	1.00	1.00	1.00	1.00

Business Unlimited - Intercommunicating Service

Receiving Station, wall or desk set, with switching device,  
 10 line switching device per month, \$2.00  
 20 " " " " " " 2.25  
 30 " " " " " " 2.50

Each station, wall or desk set, with switching device, in premises  
 in which receiving station is located,  
 10 line switching device, per month, \$1.25  
 20 " " " " " " 1.50  
 30 " " " " " " 1.75

Each station, wall or desk set, with switching device, outside  
 premises in which receiving station is located, but not exceed-  
 ing 300 feet from receiving station,  
 10 line switching device, per month, \$2.00  
 20 " " " " " " 2.25  
 30 " " " " " " 2.50

First bothway trunk line, Individual business rate, plus \$2.00  
 per month.

Each additional bothway trunk line, rate for first bothway trunk  
 line, less 25%.

Each incoming trunk line, Individual business rate, less 20%.

Secrecy switch, per station, per month, \$.25.  
Minimum Installation: Two (2) trunk lines and four (4) stations, including receiving station.  
Rates are effective within primary rate area. For service outside primary rate area, see mileage rates.

Joint User Service

Joint user, business unlimited service, per month, \$1.50.

Mileage Rates

Individual Lines, Party Lines and Trunk Lines.  
For service outside the primary rate area, the following rates shall be effective for each one quarter (1/4) mile, or fraction thereof, measured air line, from the nearest point in primary rate area to subscriber's premises, in addition to the foregoing rates:

Individual (1 party) line, including Trunk Lines and Power Circuits for Private Branch Exchange and Intercommunicating Systems	
per line, per month	\$ .50
Two (2) Party line, per station, per mo.	.35
Four (4) " " " " " "	.25

Business Extension Stations and Private Branch Exchange and Intercommunicating Stations, outside premises in which primary station or private branch exchange switchboard or receiving station is located, for actual mileage of circuit involved, each one quarter (1/4) mile or fraction thereof per mo. \$.50.

Residence Extension Stations, outside building in which primary station is located but on same premises and at a distance not exceeding 300 feet from primary station, per month, \$.50.

The authority herein granted is subject to the condition that efficient and adequate telephone service shall at all times be provided to all subscribers and patrons of Santa Paula Home Telephone Company.

Dated at San Francisco, California, this 29<sup>th</sup> day  
of September 1922.

*H. B. Bunting*  
*Driving Master*  
*Deed H. B. Bunting*  
*J. F. Treadwell*  
Commissioners.