

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of )  
 Fowler Independent Telephone Company ) Application No. 799.  
 for permission to increase the month- )  
 ly rental of telephones. )

Howard A. Harris for the Fowler Independent  
 Telephone Company.

GORDON, Commissioner.

O P I N I O N

The Fowler Independent Telephone Company is operating a telephone system in the city of Fowler, Fresno County, California, and vicinity, embracing approximately seventy-five square miles of territory.

The monthly rates heretofore charged for telephone service have not been the same for those subscribers who were stockholders of the company as the rates for those subscribers who do not own stock in the company. It is claimed and statements of revenue and expense have been filed with the Commission indicating that the company is not at the present time earning a sufficient return on its investment to enable it to adequately serve its patrons. The application herein is for permission to increase its monthly rates for telephone service and to place in effect a schedule of rates which will place its subscribers who are not stockholders on an equal basis of rates with those subscribers who own stock in the company. The rates at present charged its subscribers per month are as follows:

<u>Stockholders</u>	<u>Non-stockholders</u>
Party Lines - \$1.25	Party Lines- \$2.00
Main Lines - 1.50	Main Lines- 3.00 and 3.25

The revenue and expense statement above referred to which was filed with the Commission shows the following monthly average receipts and expenses:

Receipts:

Rentals -	\$360.70	
Tolls -	<u>66.56</u>	
Total -	\$427.26	\$427.26

Expenses

394.96

Net Earnings

\$ 32.30

The applicant was requested to file with the Commission a classified list of its subscribers, showing the rate paid by each class. This classification shows that there were, as of the date of the application, 318 subscribers receiving service as follows:

233 party line subscribers at \$1.25 per mo.	....	\$291.25
38 party line subscribers at \$2.00 per mo.	....	75.00
40 main line subscribers at \$1.50 per mo.	....	60.00
5 main line subscribers at \$3.00 per mo.	....	15.00
<u>2 main line subscribers at \$3.25 per mo.</u>	<u>....</u>	<u>6.50</u>
318 subscribers		\$448.75

This classification of subscribers and rates shows a monthly rental revenue of \$88.05 in excess of the amount of monthly receipts from rentals shown in the applicant's statement of average monthly receipts and expenses. Witness for the applicant testified that only the amount of cash collected from subscribers instead of the total amount which should have been charged on the books was reported on this statement under rental revenue. It was shown that subscribers who own stock, of which class there are 273, are allowed a discount of 25 cents per month if their bills are paid on or before the tenth day of the current month, and that most of these subscribers take advantage of this privilege, so that, while the classification herein referred to shows a total monthly rental of \$448.75, in the event of all this number having their bills reduced in return for prompt payment,

the total monthly revenue would be less than this amount. The statement would then show,

Receipts

Rentals as per classification	\$448.75	
Tolls	<u>66.56</u>	
		\$515.31

Expenses

As per statement	394.96	
Discounts to subscribers	<u>68.25</u>	
		\$463.21

Monthly net earnings	<u>52.10</u>
Yearly net earnings	\$625.20

The applicant's investment as shown by its plant and property statement is \$18,759.40. An earning of \$625.20 per year represents a return of 3-1/3% on this valuation, and while the Commission withholds its ultimate approval of this valuation, an inspection sufficient to determine a proper valuation not having been made, it is apparent for the purposes of this proceeding that this amount is not excessive.

Witness for the applicant testified that the company has paid no dividends whatever, the amount of its earnings having been put back into plant. It has also assessed its stockholders and in addition its directors have given their personal notes to secure loans for necessary extensions and maintenance of the system. A balance of \$2900.00 is now owing on a note which was given to secure funds for placing a portion of the plant underground to comply with the requirements of a recent city ordinance. A portion of the applicant's lines are in poor condition and require repairing. Others are overcrowded beyond the limit of possibility for satisfactory or efficient service and additional lines should be provided to relieve this congestion.

The difficulty appears to be that the rates have not heretofore been such as to afford sufficient revenue to properly conduct the business, and there appears to be no adequate

reason for not allowing the rates to be placed upon a reasonable basis. Heretofore it has been the practice of the applicant to charge patrons who desire to invest in stock of the company rates which are more favorable than the rates charged those patrons who do not desire to make such investment. The amount of stock which a patron is required to purchase varies with the cost of providing service and, while it is evident that the owners of capital will not invest in an enterprise which does not promise a reasonable return to the investor, and while a more favorable rate to stockholders than to those patrons who have not purchased stock may be in a measure possible of justification on this basis, it is also evident that stockholders' rates should not be so low as to unduly burden the other rates. A more equitable basis would seem to be to establish similar rates for similar service to all patrons alike and to pay purchasers of stock a reasonable return in the form of dividends on their investment. I shall, therefore, recommend that stockholders and non-stockholders be charged the same rates.

It is a common practice among telephone companies to establish what is known as an exchange radius about an exchange, embracing a definite area, within which exchange service is provided at specified rates and beyond the exchange radius thus established to provide service under suburban and rural rates. The Fowler Independent Telephone Company has not provided in its present schedule for an exchange radius or for suburban or rural service rates. These are essential from a standpoint of service as well also as a protection against excessive or unprofitable construction costs, and the recommendations herein will provide for each.

The rates which the applicant desires to place in effect in lieu of present rates are as follows:

Business Service

	<u>Wall</u>	<u>Desk</u>
1 party (main line)	\$3.00	\$3.25
2 "	2.50	2.75
Suburban	2.50	2.75
Extensions with bell	1.00	1.00
" without "	.50	.50

Residence Service

1 party (main line)	2.50	2.75
2 "	2.25	2.50
4 "	2.00	2.25
Suburban	2.00	2.25
Extensions with bell	1.00	1.00
" without "	.50	.50

Extension bell only, 50 cents.

The adoption of any schedule designed to provide for classes of service not provided for in the present schedule will call for a re-classification or regrading of present subscribers, but without a canvas it is possible only to estimate the class of service which present subscribers will elect to take when the new schedule is put into effect. The applicant has estimated that under the schedule above proposed its present subscribers would be re-classified about as follows:

Business

12 one-party wall at	\$3.00
11 one-party desk at	3.25
13 two-party wall at	2.50
5 two-party desk at	2.75
233 suburban at	2.50
13 extensions at	1.00
2 extension bells at	.50

Residence

11 one-party wall at	\$2.50
9 two-party wall at	2.25
1 two party desk at	2.50
2 four-party wall at	2.00
18 suburban at	2.00

Under this estimate the net annual revenue, inclusive of the average annual toll revenue shown in the applicant's statement, after deducting annual expenses, would become \$5806.20, representing a return of over 30% on an investment of \$18,759.40. If all subscribers on this schedule were allowed a reduction of 25 cents per month for prompt payment of bills, the net revenue

under this schedule would become \$4852.20, representing a net return of over 25% on this investment.

With reference to rates which are made subject to reductions for payment of bills by any specified date, this Commission has heretofore taken the position that, while this practice should not be entirely condemned, the discount should not be so large that it can be used as a revenue producing device as might be the case if subscribers should fail to pay before the specified date. It is my opinion that such practice should be allowed, if at all, only as an inducement to the payment of accounts to reduce the cost of making collections and should be applied in the form of an additional charge for non-payment rather than a discount for prompt payment, and I shall recommend that this practice be discontinued.

While I find that the present rates of the applicant yield a return of approximately 3-1/3% on the present value of the plant, they are not sufficient to enable the applicant to render efficient and sufficient telephone service to its patrons and they should be increased. I find also that rates which will yield a net return of over 30% or even over 25% are unreasonable and unjust and must be denied. It remains then to determine upon a schedule of just and reasonable rates which the applicant may charge its patrons for telephone service in the territory covered by this application.

As previously pointed out, it cannot be definitely predetermined what classes of service and rates present subscribers may elect to take when rates are to be increased and when the classes of service to be offered are to be changed. For this reason, revenue results can only be estimated and final approval of the rates herein recommended will be withheld and the applicant directed to render to the Commission at least two reports, covering two consecutive periods of six months each, immediately following the effective date of the order in this

application, setting forth the results of the application of the rates herein provided; and thereafter final approval will be given or further revision ordered as in the opinion of the Commission may appear proper.

The following rates are recommended:

### R A T E S

A radius of one mile from the central exchange shall be established by the applicant within which service shall be provided at the following rates, namely:

#### Business Service

	Wall Set	Desk Set
1 party	\$2.50	\$2.75
2 party	2.00	2.25
Suburban	1.50	1.75
Extension with bell	1.00	1.00
Extensions without bell	.50	.50
Extension bells only- 25¢		
Farmer Line service - 60¢		

#### Residence Service

	Wall Set	Desk Set
1 party	\$2.00	\$2.25
2 party	1.75	2.00
4 party	1.50	1.75
Suburban	1.25	1.50
Extensions with bell	1.00	1.00
Extensions without bell	.50	.50
Extension bells only- 25¢		
Farmer Line service - 30¢		

Suburban lines shall be built as follows:  
Not to exceed three miles from the central exchange for a minimum of four subscribers.

Beyond three miles and not exceeding five miles from the central exchange for a minimum of five subscribers.

Beyond five miles and not to exceed ten miles from the central exchange for a minimum of six subscribers provided that for each mile or fraction of a mile of line required over the first six miles there shall be not less than one subscriber in addition to the minimum of six as follows:

Distance from Central Exchange	Minimum number sub- scribers required
Not exceeding 3 miles	4 subscribers
" " 5 "	5 "
" " 6 "	6 "
" " 7 "	7 "
" " 8 "	8 "
" " 9 "	9 "
" " 10 "	10 "

Suburban service at the above rates to be provided only beyond the exchange radius of one mile from the central exchange. Suburban lines not to exceed ten subscribers to one line.

In providing lines for suburban service for patrons of the smaller telephone companies, it is generally advisable to employ methods of construction which do not involve construction costs as great as in those cases where it is necessary to maintain heavy leads. The rates herein recommended for this class of service are based upon employing small poles with bracket and glass construction.

Under rates for farmer line service, the telephone company will furnish central office connection and circuit and maintenance of the same to the exchange limits for a minimum of five subscribers, or for a lesser number than five only upon the payment of the equivalent in monthly rentals of five stations; subscribers to furnish necessary telephones and circuit from their premises to the exchange limits.

The applicant's present schedule does not provide a rate for 'farmer line' service. The introduction of such a rate in the schedule herein recommended, where at present the lowest rate offered is considerably higher than the farmer line rate, while it imposes upon the subscriber a certain investment in plant as a condition to furnishing farmer line service, it also offers such an inducement in the lower rate that it is highly probable that a considerable number of the present subscribers may demand the lower rate. The applicant has a considerable investment in lines which have been built to provide the subscribers with their present service, and it is even probable that the demand may assume such proportions as to result in the present lines being left without sufficient subscribers to enable the applicant to continue their operation except at a loss unless some protection is provided to safeguard this investment. It is my opinion that the rates herein provided for farmer line service should not be extended to present subscribers except upon condition that in consideration of the lower rate offered, instead of being allowed to build new lines



to the exchange limits and there demand connection at farmer line rates, they be required to purchase at a fair valuation from the telephone company such present existing lines as may otherwise be rendered unprofitable to the telephone company. In the event of a disagreement as to fair valuations for the sale of such lines the Commission may be called upon to determine reasonable terms for their sale. The rates herein provided for farmer line service, so far as present subscribers are concerned, are recommended on this basis as a protection to which, in my opinion, the company is justly entitled.

#### Mileage Charges.

For exchange service (one or two party business or one, two or four party residence) beyond the exchange radius, the following charges for mileage, in addition to schedule rates for exchange service shall apply:

One party,	50 cents per month per quarter mile or fraction thereof.
Two party,	35 cents per month per quarter mile or fraction thereof.
Four party,	25 cents per month per quarter mile or fraction thereof.

Under the applicant's estimated classification, the annual revenue from rentals under this schedule of rates would be \$6363.00.

The applicant's toll revenues are derived through commissions paid it for interchange of service with The Pacific Telephone and Telegraph Company. That company is now allowing other connecting companies 30% of its tolls for originating paid messages or the equivalent of 30% divided between originating and incoming messages. It is now paying the applicant less than that amount and the applicant stated that application would be made for an allowance of 30%. According to figures furnished by The Pacific Telephone and Telegraph Company, the applicant's toll receipts on that basis will average approxima-

tely \$894.84 per year. After deducting all expenses, the net yearly revenue, inclusive of tolls and rentals as above estimated, will become approximately \$2518.32, which represents a net return of 13.42% on the investment. Under the conditions hereinbefore set forth, I am of the opinion that this will constitute a reasonable earning to the applicant, and recommend the following order.

It should be clearly understood that what is said in this opinion with relation to farmer lines and farmer line service and to extensions of the lines of this telephone company applies only to the facts and circumstances of this particular case and should not be construed as an attempt to establish a general rule.

#### O R D E R

Application having been made to this Commission by The Fowler Independent Telephone Company, operating a telephone system in the city of Fowler, Fresno County, California, and adjacent territory as a public utility for permission to increase its monthly rates for telephone service, and a public hearing having been held thereon and it appearing to the Commission that the monthly rates which the applicant desires to charge its patrons for telephone service are unjust and unreasonable,

IT IS HEREBY ORDERED that the application herein be denied.

And it further appearing to the Commission that the monthly rates at present charged its patrons by the applicant are insufficient to enable it to render efficient and sufficient telephone service to its telephone patrons,

IT IS HEREBY FURTHER ORDERED that the Fowler Independent Telephone Company be and it hereby is authorized to publish, file

with this Commission, and put into effect on or before the first day of January, 1914, the following schedule of rates, which rates the Commission finds to be just and reasonable rates to be charged its patrons by said telephone company for telephone service in the territory covered by this application, namely:

Business Service

	<u>Wall Set</u>	<u>Desk Set</u>
1 party per month	\$2.50	\$2.75
2 " " "	2.00	2.25
Suburban " "	1.50	1.75
Extensions with bell	1.00	1.00
Extensions without bell	.50	.50
Extension bells only - 25¢ per month		
Farmer line service - 60¢ " "		

Residence Service

	<u>Wall</u>	<u>Desk</u>
1 party, per month	\$2.00	\$2.25
2 " " "	1.75	2.00
4 " " "	1.50	1.75
Suburban " "	1.25	1.50
Extensions with bell	1.00	1.00
Extensions without bell	.50	.50
Extension bells only - 25¢ per month		
Farmer Line service - 30¢ " "		

providing that a radius of one mile from the central exchange shall be established by the applicant, within which radius exchange service shall be provided at the rates herein provided.

AND PROVIDED FURTHER that suburban lines shall be built to provide service under suburban rates herein provided, as follows:

Not to exceed three miles from the central exchange for a minimum of four subscribers.

Beyond three miles and not exceeding five miles from the central exchange for a minimum of five subscribers.

Beyond five miles and not to exceed ten miles from the central exchange for a minimum of six subscribers for the first six miles of line required, provided that for each mile or fraction of a mile of line required over the first six miles there shall be not less than an average of one subscriber in addition to the minimum of six.

Suburban service to be provided under the foregoing rates only beyond the exchange radius of one mile from the central exchange.

The maximum number of subscribers connected to one suburban line shall not exceed ten.

AND PROVIDED FURTHER that under the foregoing rates providing for farmer line service the telephone company shall furnish central office connection and circuit to the exchange limits and maintenance of the same for a minimum of five subscribers or for a lesser number than five only upon the payment to the telephone company of the equivalent in monthly rentals for five stations; subscribers to furnish and maintain necessary telephones and circuits from their premises to the exchange limits.

#### Mileage Charges

For exchange service (one or two party business or one, two or four party residence) beyond the exchange radius, the following charges for mileage, in addition to the foregoing schedule of rates for exchange service shall apply:

One party, 50 cents per month for each quarter mile or fraction thereof.

Two party, 35 cents per month for each quarter mile or fraction thereof.

Four party, 25 cents per month for each quarter mile or fraction thereof.

AND PROVIDED FURTHER that the discount of 25 cents per month at present allowed stockholders for payment of bills on or before the tenth day of each current month shall be discontinued.

AND PROVIDED FURTHER that as to the applicant's present subscribers who may elect to subscribe for farmer line service under the rates herein provided, such rates shall apply only when such present existing lines as may otherwise be rendered unprofitable to the telephone company by reason of their partial or complete abandonment as suburban or exchange lines if subscribers were allowed to build new lines to the exchange

limits and thereupon to demand farmer line rates, shall be purchased at reasonable or fair valuations from said telephone company by such present subscribers desiring service at farmer line rates, otherwise these rates shall not be held as applicable to present subscribers. In the event that said telephone company and its subscribers can not agree upon terms for the sale of such lines, the Commission may be called upon to determine fair valuations for their sale; and such valuations when fixed by the Commission shall be binding as to both parties.

AND PROVIDED FURTHER that this permission does not waive any of the Commission's published rules relative to the sale or transfer of any portion of this applicant's property, nor any of the provisions of the Constitution of the State of California or of the Public Utilities Act with reference to such sale or transfer.

AND IT IS HEREBY FURTHER ORDERED that said telephone company, immediately following the effective date of this order, shall keep true and accurate records for two consecutive periods of six months each and shall file with this Commission reports in detail setting forth the results of the application of the rates herein authorized, and that thereafter final approval of the rates shall be given or further changes authorized as in the opinion of the Commission may seem proper.

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

Dated at San Francisco, California, this 27<sup>th</sup> day of December, 1913.

John M. Eschler  
H. L. Leland  
Director  
Edwin L. Edgerton