BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

Decision No. 1464

In the matter of the application of O. F. Goodrich, doing business under the fictitious name and style of Antelope Valley Telephone Company, for an order authorizing an increase in charges.	Application No. 715.

Appearances

Wm. B. Ogden, representing the Applicant.

OPINION

GORDON, Commissioner.

This is an application for an order of this Commission authorizing an increase in rates for telephone service by the Antelope Valley Telephone Company. This company, of which the applicant, O. F. Goodrich, is the sole owner, operates a telephone exchange in the town of Lancaster with lines serving the adjacent towns of Del Sur, Elizabeth Lake, North and South Portal, Fair Mount and Howards Camp in Los Angeles County, California.

Statements of revenue, expenses and investment purporting to show that this company is being operated at a loss equal to approximately 20.5% of the amount claimed as the applicant's investment have been filed with the application as exhibits, and on this showing of loss the Commission is asked to authorize a general increase in rates.

The application was heard in Los Angeles on January 8, 1914. The hearing developed the fact that the statements referred to are incomplete and incorrect in various respects and, for this reason, the showing as to loss is not a correct showing. A review of the testimony and of statements subsequently submitted at the direction of the Commission, by eliminating certain objectionable items in the original statements and those subsequently filed, indicates that instead of this company's operations showing a loss, the company may actually be earning a small profit.

However, since the present schedule of rates limits the classes of service now offered and since there may be some uncertainty as to some of the items of operating expenses which might be properly admitted, and since certain matters affecting the service appear to require modification, a revision of the present rates should be provided for.

I shall now discuss those features of these various statements which appear objectionable. The service now furnished and the rates now charged by the applicant are as follows:

1 party,	$2.50	per	month
10 party within the town limits of Lancaster,	1.00	"	"
10 party beyond two miles from the town of Lancaster,	1.50	"	"
Toll Stations,	5.00	"	"
Extensions,	1.00	"	"

The rates which the applicant proposes to charge his patrons are as follows:

Class of Service	Equipment and Rates: Wall Set	Equipment and Rates: Desk Set
	Business	
1 party	$3.00	$3.50
2 "	3.00	3.50
4 "	2.50	3.00
10 "	2.00	2.50
Extensions	1.00	1.00
	Residence	
1 party	$3.00	$3.50
2 "	2.50	3.00
4 "	2.00	2.50
10 "	1.50	2.00
Extensions	1.00	1.00

The application and exhibits were drawn during the month of October and filed with the Commission on November 1, 1913. Exhibit "A" is a statement showing the classification of subscribers and the rates paid as of the date of the application and the total revenues derived through these rates, as follows:

37 ten-party subscribers at $1.00 per month,	$37.00
5 ten-party subscribers at $1.50 per month,	7.50
2 two-party subscribers at $1.75 per month,	3.50
5 one-party subscribers at $2.00 per month,	10.00
1 one-party subscriber at $2.50 per month,	2.50
3 toll stations at $5.00 per month,	15.00
3 contracts with city of Los Angeles,	10.00
56 subscribers	$85.50 revenue

Exhibit "B" is a statement of toll business for a period of one year ending September 20, 1913, and showing the average monthly toll receipts to be $4.50.

Exhibit "C" is a statement showing the average monthly expenses of operation as follows:

Office rent, light and fuel,	$ 14.00
Operators' salaries,	17.10
Manager's salary,	90.00
Postage, printing and stationery,	3.00
Repairs and up-keep,	25.00
Total,	$149.10

Exhibit "D" is a statement of investment showing the total valuation of the property to be $4901.50.

It will be noted that Exhibit "C" indicates an operating expense of $59.10 per month in excess of the total revenues in Exhibits "A" and "B", which aggregate $90.00 per month. The applicant adds to this deficit interest on the investment at 6% per annum and alleges that on this basis the monthly loss is $83.60, which, as above stated, represents an annual loss approximating 20.5% of the investment.

A comparison of the applicant's present rates, as shown in the application, with the classification shown in Exhibit "A" and the applicant's testimony disclosed certain discrepancies, as a result of which the applicant was directed to submit to the Commission a corrected classification of subscribers and rates which they were then paying. This corrected classification has been submitted and will be alluded to later.

The testimony also shows that the statement of toll revenues indicated in Exhibit "B" represents only a very small portion of the actual total monthly toll revenues.

Exhibit "C" contains a note explaining that the operators' receive as part compensation for salaries certain commissions allowed the applicant by The Pacific Telephone and Telegraph Company for the collection of its long distance tolls. These commissions are paid by that company under the terms of a so-called connecting agreement providing for the interchange of service between the two companies. The testimony shows also that the applicant has in effect certain toll charges not heretofore filed with the Commissbn for switching between points on his lines beyond Lancaster, 15% of which the operators also retain as part compensation for salaries, and that the toll revenues shown in Exhibit "B" represent only the 85% of these tolls which go to the applicant and no part whatever of the tolls of The Pacific Telephone and Telegraph Company above referred to. The applicant's statements of receipts, Exhibits "A" and "B", should, of course, include the total amount of revenues accruing from subscribers' monthly rates and the total receipts from commissions paid by The Pacific Telephone and Telegraph Company and from the applicant's own line charges without reference to operators' salaries, and the latter should be shown under expenses of operation as amounts actually paid whether as commissions or as straight salaries.

The testimony shows further that, in addition to commissions paid by The Pacific Telephone and Telegraph Company, the applicant is allowed by that company $5.00 per month in lieu of any office rent, which amount has not in any way been accounted for either under receipts or expenses. The corrected classification referred to above, showing subscribers in service on the date of this hearing, shows a total monthly revenue from subscribers' monthly rates of $103.00 instead of $85.50 as was originally shown by Exhibit "A". This corrected classification as submitted by the applicant is as follows:

Business Stations

Number of Stations	Class	Rate	Revenue
16	1 party	$2.50	$40.00
4	10 "	1.00	4.00
1	10 "	1.50	1.50
6	Extensions	1.00	6.00
	Residence Stations		
5	10 party	$1.50	$ 7.50
34	10 "	1.00	34.00
2	Toll Stations	5.00	10.00
68			$103.00 revenue

The Pacific Telephone and Telegraph Company was directed on September 11, 1913, to file with the Commission a statement showing the amount actually paid in commissions to the applicant from January 1 to September 1, 1913, and the total amount of its toll charges on messages originating on the applicant's lines for an average period of six months. This statement has been filed and shows that, during the period of eight months from January 1st. the applicant was paid an average of $31.40 in commissions by The Pacific Telephone and Telegraph Company. Taking the applicant's Exhibit "B" as representing 85% of the average monthly amount of his own line tolls, I find that the total monthly average toll revenue from this source is $5.30. Adding to these two items of toll revenue the sum of $5.00 per month allowed by The Pacific Telephone and Telegraph Company in lieu of office rent, the total monthly receipts appear as follows:

Subscribers' Rentals,		$103.00	
Pacific Company Tolls,	$31.40		
Line charges,	5.30	36.70	
Allowance by Pacific Company,		5.00	
Total			$144.70
Deduct operating expenses, Exhibit "C",			149.10
Monthly Deficit,			$ 4.40
Yearly Deficit,			$ 52.80
Add to the annual deficit 6% interest on the investment claimed by the applicant, ($4901.50, Exhibit "D"),			$294.09
Total Annual Deficit,			$346.89

On this basis the applicant would be operating at a loss of 7% on his investment.

The Pacific Telephone and Telegraph Company is now paying the applicant 15% on originating tolls and 3¢ on incoming messages. The applicant is, entitled to 30% of these originating tolls or its equivalent divided between originating and incoming business. In its statement filed with the Commission, The Pacific Telephone and Telegraph Company shows that its originating tolls for the period of six months above referred to under the rates then in effect but which have since been revised by order of the Commission, amounted to $1121.20. Under the revised rates ordered by the Commission, this amount would be reduced to approximately $1049.80. The payment of 30% on the latter amount would be approximately $52.45 per month and with the operating expenses shown in Exhibit "C" would reduce the annual deficit to approximately 2% of the investment claimed by applicant.

With reference to this statement of operating expenses, it will be noted an item of $90.00 is included for salary of manager. According to the testimony, this amount is claimed by the applicant himself as manager although he admitted that he resides in Los Angeles where he is engaged in other business pursuits which occupy most of his time and attention. Occasional trips to Lancaster, averaging two or three per month, are necessary according to the evidence and it is also necessary at times to employ a lineman in installing telephones, clearing trouble on the applicant's lines, etc., and the applicant states that he has paid for these expences out of his personal funds. It is, of course, plain that such items of expense should come out of the proceeds of the business in whatever manner it may be proper to handle them, but it is apparent that the responsibility for the conduct of this business has been left largely to others and it is my opinion that the salary expense under the present plan of management is not a legitimate expense and should not be allowed..

With reference to the employment of linemen, the applicant testified that this expense averages approximately $48.00 per month. It will be seen by reference to the statement of expense that an item of $25.00 has already been charged to maintenance, and if $50.00 per month were allowed for this expense it would seem that this amount should be amply sufficient, since, according to the testimony, the total average expense of employing linemen including those costs which are not properly chargeable to maintenance, are under this amount.

Operators' salaries, including commissions, are shown in the statement of expenses to be $40.00 per month. Service is now furnished during twelve hours of the day. There is more or less demand from the patrons of this company for additional hours of service and some of those desiring this have expressed a willingness to pay a higher rate if additional hours are granted. Others have protested against the increases for which the applicant is petitioning unless continuous twenty-four service be granted. From the testimony it is not apparent that the present necessities of this community justify the additional expense which would be involved in providing twenty-four hour service, but it is my opinion that not less than sixteen hours service is desirable. To provide for this additional cost, I am willing to recommend that the applicant be allowed $10.00 per month additional for operators' salaries, which, according to his own estimate, will be sufficient to meet this additional expense.

Referring now to Exhibit "D", which is a statement of investment, this statement is not given in sufficient detail to indicate to the Commission that this valuation is reasonable and the applicant was accordingly directed to file an itemized inventory and appraisal of his property. This the applicant has done, but in this inventory the property is appraised at $5684.83 instead of $4901.50, the value originally claimed as shown by Exhibit "D". This revised valuation includes an item reading "Reconstruction, $300.00", which the testimony shows was also included under the expenses of operation as a maintenance charge. It appears that the amount is that which is figured as the average annual expense of repairs and upkeep and as such should not be taken into capital account.

The revised valuation includes also supplies valued at $846.81. This amount represents approximately 18% of the applicant's own estimate of value of plant in service, and while it is, of course, necessary that a telephone utility carry a sufficient amount of supplies in stock to meet ordinary and reasonable requirements, there is apparently no justification for burdening rates with interest on a greater amount of supplies than the actual necessities of the business require.

Eliminating for the present these two items, amounting to $1146.81, the value of the plant actually in service according to this inventory is $4538.87. A careful examination of this inventory has been made by the Commission's telephone expert who finds, by applying average unit costs to the various items of plant contained in this system and by allowing average costs for subscribers' drop wires and for subscribers' station installations, which two items are not included in the inventory but to which the applicant is entitled, and by allowing 15% for overhead charges which the Commission's expert believes to be a reasonable allowance in this case, that the cost of reproducing this plant new would be $4463.59. This estimate of reproduction cost is so close to the applicant's valuation of the property that the applicant's valuation might be accepted by the Commission were it not for the fact, which is shown by the testimony, that no provision whatever has been made in the past for taking care of depreciation of the property. The applicant testified that portions of the plant which were originally valued at approximately $2000.00 are nine years old; another portion originally valued at approximately $200.00 is three years old, and the balance of the plant is approximately one year old. Certain portions of the plant have been paid for by the applicant's patrons in the form of bonuses, but the total amount received in this way is so small as to be negligible. It is apparent, however, that the present value of these other portions of the plant is not what they originally cost. The present value should, therefore, be determined as the basis for fixing rates and hereafter the applicant should be required to provide a depreciation fund out of revenues sufficient to maintain the plant to a proper or reasonable standard of efficiency.

It is evident that to deduct the average rate of depreciation claimed by telephone companies generally to determine the present valuation, the rate claimed by the various companies varying from 6½% to 10%, would be to deny the applicant credit for such work as has been actually necessary to keep the system working in the past. In my opinion, therefore, 4% will fairly represent this depreciated value. On the basis of unit costs above referred to, the present value, after deducting 4% for these years, would be $3629.05.

With reference to supplies, other telephone companies as a rule carry less than 2% of the value of the plant which is in service. This amount would perhaps not be sufficient for the smaller companies and, under the circumstances in this case, I feel that this applicant should not be limited to this amount. An allowance of approximately 6¼% of the total plant value would be $245.95, and although this percentage for supplies is more than should be ordinarily allowed, the amount in actual value is relatively unimportant and would bring the total valuation, inclusive of supplies, up to $3875.00.

Summarizing the situation from the foregoing, I find that the present revenues, expenses and investment are as follows:

<u>Revenues</u>

Subscribers' Rentals,	$103.00	
Tolls,	36.70	
Allowance by Pacific Company,	5.00	$144.70

<u>Expenses</u> (Exclusive of Manager's Salary, $90.00)

Rent, Light and Heat,	$ 14.00	
Operators' Salaries,	40.00	
Printing, Postage and Stationery,	3.00	
Maintenance,	25.00	$ 82.00
Net Revenues per Month,		$ 62.70
Net Revenues per Year,		$752.40

<u>Investment</u>

Commission Valuation, less depreciated value and including supplies,	$3875.00
Applicant's valuation less maintenance only,	$5384.83

<u>Rate of return on investment</u>

Commission's valuation,	19.4%
Applicant's valuation,	13.95%

This showing, however, does not allow anything additional for the payment of linemen's wages which I have pointed out above should be allowed if the manager's salary is denied, nor does it allow for a future depreciation fund.

In its Decision No. 1008 in Case No. 387, which was a complaint of the City of San Jose involving the rates of The Pacific Telephone and Telegraph Company in San Jose and other adjacent cities, the Commission found after considering all the facts in that case that 5½% would be a proper amount to be set aside for depreciation and, while this amount was not fixed upon as a precedent to be followed in other cases, it is my opinion that it would be a reasonable rate in this case. By allowing $300.00 a year additional for linemen's wages and 5½% for depreciation, the rate of return on the Commission's valuation would be approximately 6%.

By applying the rates which the applicant desires to charge and by including the payment of 30% by The Pacific Telephone and Telegraph Company, and by adding to operating costs $10.00 per month for operators' salaries, $25.00 per month to maintenance and 5½% for depreciation, the result would appear as follows:

Revenues			
Subscribers' Rentals,		$135.00	
Commissions on tolls,	$52.45		
Line charges,	5.30	57.75	
Total Revenues,			$192.75
Expenses			
Rent, Light and Heat,	$14.00		
Operators,	50.00		
Printing, Postage and Stationery,	3.00		
Maintenance,	50.00		
Depreciation,	17.55		
Total Expenses,			$134.75
Net Revenue per Month,			$ 58.00
Net Revenue per Year,			$696.00
Rate of Return on Investment			
Commission's valuation,			17.96%
Applicant's valuation,			11.3 %

It will be noted by reference to the schedule of rates which the applicant desires to charge his patrons that the rates for one and two party business and one party residence service are identical. Aside from the objection to a schedule quoting similar rates for different classes of service, it is my opinion that the rates which the applicant desires to charge are unreasonable rates and that authorization to make them effective should be denied. However, as previously stated, it is my further opinion that the present schedule of rates will admit of some modification and a revised schedule has been drawn up as follows:

Commission Schedule

Business	Wall	Desk
1 party	$2.50	$2.75
2 "	2.00	2.25
4 "	1.75	2.00
10 "	1.50	1.75
Extensions	1.00	1.00

Toll Stations, $5.00 per month.

Residence		
1 party	$2.00	$2.25
2 "	1.75	2.00
4 "	1.50	1.75
10 "	1.25	1.50
Extensions	1.00	1.00

Under this revised schedule, the corrected classification of subscribers and service as of the date of this hearing and the revenue resulting from these rates would be as follows:

Business

13 one-party wall at $2.50,	$ 32.50
3 one-party desk at 2.75,	8.25
3 ten-party wall at 1.50,	4.50
2 ten-party desk at 1.75	3.50
6 extensions at 1.00	6.00
	$ 54.75

Residence

39 ten-party wall at $1.25,	$ 48.75

Toll Stations

2 toll stations at $5.00,	$ 10.00
	$113.50

This will show revenues, expenses and return on the investment as follows:

Revenues		
Subscribers' Rentals,	$113.50	
Tolls,	57.75	$171.25
Expenses		$134.75
Net Revenues per month,		$ 36.50
Net Revenues per year,		$438.00

Return on Investment

Commission's valuation, 11.3%
Applicant's valuation, 6.57%

Taking as the valuation of the property the Commission's valuation of $4463.59, from which depreciated value has not been deducted, and allowing 2% of that amount for supplies, the return on this valuation under this schedule, allowing the same operating expenses including 5½% for depreciation, would be 8.78%.

In view of the foregoing, it is my opinion that the revised schedule shown above will constitute a reasonable schedule of rates and I shall recommend its approval.

The applicant asks the Commission also for permission to charge his patrons a deposit of $5.00, returnable after one year with interest at 6%, as a guarantee that subscribers will retain service for that period. So many complaints have reached the Commission from the patrons of various utilities in this State with reference to deposits that the Commission will in the near future institute proceedings calling into question the reasonableness of this practice, and while not denying the right of public utilities for reasonable protection against possible losses, I deem it advisable to withhold this permission for the present.

I, therefore, recommend the following order.

O R D E R

O. F. Goodrich, doing business under the fictitious name and style of Antelcope Valley Telephone Company and owning and operating a telephone system as a public utility in the towns of Lancaster, Del Sur, Elizabeth Lake, North Portal, South Portal, Fair Mount and Howards Camp and adjacent territory in Los Angeles County, California, having applied to this Commission for permission to increase the rates at present charged for patrons for telephone service and to institute a rule requiring his patrons to pay a deposit of $5.00 as a guarantee that telephones will be retained for one year; and a hearing having been held thereon;

and being fully apprized in the premises, the Commission finds as a fact:

(1) That the rates which the said applicant, O. F. Goodrich, owner of Antelope Valley Telephone Company, desires to change his patrons for telephone service and more specifically referred to as follows:

Class of Service	Equipment and Rates	
	Wall	Desk
Business		
1 party	$3.00	$3.50
2 party	3.00	3.50
4 "	2.50	3.00
10 "	2.00	2.50
Extensions	1.00	1.00
Residence		
1 party	$3.00	$3.50
2 "	2.50	3.00
4 "	2.00	2.50
10 "	1.50	2.00
Extensions	1.00	1.00

Toll Stations, $5.00 per month,

are unjust and unreasonable.

(2) The Commission further finds as a fact that the following rates are just and reasonable rates to be charged by the applicant herein for the service indicated in the towns of Lancaster, Del Sur, Elizabeth Lake, North Portal, South Portal, Fair Mount and Howards Camp and adjacent territory in Los Angeles County, California:

Business	Wall	Desk
1 party	$2.50	$2.75
2 "	2.00	2.25
4 "	1.75	2.00
10 "	1.50	1.75
Extensions	1.00	1.00
Residence		
1 party	$2.00	$2.25
2 "	1.75	2.00
4 "	1.50	1.75
10 "	1.25	1.50
Extensions	1.00	1.00

And basing its conclusions upon the foregoing findings of fact,

IT IS HEREBY ORDERED,

(1) That the application herein for permission to charge patrons of said Antelope Valley Telephone Company rates for service as follows:

Class of Service	Equipment and Rates Wall	Desk
Business		
1 party	$3.00	$3.50
2 "	3.00	3.50
4 "	2.50	3.00
10 "	2.00	2.50
Extensions	1.00	1.00
Toll Stations, $5.00 per month.		
Residence		
1 party	$3.00	$3.50
2 "	2.50	3.00
4 "	2.00	2.50
10 "	1.50	2.00
Extensions	1.00	1.00

Toll Stations, $5.00 per month,

be and the same hereby is denied.

(2) That permission be and the same hereby is granted to said applicant, O. F. Goodrich, to charge patrons of the said Antelope Valley Telephone Company the following rates which are found to be just and reasonable rates to be charged by the said applicant herein for the service indicated:

Business	Wall	Desk
1 party	$2.50	$2.75
2 "	2.00	2.25
4 "	1.75	2.00
10 "	1.50	1.75
Extensions	1.00	1.00
Toll Stations, $5.00 per month.		
Residence		
1 party	$2.00	$2.25
2 "	1.75	2.00
4 "	1.50	1.75
10 "	1.25	1.50
Extensions	1.00	1.00

PROVIDED that the applicant herein shall provide not less than sixteen (16) hours continuous service during each day, Sundays and legal holidays excepted.

AND PROVIDED FURTHER that, pending the further order of this Commission, the applicant herein shall not be permitted to require his patrons or prospective patrons to pay a deposit before installing telephones.

This order to be and become effective after thirty days from the date of filing with this Commission on the part of the applicant of a schedule of rates as hereinabove provided for.

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 28th day of April, 1914.

Alex Gordon

Max Thelen

Edwin O. Edgerton

Commissioners.