

ORIGINAL

Decision No. 1699

In the matter of the application of )  
T. H. DASSEL, transacting a telephone )  
business under the name and style of )  
Morgan Hill Telephone Company, for an ) Application No. 1132.  
order establishing a schedule of tele- )  
phone rates. )

Appearances

T. H. Dassel, in propria persona.

A. M. Kelley, representing certain farmer line  
patrons, Protestant.

O P I N I O N

GORDON, Commissioner.

This is a matter in which T. H. Dassel, who owns a telephone system serving the town of Morgan Hill, Santa Clara County, and vicinity, represents that the rates now in effect for telephone service over his system do not afford a reasonable return upon his investment, and in which the Railroad Commission is petitioned to establish such rates as will yield a reasonable return.

At the time of hearing this application there were 156 patrons connected with the Morgan Hill Exchange. Of this number 56 were exchange subscribers within the town, 93 were farmers owning their own lines and telephones, and 7 were farmers owning their own lines but using telephones furnished by the applicant.

Service and rates at this exchange have, as in other cases, been divided into two general classes, viz., exchange, including all service to patrons located within the town, and rural or farmer line provided only to patrons located beyond the town limits. The rates heretofore in effect for these classes have been as follows:

For subscribers located within a distance of 1/2 mile or less from the central exchange:

|   |                 |            |        |           |
|---|-----------------|------------|--------|-----------|
| 1 | Party Business, | Wall Set,  | \$2.00 | per month |
| 2 | "               | "          | 1.50   | "         |
| 1 | "               | Residence, | 1.50   | "         |
| 2 | "               | "          | 1.25   | "         |
| 4 | "               | "          | 1.00   | "         |

Desk Sets, 25¢ per month additional.

For patrons located beyond 1/2 mile from the central exchange and within the town limits, a charge of 50¢ per month in addition to these rates is made.

The rate to farmer line subscribers owning their own lines and telephones is \$3.00 per year. To farmer line subscribers owning their lines but using telephones furnished by the company, the rate is \$6.00 per year.

The applicant has filed with the Commission his annual statement for 1915 showing expenses of \$1099.25 in excess of receipts. An examination of this statement, however, indicates that it does not correctly represent the operations of that year.

Under operating expenses \$1200.00 is charged to manager's salary and \$360.00 to lineman's salary. The applicant personally acts as manager, and in addition to the services which he performs as manager, he also performs all of the services of lineman for which the statement charges this added cost of \$360.00. This exchange, which now serves but 156 patrons, employs two operators at salaries aggregating \$546.00 per year. With these operators in attendance, I seriously question whether in an exchange of this size the necessities of the business are sufficient to justify an expense of \$1200.00 for a manager even though he may serve in the dual capacity of manager and lineman. I will refer later to this salary, but manifestly there is no justification for charging this item of \$360.00 to the expenses of operation unless it is deducted from whatever other salary it may be proper to allow for the serv-

ices of the manager.

A further item of \$41.90 is charged to operating expenses as Pole Contact Rental. This is an amount which is charged the company for the use of certain foreign poles, but it is not an item properly chargeable to this account since the applicant in turn bills his patrons for the amount and is reimbursed by them.

Rent of office building is charged at \$15.00 per month. Heretofore rented quarters have been used, and this is a proper charge for the year 1913, but the applicant has recently moved the office into a building which he owns. For the future an amount in proportion to the space occupied for purposes of the telephone business should be allowed as rent, or an amount should be allowed for interest, taxes, insurance, etc., in proportion to the space used for the purposes of this business. Approximately one-fifth of the premises are so used, the remaining portion being used as living quarters by the applicant and his family. The total value of these premises is approximately \$2000.00 and a rental of \$10.00 per month would appear to be a reasonable allowance for this item in lieu of taxes, insurance and interest on the value of the property.

Taxes for the year 1913 were charged amounting to \$62.04, representing the amount actually paid to the State.

The Morgan Hill telephone exchange and property was purchased on May 1st, 1913, from G. K. Estes for \$2425.00. The transfer was authorized by an order of this Commission providing that the consideration of \$2425.00 should not be taken by the Commission or other public body as representing for rate fixing or other purposes the value of the property so transferred. When this transfer was made an inventory of the property was filed with the Commission which represents the value of the property at that time, exclusive of tools, material and supplies

on hand, as being \$2221.55. The valuations shown in this inventory have been carefully examined by the Commission's telephone expert, and it is found that the approximate present value of the property inventoried, figured at present average costs for labor and material, after deducting the value of portions of the plant since taken down and deducting also depreciation at 5½% for the year which has intervened, no depreciation having been provided for, is \$1950.74. During the year since its purchase the applicant has added extensions to plant valued at \$321.13. He has also purchased a franchise at an actual cost of \$105.00, and has tools, material and supplies on hand valued at \$117.65. The total value of these items, \$543.78, brings the total present value of the property up to \$2494.52. In his annual statement the applicant claims a valuation of \$2500.00, and since the result of the examination of the valuations shown in the inventory, plus improvements, is so close to the valuation shown in the annual statement, I am willing to accept the applicant's figures as being reasonable.

Referring now to the statement of income and expenses:

Income for the year 1913 was,

|                         |              |
|-------------------------|--------------|
| From Telephone Rentals, | \$1357.10    |
| " Long Distance Tolls,  | 309.23       |
| Non-operating Revenues, | <u>46.02</u> |
| Total,                  | \$1712.35    |

Regarding operating expenses, reference has already been made to the item of \$1200.00, manager's salary. While it is very plain that if the applicant personally performs this service he is rightfully entitled to such salary as the service is worth, it will be noted that the amount which was charged to this item in 1913 represents 48% of the total investment or 70% of the gross receipts for that year. The applicant testified that, as nearly as can be estimated, no account having been heretofore kept of the time actually devoted to the work, it would

cost approximately \$30.00 per month if it were necessary to employ outside linemen. For the time which it is actually necessary to devote exclusively to the management of this business and allowing sufficient in addition to cover what it would cost to employ outside linemen, I am of the opinion that a salary of \$70.00 per month is sufficiently liberal and is not an unreasonable burden to place upon operating expenses. On this basis, and allowing other legitimate items of operating expenses on the basis previously referred to, expenses for 1913 would appear as follows:

Salaries and Wages:-

|                   |              |
|-------------------|--------------|
| Manager           | \$ 840.00    |
| Operators         | 546.00       |
| Rent              | 180.00       |
| Water and Fuel    | 19.00        |
| Stationery        | 10.00        |
| Directory expense | 6.00         |
| Maintenance       | 46.36        |
| Taxes             | <u>62.04</u> |
| Total,            | \$ 1709.40   |

With gross receipts amounting to \$1712.35 and expenses amounting to \$1709.40, the net revenue would be \$3.05, but it will be noted that nothing was set aside during the year to take care of depreciation.

From this showing it is very apparent that the present rates do not yield this applicant a reasonable return upon his investment, nor do they enable him to set aside any amount whatever to provide for future depreciation of the property, and that he is, therefore, entitled to better rates.

The rates at present in effect at Morgan Hill, for other than farmer line service, are somewhat lower than the rates generally in effect by other telephone companies for similar service under similar circumstances at other points, and since there is no adequate reason appearing why the applicant should not be allowed rates to compare with those in effect for similar service in other cases, I am willing to recommend that he be authorized to charge his patrons for telephone

service of the classes specified rates as follows, which are the same as rates in effect for similar service at other points:

|         | <u>Business</u> |             | <u>Residence</u> |             |
|---------|-----------------|-------------|------------------|-------------|
|         | <u>Wall</u>     | <u>Desk</u> | <u>Wall</u>      | <u>Desk</u> |
| 1 Party | \$2.50          | \$2.75      | \$2.00           | \$2.25      |
| 2 "     | 2.00            | 2.25        | 1.75             | 2.00        |
| 4 "     | -               | -           | 1.50             | 1.75        |

It will be noted by referring to the schedule of rates at present in effect that patrons located beyond one-half mile from the central exchange but within the town limits are required to pay rates 50% per month higher than those who are located within one-half mile of the central exchange. The town limits at present extend approximately one-half mile beyond the present exchange radius, or approximately one mile from the central exchange. Under the present schedule, patrons located outside the town limits are served by farmer lines, they building their own lines up to the town limits, the telephone company providing the lines from that point in to the exchange. As a result of this arrangement, only those located beyond the town limits have access to farmer line service at farmer line rates and those located within the town limits but beyond the exchange radius of one-half mile from the central exchange must take exchange service at rates which are 50% per month higher than those in effect within the half mile radius for the same classes of service.

It appears also that there is discrimination practiced, but for this the applicant is not responsible due to the fact that at some previous time prior to the present arrangement becoming effective, the present arrangement being in force when the applicant acquired ownership of the exchange, certain patrons located within the town limits but beyond the one-half mile radius were allowed and are still paying farmer line rates. I do not believe that the Commission can justly deny this prefer-

ential rate to those to whom it has previously been allowed, since they have an investment represented in lines and telephones, unless the applicant can arrange to reimburse them for the amount of their investment, and I am of the opinion that an order of the Commission at this time with reference to this feature is unnecessary. However, with reference to the payment of varying rates for similar service in different portions of the town, this inequality may be eliminated by extending the exchange radius to one mile from the central exchange thereby extending similar rates for similar service to all within the mile radius, and as this change has been suggested and agreed to by the applicant, I shall so recommend.

With reference, however, to the farmer line rate, the rates for this class of service at other exchanges of this class and size are quite generally the same as those now in effect at Morgan Hill. This Commission has not yet determined upon reasonable rates for farmer line service, and since other matters now formally before it and other matters to be presented, will in all probability result in findings which may be made the basis of general application throughout the State, I am of the opinion that the determination of reasonable and just farmer line rates for subscribers of this exchange should for the present be deferred. I shall accordingly recommend that, with the exception of the changes discussed in the foregoing, the present rates shall continue with the understanding that this applicant may, after subsequent findings by the Commission with respect to rates for exchange and rural service, make application for such further revision of rates in addition to the changes herein recommended as may be proper in the premises.

The applicant's system is connected with the lines of The Pacific Telephone and Telegraph Company for long distance toll service to and from points beyond Morgan Hill. Through this interchange of service, the applicant receives certain commissions on the amount of toll charges collected for The

Pacific Company, and at the request of the Commission that company has presented a statement showing the amount of commissions paid the applicant between January 1, 1913 and June 1, 1914. During the last twelve months of that period, the applicant was paid \$321.63 for handling this business.

Assuming that there will be no decrease in the number of patrons and no changes in the classes of service after rates are changed, the classification of subscribers and the revenue to be derived from monthly rates during the next year according to the present classification of subscribers would appear as follows:

|    |   |   |   |   |        |     |    |                            |
|----|---|---|---|---|--------|-----|----|----------------------------|
| 3  | - | 1 | party Business Stations, Desk Set,      | @ | \$2.75 | mo. | \$ | 8.25                       |
| 2  | - | 2 | " " " " " "                             | " | 2.25   | "   |    | 4.50                       |
| 21 | - | 2 | " " " Wall                              | " | 2.00   | "   |    | 42.00                      |
| 5  | - | 1 | " Residence                             | " | 2.00   | "   |    | 10.00                      |
| 3  | - | 2 | " " " "                                 | " | 1.75   | "   |    | 5.25                       |
| 22 | - | 4 | " " " "                                 | " | 1.50   | "   |    | 33.00                      |
| 1  | - |   | Business Extension Station              | " | 1.00   | "   |    | 1.00                       |
| 2  | - |   | Extension bells                         | " | .25    | "   |    | .50                        |
|    |   |   |   |   |        |     |    | Total per month - \$104.50 |
|    |   |   |   |   |        |     |    | Total per year - \$1254.00 |
| 93 | - |   | Farmer line stations at \$3.00 per year |   |        |     |    | 279.00                     |
| 7  | - |   | " " " " 6.00 " "                        |   |        |     |    | 42.00                      |
|    |   |   |   |   |        |     |    | Total per year - \$1575.00 |

Taking the amount of commissions on tolls paid during the last year as a basis for estimating the probable revenue from this source for the next year, the total yearly income under this classification, exclusive of non-operating revenues, would be as follows:

|                |   |           |
|----------------|---|-----------|
| Rental Revenue | - | \$1575.00 |
| Toll           | " | 321.63    |
| Total          | - | \$1896.63 |

The applicant estimates that directory and maintenance expense for the next year will be greater than those costs were during the last year, but as a final determination of a reasonable schedule of rates as a whole cannot be reached at this time



for reasons already referred to, and as this expense for any future period can at best only be estimated, I do not consider this matter of present importance.

Figuring the expenses of operating on the basis of the previous year as above modified and allowing 5½% on a valuation of \$2500.00 for depreciation, operating expenses for the next year would appear as follows:

|                                 |              |
|---------------------------------|--------------|
| Manager's and Lineman's Salary, | \$ 840.00    |
| Operators' Salaries,            | 546.00       |
| Rent,                           | 120.00       |
| Water, Lights and Fuel,         | 19.00        |
| Stationery,                     | 10.00        |
| Directory Expense,              | 6.00         |
| Maintenance,                    | 46.36        |
| Depreciation,                   | 137.50       |
| Taxes,                          | <u>62.04</u> |

Total Operating Expense, \$1786.90

On this basis net revenues for the year will be \$109.73, representing a net return of 4.4% on a valuation of \$2500.00.

In recommending a schedule of rates on the basis here outlined, I do not wish to be understood as holding that rates which will yield a return of 4.4% on the amount invested are just and reasonable rates, but in view of this situation as it has been presented and in view of the issues involved which cannot be decided on the merits of this case, I feel that I have gone as far as I can reasonably go until those issues can be determined.

The following order is recommended.

#### ORDER

Application having been made to this Commission by T. H. Dassel, owning and operating a telephone system as a public utility in the town of Morgan Hill and vicinity, Santa Clara County, under the name and style of Morgan Hill Telephone Co., for an order establishing rates for telephone service, and a hearing having been held thereon, and it appearing to the Com-

mission that the rates at present charged patrons of this system for telephone service do not afford the applicant herein a reasonable return upon the capital invested, and no adequate reason appearing, other than as set forth in the opinion accompanying this order, why the applicant should not be permitted to increase said rates,

IT IS HEREBY ORDERED, that the applicant, T. H. Dassel, be and he hereby is authorized to publish and file with this Commission and to put into effect on or before the first day of August, 1914, the following monthly rates which are found to be just and reasonable rates for the classes specified, viz.,

|         | <u>Business</u> |             | <u>Residence</u> |             |
|---------|-----------------|-------------|------------------|-------------|
|         | <u>Wall</u>     | <u>Desk</u> | <u>Wall</u>      | <u>Desk</u> |
| 1 Party | \$2.50          | \$2.75      | \$2.00           | \$2.25      |
| 2 "     | 2.00            | 2.25        | 1.75             | 2.00        |
| 4 "     | -               | -           | 1.50             | 1.75        |

Provided that the present exchange radius of one-half (1/2) mile from the central exchange shall be extended to include a radius of one (1) mile in a straight line from the central exchange.

And provided further that, with the exception of so-called farmer line subscribers who are located within the one mile radius hereinabove referred to who are at present receiving farmer line service at present farmer line rates, the schedule of rates hereinabove provided for shall apply to all present and future subscribers located within said one mile radius of the central exchange;

And provided further that all other present rates shall remain as at present pending the further order of this Commission.

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 July, 1914.

John W. Feshleman

Max Heeler

Max Heeler

Edwin O. Edgeston

Commissioners