BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Decision No. 1716

In the matter of the application of Honey Lake Valley Mutual Telephone Association, a corporation, for permission to raise its rates or rental charges for telephone service.

Application No. 1177.

Appearances

J. A. Pardee of Pardee & Pardee, Attorneys for the Applicant.

OPINION

GORDON, Commissioner.

The Honey Lake Valley Mutual Telephone Association, applicant in this proceeding, owns and operates a telephone system in Honey Lake Valley, Lassen County, California. The Association was incorporated under the laws of this State during the year 1911 with an authorized capitalization of $10,000.00 as a local enterprise, and has placed all of its capital stock with local people. Its organizers estimated that the sale of this amount of stock would enable it to complete the construction of its plant and that its revenues would be sufficient to earn a profit for the stockholders, but instead of realizing a profit it now finds it has suffered a loss aggregating $1065.56 during the three years of its operation due to the fact that the cost of installing the system was underestimated and that the amount of prospective revenue to be derived was overestimated. The Commission is, therefore, asked for permission to increase its rates, the applicant claiming that unless this permission is granted it will in a short time become bankrupt.

After the organization of this association, it entered into a contract with the California Northern Telephone and Telegraph Company, since known as the Nevada, California and Oregon Telegraph and Telephone Company, which company operates a telephone exchange in the town of Susanville. Under the terms of this contract, those of the applicant's subscribers who are located within a distance of five miles of Susanville are connected direct with that exchange, the applicant paying to the Nevada, California and Oregon Company a rate of $1.50 semi-annually for each subscriber so connected. The rates at present charged the patrons of this system for either business or residence telephones are as follows:

Subscribers connecting with the Susanville Exchange of the Nevada, California & Oregon Company and receiving unlimited exchange switching with the subscribers of that exchange, ...$1.50 per mo.

All other subscribers,. . . . . 1.00 " "

A charge is also made for switching to and from Susanville at a rate of 25¢ for three minute conversations.

Permission is now sought to charge the following rates:

Business Stations.....$3.00 per mo.

Residence " ..... 2.00 " "

Stations connecting with the Susanville exchange.............. 2.50 " "

According to the application, the total amount in cash realized from the sale of this stock was invested in establishing the system and it was later found, after this amount was expended, that additional funds would be necessary for the completion of the system. The applicant thereupon borrowed at various periods sums aggregating $10,000.00 from the president of the Association, F. B. Hoffman, and on July 2, 1913, under the authority of this Commission, issued its promissory note for this amount secured by a mortgage on the entire property of the Association and payable in ten years with interest at 7% payable semi-annually.

This application was heard in the town of Janesville on July 8, 1914. At this hearing testimony was introduced representing the total value of the property to be $20,432.36 made up as follows:

Construction Exchange,	Pole Lines & Aerial Wire,	$11,828.38
" "	Substation Apparatus,	3,531.58
" "	Central Office Equipment,	380.24
General Equipment,		423.31
		$16,163.51
Land and Buildings,	$1,480.51	
Organization,	1,191.10	
Franchise,	105.65	
Material & Supplies,	1,491.59	$ 4,268.85
	Total,	$20,432.36

An itemized inventory of this property has been filed with the Commission which, according to the applicant's testimony, is based upon actual costs of labor and material as shown by original vouchers. Basing the prices of material upon these costs, which do not appear to be excessive, and basing the cost of construction upon the present average costs of labor, teaming, etc., it does not appear that the valuation claimed by the applicant is unreasonable.

It does appear, however, from the testimony that, although certain charges for depreciation appear on the books of the company, nothing whatever has been actually set aside for the purpose of creating a reserve for depreciation, nor has an allowance been made in this inventory for any depreciation in the value of the property. The applicant was accordingly directed to file a statement showing the total value of the plant installed as of the date operations commenced and the amount expended in plant additions each year subsequent to that date. This statement has been filed and, after deducting depreciation according to the age of the various portions of the plant, it appears that the present value is slightly in excess of $19,000.00. This result is based upon deductions for depreciation at 4% on plant and 2% on buildings and franchise. These figures are used for the reason that they are the figures appearing on the books of the company and, while the Commission in passing upon this matter withholds its approval of this charge to depreciation, I feel, since the plant is practically new, that for the purposes of this case these percentages may suffice. The applicant's annual statement for the year 1913 on file with the Commission shows a net revenue of $131.92. Interest on the Hoffman note, however, has not been deducted from this net revenue. This interest at the close of the year amounts to $350.00.

The applicant has also submitted an itemized report to the Commission showing in detail the revenue and expenses included in the annual report referred to. After allowing for certain minor discrepancies, this report shows a deficit of $169.50, allowing the interest above referred to. If this statement is to be accepted as correct and if it is to be admitted that this company's investment has been judiciously made, it is apparent that the present rates are not compensatory or reasonable rates and that they should be increased . As already indicated, the valuation claimed by the applicant does not appear to be excessive; however, I am not convinced that the investment has been judiciously made. The applicant now has a total of 186 stations in service and a total of 167-5/8 circuit miles of wire, the original cost of which, together with other property, was $20,432.36. This represents an average of over 9/10 of a mile of circuit and an investment of over $109.00 for each station now in service and, while the character of the plant which has been installed is such that the company has been enabled to render , and according to testimony of the company's patrons does render, a quality of service which is a credit to the company, I seriously question the wisdom of an investment of this amount in an enterprise of this character. Neither am I convinced that operating expenses have been judiciously managed or that in certain respects they have been properly reported as a basis for determining future expenses.

During the year 1913 outside labor has been employed and charged to maintenance of the system amounting to $98.24 in addition to portions of the salaries of regular company employees also charged to this account, although payments have been credited from outside sources exceeding the total amount which has been paid out for outside help. The report referred to shows that outside help has again been employed during the present year, but no credits whatever through payments from outside sources appear since the first of the year. Automobile hire has also been charged to this account amounting to $384.00 or an average of approximately $32.00 per month and, while it would be necessary to employ teams if automobile hire were not allowed, I seriously question the necessity of automobile hire to the extent which has been charged in this report. Printing, postage and stationery, which evidently is intended to include the cost of printing and distributing directories, does not appear to allow credit for amounts collected for advertising which evidently should be credited to this account. In the end the total operating expenses appear to have been credited with the various amounts collected from these sources, but proper methods of accounting do not appear to have been followed.

For the year 1913 the total amount of salaries and wages, inclusive of the cost of outside labor, after deducting payments made to this account from outside sources, was $941.48. This amount includes the salary of the former manager, which salary, according to the applicant's testimony, included the salary of the operator. The present manager, who was not employed until April of the present year, receives a salary of $100.00 per month, and although his duties as manager should largely obviate the necessity of employing outside help, outside labor for plant work has again been employed and in addition the company is paying an operator a salary of $25.00 per month. During the first five months of the present year, the amount paid out for salaries was $679.34. Estimating salaries for the balance of the year on the basis of $100.00 per month, salary for the manager, and $25.00 per month, salary for an operator, and outside labor on the basis of the cost of this item for the first five months of the year, the total salary expense for 1914 would be $1806.62 as against $941.48 for the previous year.

If, aside from an apparent over investment in plant and property, this increase in salary expense were to be allowed, and if automobile hire to the extent which has been charged were allowed in addition, and if other operating expenses were to be allowed on the basis of the annual statement for the year 1913, rates sufficient to provide for interest and depreciation charges in addition to a return on the investment would be unreasonable. On the other hand, it is apparent, as claimed by the applicant, that the present rates are not compensatory rates.

Recognizing these facts and the fact that this applicant by reason of inexperience in the past in the matter of proper accounting and management is not now in a position to make a proper showing, a compromise as between the rates now in effect and the rates applied for by the applicant was suggested and agreed to by almost unanimous consent of the company's patrons and by the company's counsel on the basis of a charge of $1.50 per month for residence telephones, with the understanding that this rate be given a year's trial and if, after the expiration of that period the result may appear to justify a further modification, the matter may be again submitted to the Commission.

In addition to this rate for residence telephones, I am willing to recommend that the rate for business telephones be increased to $2.50 per month and the rate for telephones connected with the Susanville Exchange to $2.00 per month. With these increases, the total revenue increase per year will be approximately $1176.00, and on the basis of operating expenses which have been reported for the year 1913 will yield a return of approximately 4% on the investment after paying interest and after providing for depreciation charges. A net earning of 4% is not sufficient, but with proper deductions from the cost of operation as suggested it is apparent that a better showing may be made and it may be possible to show a reasonable earning on the investment.

In view of the foregoing, the following Order is recommended.

ORDER

Application having been made to this Commission by Honey Lake Valley Mutual Telephone Association, a corporation, owning and operating a telephone system as a public utility in Honey Lake Valley, Lassen County, California, for permission to raise its rates or rental charges for telephone service, and a public hearing having been held, and it appearing to the Commission that the rates at present charged its patrons for telephone service by this applicant are not just and reasonable rates; and it appearing further, as set forth in the Opinion accompanying this Order, that the rates which the applicant desires to charge its patrons, namely,-

Business stations, ...	$3.00	per month
Stations installed in a residence within 5 miles of the town of Susanville and connecting direct with the Susanville Exchange of the Nevada, California & Oregon Telegraph & Telephone Company, ...	2.50	" "
Other residence stations, ...	2.00	" "

are unjust and unreasonable rates;

IT IS HEREBY ORDERED: That the application be and it hereby is denied.

AND IT IS HEREBY FURTHER ORDERED: That this applicant, Honey Lake Valley Mutual Telephone Association, be and it hereby is authorized to publish, file and put into effect for a period of one year from the effective date of this Order the following rates which are found to be just and reasonable rates:

Business stations, ...	$2.50	per month
Stations located within 5 miles of the town of Susanville and connected direct with the Susanville Exchange of the Nevada, California & Oregon Telegraph & Telephone Company, ...	2.00	" "
Other residence stations, ...	1.50	" "

All other rates to remain as at present.

PROVIDED that if, after the application of the rates herein authorized for the said period of one year from the effective date of this Order, it may then appear that further increases may be justified this applicant may make further application therefor to the Commission, and that otherwise rates herein authorized may continue in effect.

This Order to be and become effective from September 1, 1914, or from the first day of the month following the date on which the revised schedule of rates as herein provided may be filed with 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 5th day of August, 1914.

Alex Gordon

Max Thelen

Edwin O. Edgerton

Commissioners.