

ORIGINAL

In the matter of the application of )  
The Pacific Telephone and Telegraph )  
Company for permission to present )  
evidence with a view to justifying )  
some higher rate than the lowest rate )  
existant in Modesto Exchange, State of )  
California, for its farmer line sub- )  
scribers in said exchange, which rate )  
shall be substituted uniformly for the )  
existing rates for this class of tele- )  
phone service in the Modesto Exchange. )

Application No. 1108.

APPEARANCES

James T. Shaw, representing the applicant.

Joseph M. Cross, representing the protestants.

OPINION

GORDON, Commissioner.

This is an application by The Pacific Telephone and Telegraph Company following an order of this Commission, rendered on April 10, 1914, in Case No. 515, being a complaint by S. O. Pesler, et al., vs. The Pacific Telephone and Telegraph Company. The complaint in that case charged discrimination in the rates charged its patrons by this telephone company for so-called farmer line service at its Modesto exchange. The evidence which was submitted in that case by the complainants was chiefly to the effect that the company was charging some of its farmer line patrons \$3.00 per year, while for similar service others were charged \$7.20 per year. The company admitted this to be true, but took the position that this condition existed when the Public Utilities Act became effective as a condition which was largely beyond its control, and that since the Act became effective it has not been permitted, without the further order of the Commission, to remove the discrimination except by lowering the higher rate.

The company was directed by the Commission's order to remove the discriminations within thirty days by placing in effect a uniform rate of \$3.00 per year, or within such time to make application to the Commission for permission to present evidence with a view to justifying some higher rate.

In the application herein the company, as petitioner, asks the Commission for permission to present evidence justifying some higher rate for this service than the lowest present rate, and that the Commission approve the standard rate for farmer line subscribers in its Modesto exchange, together with the rules, regulations and discount provisions attached thereto, as filed with the Commission, and that the Commission make an order permitting petitioner to charge and collect that rate generally and universally for this class of service in Modesto exchange.

The standard rate referred to in this petition is \$7.20 per year which is the higher rate referred to in the Fesler complaint. It is the rate which was adopted by this company as standard for exchanges of this class on July 1, 1909. Prior to July 1, 1909, rates were in effect in Modesto and at other of the applicant's exchanges which were generally lower than those adopted as standard on that date and which, for one reason or another, were in certain cases allowed to continue after July 1st and were still in effect on October 10, 1911. The Fesler complaint and the present application have arisen by reason of the fact that this company is unwilling to remove this discrimination except by increasing the lower rates.

In each of these proceedings, the only issue involved is the rate charged for farmer line service. At the hearing in the Fesler case, the telephone company maintained that farmer line service is but one of several classes of service for which the exchange is responsible and that the consideration of one rate in a general schedule for a general and comprehensive telephone service is impracticable, unjust and inequitable procedure. However, to satisfy certain inquiries of the Commission, it sub-

mitted evidence with reference to such items of investment, earnings, and operating expenses as could be directly allocated to this particular class of its exchange service. Without reviewing this evidence in detail, which does not seem essential at this time since the evidence is all of record in the Fesler case, it may be stated here that that evidence indicates that under present rates farmer line service is now being conducted, and even if all of the present farmer line subscribers were paying the so-called standard rate it would still be conducted, at a loss to the company.

Although it will be noted that the present application and the Commission's order previously referred to involve the presentation of evidence, with a view to justifying some higher rate, etc., no evidence further than that presented in the Fesler case was submitted at the hearing in this application. In reference to this matter, counsel for the applicant declared his willingness to rest the case on the basis of the evidence presented in the former proceedings, to all of which reference was specifically made.

In due time all of this company's rates for exchange service in all of its exchanges in California will probably be before the Commission for determination as to their reasonableness, and the situation with reference to all of the exchange rates now in effect at Modesto should, in view of that possibility, be postponed until that time. I believe it will be sufficient for the present and for the purposes of this and the former proceedings in the Fesler case to determine how the existing discrimination should be removed or whether it should be permitted to continue.

The telephone company has submitted statements of its investment and of its earnings and expenses for the entire exchange at Modesto from which it, as well as the Commission, has made various calculations to determine the result of its present operations and the possible effect upon the return on its investment of applying different rates than those at present in effect for farmer

line service.

The company claims an investment in Modesto amounting to \$79,664.49 as of date June 30, 1914. For the year 1913, according to the company's statements, the gross earnings were \$33,493.40, expenses of operation \$26,877.68, and balance net income \$6,615.72. This net income would represent a net return of 8.3% on the investment claimed. This figure of gross earnings includes earnings for the year from toll service revenues amounting to \$7,093.58 based on toll rates which were in effect during that year. The Commission has since reduced this company's toll rates, hence the future toll earnings under the reduced rates will not be what they would have been under former rates for the same amount of traffic. This reduction amounts to approximately 21.9% as shown by the Commission's findings in connection with the toll rate investigation.

Figuring a possible reduction in toll revenues of 21.9% on the basis of toll earnings for 1913, which, however, does not allow for any possible change in the amount of toll traffic which may hereafter be handled, toll earnings for the year 1914 would be reduced by \$1,553.49. According to the company's records, as shown by statements filed during September, 1914, there were as of date June 30, 1914, 117 farmer line subscribers at Modesto paying \$3.00 per year and 518 paying \$7.20 per year. On this basis, if the uniform rate for farmer line service at Modesto were made \$3.00 per year, a reduction of \$2,175.60 per year in exchange service revenues would follow, which, added to the reduction in toll service revenues referred to above, would represent a total annual reduction in gross income of \$3,729.09, leaving a net earning for 1914, figured on the basis of the statements submitted for the year 1913, of \$2,886.63. This amount would represent a net return of approximately 3.75% on an investment of \$79,664.49.

Were the Commission to grant this application to allow a uniform application in this exchange of the so-called standard

rate of \$7.20 for farmer line service, an increase of \$491.40 in annual exchange service revenues would follow. Allowing for the reduction in toll service revenues referred to above, the net earnings would become \$5,539.02. On the investment claimed, this amount would represent a net return of 6.95%.

Except as to the estimated reduction in toll service revenues here referred to, and to the possible effect on exchange service revenues of the application of one or the other of the rates at present in effect for farmer line service, it is to be noted that no alteration of the company's statements of investment, earnings and expenses has been attempted. It does not follow, however, that in passing their statements without criticism the Commission is either affirming or denying their correctness. To do so at this time would involve consideration of the operations of the entire exchange since these statements include the entire business of the exchange and the Commission is not at this time passing upon any of the rates at present in effect at Modesto exchange other than those involved in this application and in the Fesler complaint.

It is apparent, however, that net earnings, which represent a net return of but 3.75% on the investment, are unreasonably low. It is likewise apparent that rates which will allow a net return of only 6.95% on the investment are not unreasonably high. As previously pointed out, the existence of discrimination in the rates charged for farmer line service at Modesto is admitted by the telephone company. The removal of this discrimination by any revision of the present rates for this class of service other than by granting some higher rate than the lowest existing rate without a revision of the existing rates for the other classes of service, upon which the Commission is not now passing, will not, according to these statements provide a reasonable return. Until such time as the Commission may pass upon all of the exchange rates in effect at this exchange, and without passing upon the ultimate reasonableness of farmer line rates at any of the ex-



changes operated by this or other telephone companies in California, it is my opinion that, subject to such further alteration as may later appear to be proper or necessary, this application should be granted, and I shall so recommend.

C R D E H

Application having been made in compliance with an order of this Commission approved April 10, 1914, by The Pacific Telephone and Telegraph Company, a public utility corporation, for permission to present evidence with a view to justifying some higher rate than the lowest rate existent in its Modesto exchange for its farmer line subscribers, which rate shall be substituted uniformly for the existing rates; and a hearing having been held and it appearing to the Commission that the so-called standard rate of \$7.20 per year in effect at Modesto for farmer line subscribers, as referred to in the foregoing opinion, is not unreasonable high;

IT IS HEREBY ORDERED that, pending such further alteration as to the Commission may subsequently appear to be proper or necessary in determining just and reasonable rates for exchange service at the Modesto exchange or at other of this applicant's exchanges in California, the applicant, The Pacific Telephone and Telegraph Company, be and it hereby is permitted from and after the first day of May, 1914, to place in effect and to charge and collect generally and universally for its farmer line service at its Modesto exchange its standard rate for this class of service in accordance with its schedule dated July 1, 1909, together with the rules, regulations and discount provisions attached thereto as filed with this Commission, as follows:

RATES FOR FARMER LINE SERVICE

Effective July 1st, 1909.

<u>Connecting with</u> <u>exchange</u>	<u>Switch-</u> <u>ing Rate</u> <u>per Year</u>	<u>Company</u> <u>Furnishes</u>	<u>Subscriber</u> <u>Furnishes</u>
300 stations or less	\$ 3.00	Switchboard and	Circuit to town 264

<u>Connecting with exchanges of</u>	<u>Switch ing Rate Per Year</u>	<u>Company Furnishes</u>	<u>Subscriber Furnishes</u>
300 to 500 stations	\$ 3.60	circuit to town	limits.
500 to 750 stations	4.20	limits for not	Complete tele-
750 to 1000 stations	5.40	less than 5 sub-	phone and bat-
1000 to 2000 stations	7.20	scribers per cir-	tery.
2000 to 4000 stations	8.40	cuit.	Substation pro-
4000 to 6000 stations	9.60	Central office	tection.
6000 to 8000 stations	10.80	service.	Maintenance of
8000 to 12000 stations	12.00	Listing in di-	above.
12000 and over	15.00	rectory.	
		Code ring card.	

Payable annually in advance to January 1st.

Requests to place farmer circuits on Company's poles must be submitted to the Exchange Manager with full information as to the location and number of poles. If the request is granted, there will be a rental charge of 5¢ per annum per contact for a metallic circuit or 10¢ per contact for a grounded circuit, and a Pole License (Form K-963) should be signed by the applicant.

Requests to place several circuits on the same poles will, if granted, be provided for by placing a 10-pin cross arm filled with pins, especially for the farmers use, on which the rental charge will be 50¢ per annum per cross arm. These cross arms will require "Pony Insulators" to be furnished by the farmers.

The subscriber will be allowed a discount of Ten Per Cent. (10%) if the bill is paid at The Pacific Company's office during the first month of the year. New subscribers connected will be billed from date of connection to the end of the year, and annually in advance thereafter. Initial bills rendered new subscribers will be subject to a Ten Per Cent. (10%) discount, provided the bill is paid at The Pacific Company's office within thirty days after date of bill.

Business subscribers on farmer lines pay double the regular farmer line rate.

PROVIDED that this permission is not to be taken as approval of the rates since the Commission has not yet passed upon their ultimate reasonableness.

AND PROVIDED FURTHER that the Commission's findings are limited strictly to this particular case and are not to be taken as a precedent to be followed in any other proceeding before this or Commission/other duly constituted authority.

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 15th day of  
December, 1917.

H. H. Overland  
Chas. Gordon  
Edwin C. Edgerton

Commissioners.