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Decision No.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Decision No. 3027

In the matter of the application of Suisun and Green Valley Telephone Company, a corporation, for an order authorizing the increase of rates of rental.	Application No. 1954.

K. I. Jones, for the applicant.

GORDON, Commissioner.

O P I N I O N

Suisun and Green Valley Telephone Company, the applicant in this proceeding, is an incorporated company owning and maintaining a system of rural telephone lines which terminate in a central exchange switchboard located in the town of Suisun, Solano County, and operated by The Pacific Telephone and Telegraph Company, the applicant not having a switchboard of its own. The stockholders of this corporation pay an annual switching charge of $3.00 per year to The Pacific Telephone and Telegraph Company for the switching service which that company performs through its Suisun exchange switchboard. Aside from this annual switching charge, the stockholders pay no rates other than for long distance toll service, these charges being paid also to The Pacific Telephone and Telegraph Company, but each stockholder is expected to bear his pro rata of the expense of maintaining the company's system.

In addition to those having service on this basis, the applicant has a number of other patrons connected with its lines for whom it has provided telephone instruments and from whom it collects a rate of $12.00 per year, out of which amount The Pacific Telephone and Telegraph Company collects the same switching charge which the stockholders pay. The company is thus operating as a public utility subject to the jurisdiction of the Railroad Commission.

Application is now being made to the Commission for permission to increase the rate of non-stockholders from $12.00 to $18.00 per year, the applicant alleging that the expense of maintaining its system renders this increase necessary. To support this allegation, the applicant has presented statements of receipts and expenditures for the past year. According to these statements and to the testimony of witnesses, there was a small net income remaining at the end of the year, but certain items of operating expense which should have been provided for and which would have offset the balance referred to have not been included in these statements. In addition to this, there are also certain accounts which have been incurred in the maintenance of and improvement of the applicant's system still unpaid and which it is unable to meet out of the present income.

As stated above, stockholders of this company in addition to paying $3.00 per year for their switching service also pay the cost of maintenance of the system. It appears, however, that a portion of the company's present indebtedness cover items of maintenance. Aside from this fact, however, it will also be noted that stockholders are allowed a rate more favorable than the rate charged those subscribers who do not own stock, while it is the latter rate which the applicant wishes to increase. Whether or not the applicant may be entitled to better rates to enable it to operate at a profit, it is not proper that its stockholders should be allowed rates more favorable than those of its non-stockholders.

There are now 39 non-stockholders and 67 stockholders, a total of 106 patrons, for each of whom The Pacific Telephone and Telegraph Company collects $3.00 per year for connection at Suisun. If each patron were paying $12.00 per year, the applicant would collect and retain $9.00 per year in addition to The Pacific Company's charges, or a total of $954.00 per year. Other revenues collected during the year amounted to $107.35, the total of the two items representing a gross income of $1061.35. The gross operating expenses for the year were $699.64. This would leave a net revenue of $361.71. The original cost of the company's plant, as shown by its books, was $4165.72; thus it would appear that if all of the applicant's patrons had been paying a uniform rate of $12.00 per annum the applicant would have earned approximately 8½% on the original value of its plant. This, however, is not a correct showing for the reason that the plant has depreciated considerably in value, while nothing has been put aside to take care of depreciation and nothing has been charged to this account in the statement of operating expenses for the year referred to.

The applicant has presented to the Commission an inventory in detail of its property. An examination of this inventory indicates that the original cost shown by the company's books is considerably lower than it would cost to reproduce the plant as of this date, but as stated above, depreciation has not been taken care of in the past and the plant has considerably depreciated in value. According to the company's records, the average age of the plant is slightly in excess of eleven years. Accordingly, to charge off depreciation for this period, estimating depreciation at a rate of 5.2%, the present value of the property after allowing for interest during construction, organization and working capital would be approximately $2280.00. It would cost approximately $6132.83 to reproduce the plant new. Deducting depreciation at the same rate and allowing for the same items of interest, organization and working capital, the cost of reproduction less depreciation would be approximately $3200.00. Thus, after adding depreciation at the rate of 5% on either one of these valuations to the expenses of operation, as shown by the statement referred to above, the following result would appear:

On the valuation of $2280.00, representing the original cost less depreciated value, the applicant would be earning slightly less than 11% if a uniform rate of $12.00 per year were made effective.

On a valuation of $3200.00, being the reproduction value less depreciated value, the applicant would be earning slightly in excess of 6%.

The evidence shows that the applicant's present lines are for the most part heavily overloaded and that it will be necessary to construct additional lines and to rearrange present lines in order to relieve the overload and to provide additional service as it may be demanded. These improvements will involve further expenditures which may, when completed, justify a higher rate. The adequacy of the service, however, is not directly involved in this proceeding, the patrons of the company having expressed themselves, in a general way, as being satisfied with the present service. It would appear, therefore, without finally passing upon the valuation of the applicant's property that if such improvements as may be necessary may be made in the system, the applicant will be afforded such relief as it may be reasonably entitled to if a rate of $12.00 per year be uniformly applied to all patrons. The uniform application of this rate will also have the further effect of removing present discrimination as between stockholders' and non-stockholders' rates.

With the understanding, therefore, that the applicant may, if it so desires, apply for a further modification of rates after the improvements referred to may have been completed, I am of the opinion that the uniform application of a rate of $12.00 per year should be made effective and shall recommend accordingly.

ORDER

Application having been made to this Commission by Suisun and Green Valley Telephone Company, a corporation, for permission to increase its rates of rental, and a hearing having been had, and it appearing that discrimination in the applicant's present rates exists, and it appearing further to the Commission, as set forth in the preceding opinion, that the application of a uniform rate of $12.00 per year to be charged and collected from the stockholders and non-stockholders alike will remove the present discrimination and afford the applicant such relief as it may for the present be reasonably entitled to,

IT IS HEREBY ORDERED that the applicant, Suisun and Green Valley Telephone Company, be and it is hereby permitted to uniformly charge and collect from each of its patrons a rate of $12.00 per year.

This order to be and become effective from January 1, 1916.

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 4th day of January, 1916.

Max Thelen

H. D. Loveland

Alex Gordon

Commissioners.

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