

ORIGINAL

Decision No. 6977

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of	:	
SAN FERNANDO TELEPHONE AND TELEGRAPH	:	
COMPANY, a corporation, for authority	:	Application No. 4893.
to increase its rates for telephone	:	
service.	:	
.....	:	

J. M. Baldwin and Walter F. Dunn for
San Fernando Telephone and Telegraph
Company.

BRUNDIGE, Commissioner.

O P I N I O N

In this application the San Fernando Telephone and Telegraph Company, hereinafter referred to as the Company, asks the Commission's authority to increase its rates for all classes of its telephone exchange service by approximately 50 cents per month for business telephones and 25 cents per month for residence telephones. In addition, the Company desires to make certain changes in the class and character of service now rendered. The Commission is also asked to approve a proposed zone system of rates in zones varying with the class of service.

Valuation, Operating Revenues and Expenses and Finances:-

The Company filed with its application an appraisal of its property as of August 1, 1919, showing a cost of reproduction now of \$44,527.67. The application states that the original

cost of the property is unknown. On August 1, 1914, when the present applicant purchased this property from the Consolidated Securities Company, the purchase price was \$20,000.00. Since that time the plant has been converted into common battery equipment and has been largely reconstructed.

A statement of income and expenses for 1916, 1917 and 1918 and an estimate of income and expenses for 1919 under present rates and under the rates proposed by the Company is also attached to the application. In this statement the Company shows the following totals:

	<u>1916</u>	<u>1917</u>	<u>1918</u>	<u>Present Rates 1919</u>	<u>Proposed Rates 1919</u>
Plant value including material and supplies and working capital	\$41 147	\$42 695	\$44 735	\$45 510	\$45 510
Total revenue including exchange service, toll and miscellaneous	9 473	10 674	11 332	12 800	15 400
Total expenses including plant, traffic and commercial, general, taxes, rent, uncollectible revenue and depreciation	9 093	9 359	9 689	13 140	13 260
Net revenue	380	1 315	1 643	340*	2 140

* Deficit

It appears further that on August 1, 1919, the Company had an indebtedness consisting of the unpaid balance of a promissory note of \$20,000.00, dated August 1, 1914 and amounting to \$19,000.00. The Company has an authorized common capital stock of \$50,000.00, \$8,000.00 of which is issued and outstanding. There is no further indebtedness.

A hearing was held in San Fernando on September 25, 1919. It was stipulated that the Commission, through its engineering department, should make whatever investigation was deemed necessary and that the report of the department dealing with the valuation and with matters of operation and service should be furnished to the parties to this proceeding as soon as completed and should be considered as evidence in the case.

This report has now been made. It appears that there are considerable discrepancies between the exhibits filed by the Company and the engineering department's report. The valuation, copy of which has been furnished to the Company, shows a reproduction cost of this property as of August 1, 1919, of \$37,740.45 and a reproduction cost less depreciation as of the same date of \$28,564.00.

A careful analysis of revenue and expenses from October 1, 1918, to October 1, 1919, was also made by our engineers. It is found that the Company in recent years has been in the habit of charging to maintenance certain items which are not operating expenses but additions to plant and that the amount set aside for a depreciation reserve was increased from \$1,200 in 1918 to \$2,100 in 1919. This 75 per cent increase appears to have been made by the Company for no definite reason, with the effect, however, that the estimated net revenue for the year 1919 is less by that amount. An analysis of depreciation for this property by our engineers shows that an annual payment into the depreciation fund of \$1,200 (in monthly installments of \$100) is ample for this plant and will replace the entire property, on a 5 per cent sinking fund basis, in approximately fifteen years.

An estimate of revenue and expenses of the Company for 1920 is also contained in the engineering department's report. This estimate shows that the Company will require for operation, maintenance, depreciation, taxes and uncollectible revenue the sum of \$11,550. This includes an allowance of 10 per cent to cover increases in labor costs over present costs due to enlarged business and takes into account proper segregation of expenses between operating and capital. This amount will permit of first class service to the subscribers of this Company and the Commission should insist upon such service being rendered.

Gross revenue from exchange and toll service under rates recommended in this Opinion are estimated to produce between \$13,500 and \$14,000 in 1920, taking into account a normal increase in business of between 5 and 10 per cent. The Company will therefore have available for net return approximately \$3,000. This is equal to a fair return of 8 per cent on the reproduction cost new of all of the Company's property or to a return of over 10 per cent on the reproduction cost less depreciation. I shall accept the figures of the engineering department in preference to those submitted by the Company insofar as these matters are determining factors in a decision.

With the proposed rates in effect, the Company would have the less cause for complaint when the fact is taken into consideration that since the acquisition of this plant in 1914 for the sum of \$20,000, extensions have been built and improvements made out of earnings to the extent of at least \$7,000.

Comparing the actual money put into this plant by the owners and the security holders (\$26,800) with the valuation

made by the engineering department (\$37,740), on which latter sum the 8 per cent fair return is figured, the Company in the last five years has come into possession of an increment of value, not contributed by the owners, of \$11,000. It is true that no dividends have been paid on the \$7,800 par value of outstanding stock, but it is equally apparent that the Company has nevertheless earned a fair return on the investment.

The Company, I believe, has acted wisely in investing into its plant all or the greater part of its net earnings, especially during the development period of this property. A public utility cannot expect returns, however, which in addition to providing operating expenses, depreciation, taxes and a fair earning on the investment or the valuation, will also furnish the new capital required for extensions and betterments.

In this case it is my opinion that the Company is following an unsound and shortsighted practice in treating its depreciation reserve as a book account only and in using the fund for extensions and betterments without providing for considerable replacements of depreciated property that must inevitably occur in the near future.

The depreciation allowance of \$1,200 per annum provided for in our engineering department's estimate is added to the rates for a specific purpose. This purpose is to insure good service by providing sufficient money for such renewals of outworn property as will inevitably fall due from time to time in the future. The reserve should be so held that the money will be available when the renewals are necessary and it should not be used for any other purpose. This course is the only sound and safe one for this Company for the plant is reach-

ing an age when considerable replacement will have to be made in the near future if good service is to be furnished.

Service:-

During the hearing in this case there was considerable discussion of the question of service. I believe that the service given to the subscribers of this Company can be improved by better operating methods. The Company should make every effort to give the best possible service and the Commission's staff will be glad to furnish all possible assistance to this end.

Rates:-

There is no justification, in my opinion, and no necessity for increasing the rates of this Company to the extent asked for or for modifying the service as suggested in the application. Neither do I believe that the Commission should approve the zone system as petitioned for by the Company. The establishment of a zone system such as the Company desires would further add to the cost of service to the consumer and the conditions existing in the San Fernando territory do not require the adoption of such a system for this Company at this time.

It is my opinion that before the Commission authorizes the adoption of the quarter-mile zone system, a most careful investigation of the necessity and consequences of such a step should be made.

I recommend that the Commission order the Company to offer the following classes of service and authorize the following rate schedule:

Within the City Limits of San Fernando

	Per Month	
	<u>Business</u>	<u>Residence</u>
Main Line - Wall	\$3.25	\$2.75
2-Party Line - Wall	2.75	2.50
4-Party Line - Wall	2.50	2.25
10-Party Line - Wall	1.75	1.50

Outside the City Limits of San Fernando

Suburban Main Line - Wall	\$3.25*	\$2.75*
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* Plus a mileage charge of 50 cents per month for each quarter of a mile or fraction thereof, measured from the city limits on a direct air line between the exchange and the subscriber.

Suburban 10-Party Line - Wall	\$2.25	\$2.00
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Extensions, Desk Telephones and Discounts

Desk Telephones	25 cents per month additional on all classes of service.	
Extensions, Wall or Desk	\$1.75	\$1.25

All rates subject to a discount of 25 cents if paid on or before the 10th day of the month in advance.

I do not believe it necessary to provide in this rate and service schedule for specific rules and rates on a mileage or any other basis to cover line extensions that do not properly fall within the suburban classification and that are remote from the exchange or which, in the opinion of the applicant would place an undue burden on the Company. Provision is made for such cases in the rules laid down in this Commission's decision No. 2879, approved April 27, 1916.

I recommend the following form of Order:

O R D E R

SAN FERNANDO TELEPHONE AND TELEGRAPH COMPANY having filed with the Commission its application for an increase of rates, a hearing having been held, the matter having been submitted and the Commission, basing its conclusions on the foregoing Opinion, finding as a fact that the rates authorized and the classes of service prescribed in this Order are just and reasonable,

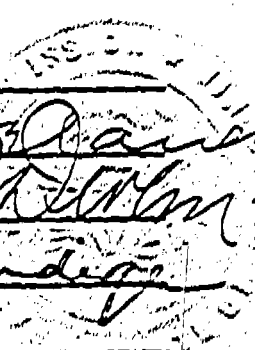
IT IS HEREBY ORDERED That the applicant is authorized to establish and file with the Commission within thirty days of the date of this Order a schedule of rates and services as outlined in the foregoing Opinion. Applicant is authorized to put these rates into effect subject to the following conditions:

(a) Adequate and efficient telephone service must be rendered at all times for all classes of service.

(b) A depreciation reserve of \$1,200 per annum in installments of \$100 per month shall be set aside for the purposes set forth in the foregoing Opinion and the depreciation fund shall be accounted for and used for such purposes only as will be prescribed or authorized by this Commission.

The foregoing Opinion and Order is 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 20th day of December, 1919.


H. J. [Signature]
Paul [Signature]
H. B. [Signature]