

Decision No. 7025

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SHELLEY INCH, Owner of the PLACERVILLE
TELEPHONE EXCHANGE, for authority to
increase telephone rates and make
changes in telephone service.

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) Application No. 4889
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Shelley Inch and William De Cartoret, for
applicant.
Earnest E. Wood, for the City of Placerville.
E. Fitzgerald, for certain Farmers' Lines.

BRUNDIGE, Commissioner.

O P I N I O N

In this application, Shelley Inch, owner of the Placerville Telephone Exchange, asks for the Commission's authority to increase his rates for business telephones and suburban residence service by approximately \$1.00 per month and to increase the farmers' lines rate by 73 cents per month for business service and 33 cents per month for residence service. In addition, applicant asks the Commission to approve a proposed zone system of rates, the zones to be the same for all classes of service, and also to approve the restriction of all party line service to an average of five outgoing calls per day.

The applicant states that 44 per cent of his sub-

scribers are on farmers' lines; that these farmers' lines have been permitted into and through the towns of Coloma, Camino, Diamond, El Dorado and other villages and that the public of these towns has free use of the telephones located therein; that certain wires owned by him are used by subscribers without compensation and that rates charged subscribers are not uniform for the same classes of service.

Valuation, Operating Revenues and Expenses and Finances:

Applicant filed with the application an appraisal of his plant as of February 1, 1919, which showed a reproduction cost new at present prices of \$26,806.68 and a depreciated reproduction cost of \$17,311.00. It is alleged that the original cost of the property could not be determined. In 1912, however, the Pacific Telephone and Telegraph Company sold the plant to Mr. Inch for \$8,000.00.

The application alleges that for the year 1918 the operating revenues were \$8,698.19 and the disbursements totalled \$8,978.00, leaving a net deficit of \$279.81.

On December 31, 1918, the applicant states that there was a total indebtedness on this telephone exchange amounting to \$2,232.16. Of this amount, \$1,000.00 was the balance remaining unpaid on the purchase price of 1912. On June 30, 1919, the financial statement alleges a total indebtedness of \$2,280.18. The Placerville Exchange is not incorporated and has no stocks or bonds outstanding and there is no mortgage on the property.

A hearing was held in Placerville on October 2, 1919, at which time the Commission's Engineering Department submitted a valuation of applicant's property. There appeared to be considerable differences between the valuation of the Engineering Department and that of the applicant.

The former shows a reproduction cost on an historical basis of \$14,369.00

Our engineers made a careful analysis of the applicant's revenues and expenses from November 1, 1918, to September 28, 1919. It was found that more than \$3,000.00 had been deducted from revenue which was neither maintenance nor operating expenses. Further, it appeared that applicant had not properly segregated his charges for construction work nor his replacement of plant costs from his maintenance and operation charges. The results of the analysis showed a net income of \$1,746.25 for the eleven months, which is equivalent to \$1,905.00 per annum. This would give a return of about 13 per cent on the reproduction cost of \$14,369.00 or of 11 per cent on the applicant's appraisal of \$17,311.00.

An estimate of the applicant's revenues and expenses for 1920 was made by our Engineering Department. On account of the increased cost of both material and labor it is estimated that the return on the reproduction cost will be reduced to about 8 per cent after making allowance for depreciation. An analysis of depreciation of this plant by the Engineering Department shows that an annual payment of \$660.00 into a depreciation fund, in monthly installments of \$55.00 per month, will replace the entire property on a 5 per cent sinking fund basis in approximately sixteen years. I shall accept the figures of the Engineering Department in preference to those submitted by the applicant in so far as these matters are determining factors in a decision, especially since the accounting methods used by applicant are not reliable.

It is my opinion that this plant is reaching an age when it is unwise to continue the practice of investing in new plant the money set aside for the replacement of

plant. I recommend, therefore, that the allowance of \$660.00 provided for by our engineers in determining these rates should be so held that the money will be available when renewals of plant or equipment are necessary and the allowance should not be used for any other purpose, unless authorized by the Commission. ~~There~~ This will insure the public the class of telephone exchange which can render the grade of service for which they are paying.

Service:

There was considerable discussion of the question of service at the hearing in this case. The exchange service apparently was satisfactory but that on the farmers' lines, it was agreed by all, was very poor.

It developed, during the discussion, that there were as many as 28 telephones connected to one farmers' line; that it was a common practice among the rural subscribers to have an electrical switch whereby various combinations of farmers' line connections could be made; that the manipulation of these switches frequently made it impossible for the operators in the central office to signal other parties on the lines and that the lines and equipment of these rural subscribers were not maintained in such condition that satisfactory service could be rendered.

It is my opinion that good telephone service cannot be given on any line to which more than ten telephones are connected; that the use of any auxiliary apparatus on a telephone line or instrument which can affect the continuity or transmission of the circuit should be abolished and that any line which connects with a central office exchange should be maintained up to a certain standard and that if it does not meet this standard, it should be disconnected until such

time as it does meet the requirements, in order that the service on the other lines may not be demoralized. In effect, the above statement of my opinion is recognized in Protestant's Exhibit No. 1, which is an agreement between the Pacific Telephone and Telegraph Company and the Placerville-Newton Rural Telephone Company, dated March 1, 1911. This agreement states that:

".....the subscriber's line, instruments and apparatus, and connecting lines and apparatus, shall be constructed, operated and maintained at a standard satisfactory to the Pacific Company....."

In addition, the contract states that:

".....no single conversation shall exceed five (5) minutes....."

It developed during the hearing that some subscribers did not adhere strictly to the latter part of the agreement. It is my opinion that a five-minute limit should be placed on these party lines when other subscribers desire to use the circuit.

Rates:

There is no justification and no necessity, in my opinion, for a general increase in the rates of the applicant. Neither do I think the Commission should authorize, at this time, the adoption of the quarter-mile zone system. The company, however, in the past, has not charged all persons the same rates for the same class of service, and, while these discriminatory practices have been due mainly to lack of efficient management, they must be discontinued at once. Also all persons using the lines or circuits of the applicant should be required to pay a reasonable charge for such service.

I recommend that the Commission authorize the applicant to offer the following rate schedule and order

him to require payment of the same amount by all subscribers for the same class of service:

	<u>Business</u>	<u>Residence</u>
Main Line - Wall,	\$2.75	\$2.25
Two-party Line, - Wall,	2.25	2.00
Four-party Line- Wall,	2.00	1.75
Suburban	2.25	2.00
Extensions	1.50	1.00
Farmers' Lines,	1.00	.40

Desk Telephones, excepting extensions and farmers' lines, 25 cents extra.

All rates other than farmers' lines and extensions, subject to a discount of 25 cents if paid on or before the 10th day of the month in advance.

A farmers' line telephone shall be classed as "Business" only when located in a business establishment.

All rules and regulations not covered in this Opinion shall remain as stipulated in Decision No. 2879, decided November 5, 1915. I further recommend that the Commission order the applicant to serve notice at once upon all connecting farmers' lines that after one year their service with this exchange will be discontinued if the following conditions are not complied with:

- 1 - No line shall be connected to more than ten (10) subscribers.
- 2 - No line or instrument shall have an electrical switch or other device connected thereon which interferes with the continuity or transmission of any circuit or with the proper signalling of any subscriber from the central office.
- 3 - No line shall be connected with the Placerville exchange which is not constructed and maintained in such manner that good service can be given over that line. Disputes, if any such shall arise, over standards of construction for such lines, shall be referred to the Engineering Department of the Commission for final adjustment.

I recommend the following form of Order:

O R D E R

SEBILEY INCH, owner of the Placerville Telephone Exchange, having filed with the Commission his application for an increase in rates and certain changes in his operating rules, 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, the classes of service prescribed and the changes in rules in this Order are just and reasonable,

IT IS HEREBY ORDERED as follows, subject to the conditions which hereinafter shall appear:

1. Applicant is authorized to establish and file with the Railroad Commission within thirty (30) days of the date of this Order a schedule of rates, rules and services as outlined in the foregoing Opinion.
2. Applicant is ordered to collect the same rental from all subscribers having the same class of service as soon as the authorized rates are put into effect.
3. Applicant is ordered to submit to this Commission a rental charge for the use of cable pairs and open wire by parties for purposes other than connecting their telephones with the central office and, if approved by this Commission, to put same into effect when authorized to use the revised rate schedule.
4. Applicant is ordered to give notice to all farmers' line companies and farmers' line subscribers that their service with the Placerville Exchange will be discontinued ONE YEAR, from the date the revised rates become effective if the conditions as set forth

for them in this Opinion are not complied with.

5. The Applicant is authorized to limit the length of conversation on a party-line to five (5) minutes, provided another party desires to use the line.

6. Applicant is authorized to put these rates and rules 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 \$660.00 per annum in monthly installments of \$55.00 shall be set aside for the purposes set forth in the foregoing Opinion, and the depreciation fund shall be accounted for and used only for the purpose of replacements and betterments, or as may be otherwise authorized by this Commission.

(c) An accounting system must be followed which will conform to that prescribed by the Commission in its Uniform Classification of Telephone Companies.

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 10th day of January, 1920.

Edwin C. Egan
H. D. Loveland
Frank C. Wilson
H. N. Brundage

Commissioners.