

Decision No. 7110

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

oooOooo

In the Matter of the Application of)
TULARE HOME TELEPHONE AND TELEGRAPH)
COMPANY, a corporation, for author-) Application No. 4861
ity to increase its rates for)
telephone service.)

A. B. Roehl and G. C. Harris,
for Tulare Home Telephone
and Telegraph Company.

BRUNDIGE, Commissioner.

O P I N I O N

In this application the Tulare Home Telephone and Telegraph Company, hereinafter referred to as the Company, asks the Commission's authority to increase its rates for all classes of telephone exchange service by approximately 50 cents per month for business and main line residence telephones, and 25 cents per month for four party residence telephones, and to make certain changes in its rules and regulations. Applicant states that by reason of increased operating expenses, and because of its intention to increase the compensation of its employees, an increase in rate is necessary.

The Company filed, with its application, an appraisal of its properties, as of October 15, 1919, showing a cost of reproduction new of \$72,033.82. No estimate was submitted by the Company of the present depreciated^{value} of the plant or of the original cost.

A public hearing was held in Tulare on October 18, 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 considered as evidence in the case.

This report has now been made and copy furnished to applicant. It appears that the Company's appraisal is based on 1919 prices for labor and material. In some instances these prices are believed by the Commission's engineers to be unduly high. Also the figure of \$72,033.00 claimed by the Company is undepreciated and does not represent the present value of the property. The Commission's engineers estimated the property to be in 77.5 condition percent. Deducting accrued depreciation upon this basis the Company's valuation would be reduced to the sum of \$55,826.00 without taking into consideration the assertion of the Commission's engineers that some of the prices for material and labor used in the Company's computation were too high.

Engineers for the Commission made a valuation. The historical reproduction cost new was estimated to be \$47,207.00. Also they made an estimate upon the basis of station costs from data obtained from other valuations, and by this method obtained a valuation, not considering depreciation, of approximately \$55,000.00.

At the hearing the Company submitted in detail a schedule of wages which it desired to put into effect immediately. Allowing this wage schedule in full an analysis of the Company's accounts show that based upon the existing volume of business the Company may expect in the year 1920 to secure a return of \$3,700.00 under existing rates. In this computation the amount heretofore

charged by the Company to depreciation has been reduced from \$3,480.00 to \$2,000.00 per annum, which latter figure is believed to be^a reasonable allowance, and 25 per cent of the salary paid to the manager and the linemen is charged to capital account instead of operating expense, inasmuch as approximately that proportion of their time is devoted to new construction.

If it be assumed that the revenues of the plant during 1920 will increase approximately 10 per cent over those of 1919, then the Company could expect in the present year a net revenue of \$4,700.00.

In the schedule of rates hereinafter set forth I am recommending an increase of 25 cents per month for both main-line and 4-party residence telephones, and that the Company be authorized to charge 25 cents per month additional for desk telephones. This will provide an additional revenue of approximately \$1,900.00 per annum and should afford the Company an adequate return upon the value of its property.

The Company is not making any actual provision against depreciation and is using for capital purposes the money set aside as a reserve for depreciation. This I believe to be an unwise policy, for the reason that no provision is thus made to care for the replacements of depreciated property which must inevitably occur from time to time. A public utility is entitled to reasonable rates which will provide returns for operating expenses, taxes, a depreciation fund, and a fair return on the investment, but the rate-payer cannot be expected to furnish, in addition, out of rates, the new capital required for additions and extensions. The depreciation allowance of \$2,000.00 per annum provided for in our engineering department's estimate is added to the rates for the specific purpose of providing sufficient money for the renewal of worn out or inadequate plant which must be

replaced from time to time if the system is to be maintained in such condition that good service can be rendered. The reserve should be so held that the money will be available when the renewals are necessary.

I recommend that the Commission order the Company to offer the classes of service now in effect with the rate schedule which is as follows:

| | <u>Per Month</u> | |
|---------------------------|------------------|------------------|
| | <u>Business</u> | <u>Residence</u> |
| Main Line - Wall | \$ 3.00 | \$ 2.25 |
| 2-Party Line - Wall | 2.50 | -- |
| 4-Party Line - Wall | -- | 1.75 |
| Extensions - Wall or Desk | 1.00 | 1.00 |
| Farmers' Lines | .60 | .40 |

For Desk Telephones, except for extensions, 25 cents additional per month will be charged.

All rules and regulations for service and service charges shall be ^{as} provided in this Commission's decision No. 2879, decided November 5, 1915.

I recommend the following form of order:

O R D E R

The Tulare Home 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 and finding as a fact that the rates authorized and the classes of service

enumerated in the foregoing opinion 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 \$2,000.00 per annum in installments of \$166.66 per month shall be set aside for the purpose of maintaining the plant in good condition and shall be used for such purposes only as may be authorized by the 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 11th
day of ^{February} ~~January~~, 1920.

H. Loveland

H. B. Bunting

Irving Mattis
Commissioners.