

ORIGINAL

Decision No. 7380

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of REDONDO HOME TELEPHONE COMPANY for authority to increase rates for tele- phone service.	}	Application No. 5006.
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Walter F. Dunn, for Applicant.
 F. L. Perry, for the City of Redondo Beach
 and Manhattan Beach.
 W. W. Phelps, for the City of Hermosa Beach.
 A. R. Holston, for Hermosa Beach Chamber of
 Commerce.

BRUNDIGE, Commissioner.

O P I N I O N

The Redondo Home Telephone Company, hereinafter referred to as the Company, in Application No. 5006 asks the Commission's authority to increase rates for telephone service, alleging that its present rates, established in 1905, are inadequate to meet the increased prices for materials and increased labor costs and at the same time yield a fair return upon its investment in telephone property.

At the present time, the Company is furnishing exchange service in the towns of Manhattan Beach, Hermosa Beach and Redondo Beach. These communities had been receiving competitive telephone service from The Pacific Telephone and Telegraph Company and from the applicant for many years prior to July 26, 1918, at which time the Commission in Decision No. 5613 authorized the applicant to purchase certain property from the Pacific Company, and authorized the latter to retire from the telephone business in these towns.

The consolidation of the two properties did not become effective until April 1, 1919, and the central offices of the former competing companies were not consolidated until October 15, 1919. Since that time, the subscribers have been receiving service from one central office, but the duplicate plant, such as poles, wires, cables, etc., remain practically as they were before consolidation, which necessarily means that the expense of maintaining the plant will be considerably higher than it would be if the system had been built originally by one company.

A hearing was held in Redondo on December 24th and 29th. At the hearing applicant presented evidence as to present and past operating expenses, together with estimates of operating revenues and expenses for the future. The Company's Exhibit No. 2 alleges that the Redondo Home Company did not make expenses during the years 1917 and 1918, while an exhibit filed in the consolidation proceedings, Application No. 3866, shows that the Pacific Company operated at a loss of approximately \$8500.00 during the years 1915 and 1916. In the same proceedings, an exhibit showed the estimated revenue and expenses of the consolidated properties were such that there would be a deficit before interest on funded debt was paid, amounting to \$756.00 for the first year and \$318.00 for the second year. This information is given to show that the Company was fully aware of conditions at the time the purchase was made.

The applicant's engineer estimated that the present rates would yield \$20,588.47 in 1920, and that the maintenance expenses, other than depreciation, would be \$19,307.38. This would give a net income of \$1281.09 with which to establish a fund for depreciation and pay a return upon their investment. The Commission's engineers made a careful estimate of the revenue of the system under present rates and estimated the expenses which a normal plant would

have if similarly situated and of similar size. They found that the company could reasonably expect a net income before depreciation of approximately \$2900.00, which would be insufficient even for the depreciation reserve fund. It is apparent, therefore, that the Company is entitled to an increase in rates in order that it may earn a reasonable return upon its investment.

An inventory or appraisal of the consolidated property is not available nor, in my opinion, would it be of any service in determining a rate base for this system since a large quantity of duplicating plant exists by reason of consolidation of the two systems. The Annual Report of the Company for December 31, 1919, shows a total fixed capital of \$111,782.15, which is equivalent to a cost per station amounting to approximately \$140.00. Obviously this is an excessive cost and indicates that it cannot be used as the basis for rates.

In view of the above facts, the engineers of the Commission estimated the cost to reproduce a unified plant on a station basis, using the average cost per telephone as found by making detailed appraisals of properties of similar size located elsewhere. There were 801 stations in service on December 31, 1919, which the Commission's engineers estimated should cost \$85.00 each. Mr. Irwin, engineer for the Company, testified at the hearing that the lowest estimated value of the property should be \$80,000.00, while the Commission's engineer stated that the cost of construction of plants of similar size ranged from \$70 to \$80 per station. On account of the development of this territory along a long stretch of beach instead of in a condensed area, the latter raised the estimated cost to \$85 as above noted. This would indicate a reproduction cost of \$68,085 for a normal property in this community. In my opinion, therefore, \$70,060 is a just and equitable rate base.

The financial status of the company, as set forth in/ ^{the}

Annual Report of December 31, 1919, shows there is outstanding \$70,000 face value of twenty-five year gold bonds bearing 2½ per cent. interest for the first eight years and 6 per cent. for the remaining seventeen years. It is further stated that \$40,000.00 face value of common stock is issued. There is no preferred stock issued or authorized.

Under the rates proposed, the Company may reasonably expect a revenue of approximately \$28,500.00 during the coming year. A careful estimate of the expenses during the same period has been made and amounts to approximately \$23,000.00. Allowance was made in this estimate for an increase in wages/amounting to 10 per cent. of all labor, and included \$3000.00 per year for the replacement of plant which should be set aside in a fund and used only for the purposes for which it will be collected. Due allowance was made for the fact that practically all the plant in the system is located along the ocean front and subject to rapid deterioration, due to the action of the salt air and fogs. The gross revenue from these rates is sufficient to enable the company to operate the three municipalities as a single unit and will not necessitate dividing them into arbitrary "zones" as was proposed by the Company and vigorously opposed by the representatives of all the municipalities concerned. While the Company may argue that Manhattan Beach is a long distance from the Redondo Exchange, I cannot agree with it that the subscribers should be penalized because the company has not located the central office in the telephonic center of the community served.

The Company realized when it purchased the Pacific Company's property that it would cost a considerable amount of money to maintain and gradually eliminate the duplicate plant in the system and very wisely made provision for this extra expense by issuing bonds bearing only 2½ per cent. interest for the first eight years after consolidation. This scheme makes available annually 3½ per

cent. of the \$70,000.00 face value bonds outstanding, or approximately \$20,000.00 for this purpose for the eight year period. This amount should be used to amortize the duplicate plant as rapidly as possible since the company cannot expect the public to bear the burden of maintaining any portion of the system which is unessential to furnishing service. It is my opinion, therefore, that the company should furnish the Commission within six (6) months of the date of this order its suggestions for a plan of bringing about the amortization and elimination of any and all duplicate property within a specified time.

SERVICE:

The service given by applicant in this territory appears to have been very unsatisfactory during the consolidation period. At the present time, however, the telephones have practically all been changed to the harmonic ringer type and the plant is being repaired and reconstructed in such a manner that the service should be greatly improved. The Commission is authorizing this increase in rates with the distinct understanding that the quality of service shall meet the standards which this Commission requires of other companies and will expect the Company to meet these requirements, since a liberal allowance has been made for the expenses of operating a normal telephone property of this size.

RATES:

The rate increases sought by applicant are not justifiable in my opinion, either from the standpoint of what are fair and equitable rates for the service rendered or from the standpoint of applicant's necessities for additional revenue. The need for additional income will be met by the rates suggested in this Opinion in accordance with the estimates shown heretofore.

I recommend the following rate structure:

<u>Classification</u>	<u>Business</u>	<u>Residence</u>
Individual Line - Wall	\$ 3.25	\$ 2.50
Two-party Line - "	2.75	2.25
Four-party Line - "	2.50	2.00
Eight-party Line - "	-	1.50
Extensions - Wall or Desk	1.00	1.00
Suburban - Individual Line	*3.25	*2.50
Suburban - Eight-party Line	2.75	2.25

Desk telephones are \$.25 additional per month on all classes of service except extensions.

Rates for miscellaneous equipment not included in the above table are to be filed with the Commission subject to its approval.

*An additional charge of \$.50 per month shall be made for each quarter mile or fraction thereof, measured in a straight line between the subscriber's premises and the nearest point in the primary rate area.

The primary rate area for this exchange shall be bounded on the north by the northerly city limits of Manhattan Beach and by that portion of the city limits of Redondo Beach which joins the easterly city limits of Redondo Beach and Hermosa Beach; on the east by the eastern city limits of Redondo, Hermosa and Manhattan Beaches; on the south by the southern city limits of Redondo Beach, and on the west by the ocean.

The company is protected from making unprofitable extensions in the sparsely settled portion of the primary rate area, as well as beyond the city limits, by provisions in the Commission's Decision No. 2879, Case No. 683, which states as follows:

"Rule 15.

"A water, gas, electric or telephone utility which operates under a general franchise authorizing the occupancy of all the streets of a municipality shall make, at its own expense, such street extensions as may be necessary to serve applicants; provided, that in any case in which the construction of an extension at the utility's sole cost will in its opinion work an undue hardship upon the utility

"or its existing consumers, the matter may be submitted to the Commission as provided by Section 36 of the Public Utilities Act, unless satisfactorily adjusted by an informal application to the Commission."

"Rule 16.

"A water, gas, electric or telephone utility shall make such reasonable extensions in unincorporated territory at its own expense, as it can agree upon with the applicant for service; provided, that in any case in which the construction of an extension at the utility's sole expense will in its opinion work an undue hardship upon the utility or its existing consumers, the matter may be submitted to the Commission as provided by Section 36 of the Public Utilities Act, unless satisfactorily adjusted by an informal application to the Commission."

"Rule 17.

"In cases in which applicants make payments to secure the construction of extensions by water, gas, electric or telephone utilities, such payments shall generally be considered as loans to the utilities, to be repaid, as soon as conditions warrant, under reasonable, nondiscriminatory rules and regulations."

All rules and regulations not covered by this decision shall remain in effect as established and filed with this Commission, as provided in Decision No. 2879.

I recommend the following form of Order.

O R D E R

REDONDO HOME TELEPHONE COMPANY having applied to the Commission for authority to increase its exchange rates, a public hearing having been held, the matter having been submitted and the Commission basing its conclusions on the foregoing Opinion,

IT IS HEREBY ORDERED that the applicant is authorized to establish and file with the Commission within thirty (30) days of the date of this order, a schedule of rates and services as outlined in the foregoing Opinion. On approval by the Commission of the schedules so filed, 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) Applicant shall set aside into a depreciation fund, the sum of \$3000.00 per annum in installments of \$250.00 per month for the purpose of taking care of such renewals and replacements as shall be covered by the fund. Applicant shall file with the Commission within thirty (30) days of the date of this order, its suggestions for rules governing the functions and use of the depreciation fund and these recommendations thereafter shall go into effect as approved or modified by the Commission.
- (c) The applicant shall complete as speedily as possible ~~the consolidation of all of its property~~, and within six (6) months of the date of this order shall file with the Commission a statement showing the status of the consolidation.
- (d) Applicant shall arrange for the amortization and elimination of such duplicate property as is in existence at this time and as should be dispensed with to the benefit of the service, and shall within six (6) months of the date of this order submit to the Commission its suggestions for a plan of bringing about such amortization and such elimination within a specified time.

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 8th day of April, 1920.

Edwin O. Edgerton
H. D. Loveland
Frank R. Brown
H. B. Brundage

Commissioners.