

Decision No. 7419

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of LOS GATOS TELEPHONE COMPANY )  
for the establishment of a new )  
schedule of rates for all grades )  
of telephone service. )

Application No. 5054.

F. F. Watkins, for Applicant.

E. D. Flint, for Protestants.

BRUNDIGE, Commissioner.

O P I N I O N

Los Gatos Telephone Company, a California corporation, applicant in this proceeding, owns and operates a local telephone system serving the town of Los Gatos and adjacent territory within an approximate radius of three miles, in Santa Clara County. The application sets forth that the increased expense of carrying on business, due largely to increased costs of material and labor without a corresponding increase in revenues, has reduced the net income to a point which may necessitate the discontinuance of dividends, and asks that the Commission authorize an increase of 25 cents per month for residence telephones, 50 cents per month for business telephones, and other minor changes in rates effective prior to June 1, 1919.

A public hearing was held in Los Gatos on December 5, 1919.

On June 1, 1919, under authority of the Postmaster General of the United States, applicant placed in effect a schedule

of rates which increased the rates theretofore filed with the Railroad Commission and in effect. Authority is sought for a further increase of 25 cents per month for business telephones and to make permanent the residence rates which were made effective June 1, 1919. The rates which were filed with the Railroad Commission and in effect prior to June 1, 1919, herein referred to as the former rates, those which were made effective on June 1, 1919, under the authority of the Postmaster General, herein referred to as the present rates, and the rates now proposed, herein referred to as the proposed rates, are as follows:

	<u>Former Rates</u>		<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Wall</u>	<u>Desk</u>	<u>Wall</u>	<u>Desk</u>	<u>Wall</u>	<u>Desk</u>
<u>Business Service</u>						
1 Party,	\$2.50	\$2.50	\$2.75	\$2.75	\$3.00	\$3.00
2 "	2.25	2.25	2.50	2.50	2.75	2.75
*8 " Harmonic						
Selective Suburban,	3.00	3.25	3.25	3.50	3.50	3.75
** Suburban Magneto						
Non-selective,	5.00	5.75	5.75	6.50	6.50	7.25
*** Extension Set,	1.00	1.00	1.25	1.25	1.50	1.50
<u>Residence Service</u>						
1 Party,	2.50	2.50	2.75	2.75	2.75	2.75
2 "	2.00	2.00	2.25	2.25	2.25	2.25
4 "	1.50	1.75	1.75	2.00	1.75	2.00
*8 " Harmonic						
Selective Suburban,	2.50	2.75	2.75	3.00	2.75	3.00
** Suburban Magneto						
Non-selective,	5.00	5.75	5.75	6.50	5.75	6.50
Extension Set						
with bell,	1.00	1.00	1.25	1.25	1.25	1.25
Extension Set						
without bell,	.50	.50	.75	.75	.75	.75

Mileage Charge Beyond Exchange Radius

Per Quarter Mile or Fraction Thereof

1 Party	\$ .50	.50	.50
2 "	.35	.35	.35
4 "	.25	.25	.25

	<u>Former Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Extension Bells</u>			
Regulation,	\$ .25	\$ .25	\$ .25
Extra Loud Gong,	-	.35	.35
<u>Extra Listings In Directory,</u>			
	.50	.50	.50
<u>Moving Charges for Moving Telephone Sets and Changes in Type of Instruments</u>			
Moving from one location to another in the same room,	1.00	1.00	1.00
Moving from one room to another on same premises,	-	1.50	1.50
Change of instrument from Wall to Desk set or vice versa, except when changing to higher class of service,	1.00	1.00	1.00

Exchange radius extends one mile from switch-board in straight line. All rates are monthly and payable in advance, except as otherwise specified.

\* Applies outside of one mile radius.

\*\* Quarterly rates.

\*\*\* Including one listing in directory.

This company was organized on November 16, 1910, at which time it purchased the then existing property from The Pacific Telephone and Telegraph Company for the sum of \$16,430.00, paying for same out of the proceeds of stock which it issued and sold. It now has issued and outstanding \$24,050.00 in common capital stock, inclusive of that issued to purchase the property, fully invested in plant. It also has an outstanding note for \$1000.00 issued for the purpose of purchasing central office equipment. It thus has outstanding in the hands of the public \$25,050.00 which it has invested in this property. It admits that all additional moneys which have been put into the property have been invested out of earnings. During the seven years, 1913-1919, it has paid an 8% dividend each year to its stockholders, these dividend payments

aggregating the sum of \$13,007.16. According to the petition, applicant had invested in plant, as of December 31, 1918, \$44,344.85 and, as shown by its annual report for the year 1919, it invested in additions and betterments the further sum of \$2733.56 during the year, making the total investment to December 31, 1919, \$47,078.41. Thus, if applicant's own statements are correct, since its organization in November, 1910, the company has earned and paid in dividends or reinvested in plant at least \$35,035.57. Its books show a present surplus of \$13,614.60.

Applicant has submitted to the Commission an incomplete inventory and appraisal of its plant showing a valuation, undepreciated, of \$33,407.85. To this figure have been added certain items omitted from the inventory which make the total valuation as of December 1, 1919, \$44,110.85. The Commission's engineers have made a separate appraisal as of the same date showing on an historical basis a total reproduction cost, undepreciated, of \$44,330.00 and a total depreciated reproduction cost of \$30,652.00. A copy of this appraisal has been furnished the applicant and has been accepted by applicant as being satisfactory.

The Commission's engineers have made an analysis of applicant's present revenue and expense accounts as shown by the company's books, and have also made an estimate of revenues and expenses under the proposed rates and estimated operating costs.

The income statement for the year 1919, as shown in the annual report on file with the Railroad Commission, shows an income of \$3659.75. This figure represents a return of 8.2% on a property valuation of \$44,330.00, or 11.94% on \$30,652.00. The rates which were in effect during the first five months of 1919 were lower than the rates now charged. Thus, the amount of subscribers' station revenues included in this income statement is less than these revenues now are under present rates. Under

operating expenses included in this statement, applicant has charged \$3120.00 to depreciation. This is at the rate of 7% on the book value of the property and is an excessive charge. On the other hand, certain items of operating expense are now higher than they were during a part of the year 1919. This income statement, therefore, does not reflect present conditions.

Taking as a basis for determining present revenues the actual receipts for the year 1919, except for subscribers' station revenues, and, for this item, the present volume of business at present rates, there will be shown an increase of \$2119.08 in gross revenues over those shown in the annual report for the year 1919. Total annual revenues thus are shown to be \$20,941.08. Applicant estimates that total annual operating expenses, including \$3300.00 for depreciation reserve, insurance, taxes, rent, interest, etc., based upon present costs, will be \$16,918.00. The Commission's engineers estimate that an allowance for annual depreciation reserve of \$2172.00 will be a reasonable allowance in this case. This is at the rate of 4.9% on the undepreciated reproduction cost of the property, \$44,330.00. Figured on this basis and allowing for salary increases made effective January 1, 1920, amounting to \$516.00 per year, it is estimated that the total operating expenses, including depreciation, taxes, insurance, rent, interest, etc., will be \$15,446.00. This will leave a gross income of \$5495.00, representing a return of 12.39% on \$44,330.00, or 17.92% on \$30,652.00. It thus appears that applicant is not entitled to the rate increase herein sought.

Heretofore applicant has charged the same rate to all one-party line subscribers, both business and residence, and in most cases no differentiation in rates has been made as between desk set and wall set equipment for subscribers' telephones. It is my opinion that a differentiation in rates should be provided

as between business and residence service and as between desk set and wall set equipment. The rates herein recommended will so provide and, in my opinion, will yield revenues sufficient to meet increased operating costs and provide an ample return on applicant's investment.

I recommend that applicant be authorized to make effective the following schedule of rates:

Business Unlimited Service

	<u>Wall Set</u>	<u>Desk Set</u>
1 Party Line,	\$ 2.75	\$ 3.00
2 Party Line,	2.25	2.50
*8 Party Line, Harmonic Selective,	3.25	3.50
10 Party Line Suburban Magneto Non-selective,	2.50	2.75
** Extension Sets,	1.00	1.00

Residence Unlimited Service

1 Party Line,	\$ 2.25	\$ 2.50
2 Party Line,	2.00	2.25
4 Party Line,	1.75	2.00
*8 Party Line, Harmonic Selective,	2.75	3.00
10 Party Line Suburban Magneto Non-selective,	2.00	2.25
Extension Sets Without Bell,	.50	.50
Extension Sets With Bell,	1.00	1.00

Private Branch Exchange Service

Business Commercial Unlimited Service:

Switchboard with battery and power circuit and operator's set,	\$5.00
First bothway trunk line,	4.75
Each additional bothway trunk line,	3.56
Each station within same building in which switchboard is located, wall or desk set,	1.00
***Each station outside of building and within 300 feet of switchboard,	1.50

Business Hotel Unlimited Service:

Switchboard with battery and power circuit, operator's set and not to exceed 15 drops,	\$2.00
Each additional group of 5 drops,	.20 per group
First bothway trunk line,	4.75
Each additional bothway trunk line,	3.56
***Each station, wall or desk set, in guest rooms, - 1 to 10 inclusive,	.50
11 " 20 "	.45
21 " 35 "	.40
36 " 50 "	.35
Over 50 "	.25

The rates herein apply within a radius of one mile from the switchboard, air line measurement. Beyond the one mile radius, mileage charges apply for each quarter mile or fraction thereof, as follows:

1 party line	\$ .50 per month
2 " "	.35 " "
4 " "	.25 " "
Extension Bells, Regulation Gong,	\$ .25 " "
" " Extra Loud Gong,	.35 " "
Extra Listing in Directory,	.25 " "
Moving telephone sets from one location to another in same room,	\$1.00
Moving telephone sets from one room to another on same premises,	1.50
For change of instrument from wall set to desk set, or vice versa, except when changing to a higher class of service,	1.00

\*This class of service furnished outside of one mile radius only.

\*\*Including one listing in directory if member of firm.

\*\*\*For private branch exchange stations located outside of premises in which private branch exchange switchboard is located, add 50 cents per month for each quarter mile or fraction of circuit involved.

Rules and regulations established under Decision No. 2879 of the Railroad Commission to continue in effect.

The following order is recommended.

ORDER

Los Gatos Telephone Company, a corporation, having filed its application with the Railroad Commission for authority to increase its rates for telephone service in the city of Los Gatos and adjacent territory in Santa Clara County, and a public hearing having been held,

IT IS HEREBY FOUND that the rates heretofore charged for telephone service by said applicant are unjust and unreasonable, and that the rates hereinafter provided are just and reasonable, and basing its conclusion thereon,

IT IS HEREBY ORDERED by the Railroad Commission that said applicant be and it is hereby authorized <sup>and directed</sup> to file with the Railroad Commission within thirty (30) days from the date of this Order and immediately thereafter to charge and collect rates as provided in the foregoing Opinion.

The authority herein is granted subject to the conditions following:

(1) Adequate and efficient telephone service shall be provided at all times for all classes of service.

(2) A depreciation reserve of \$2172.00 per year, in equal monthly installments of \$181.00, shall be set aside for the purpose of maintaining the plant in good condition and shall be used for such purposes only, or as may be authorized by the Commission.

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 9<sup>th</sup> day of April, 1920.

Edwin G. Dwyer  
J. D. Lybrand  
Frank K. Wilson  
H. B. Brundage  
Waring Martin  
Commissioners