

Decision No. 7831

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF  
THE STATE OF CALIFORNIA

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In the matter of the application of :  
the EEL RIVER AND SOUTHERN TELEPHONE :  
COMPANY for authority to increase : Application No. 5003  
rates for telephone service. :

A. W. Blackburn, for applicant.

BY THE COMMISSION:

O P I N I O N

The Eel River and Southern Telephone Company, hereinafter referred to as the company, in Application No. 5003 asks the Commission's authority to increase rates for telephone service, alleging that the present rates, which have been in effect for more than eight years, are inadequate to meet the increased operating expenses and at the same time yield a fair return upon its investment in plant.

A statement of the monthly revenue and expenses, the proposed rates and an inventory and appraisal of its property were filed with the application by the company. The exhibit showing the monthly exchange revenue indicates that discriminatory rates are

in effect and are shown in the following table:

Present Monthly Rates

<u>Classification</u>		<u>Business</u>	<u>Residence</u>
Main line	wall	\$ 2.50	\$ 2.00
Two party line	"	2.00	1.50
Four party line	"	1.75	1.25
Ten party line	"	1.50	1.00
Ten party line	"	----	1.25
Ten party line	"	----	1.50

Note: Desk telephones 25¢ additional

A hearing was held in Ferndale on January 29, 1920. At the hearing it developed that the variations in ten-party line rates indicated above were not due to geographical location of subscribers but were the results of the practice of giving various rates to subscribers having different equities in the lines. It was further developed that the inventory submitted by the company was made from its records rather than from an actual count of the items of plant and that the appraisal did not include any labor, incidental or overhead costs chargeable to fixed capital.

The Commission's engineers made a separate inventory of the plant with the assistance of a company representative. From this data a valuation has been made and a copy furnished the company. From an analysis of the appraisals submitted by the company and the Commission's engineers, taking into consideration the origin and source of money actually invested in plant as reflected in the history of the company, it is the opinion of <sup>the Commission</sup> /that a fair valuation of this property for rate making purposes will be approximately \$24,500. and suggest this amount as a proper rate base.

During the year 1919 the gross revenue of the company was \$8,607.24 and the total expenses including depreciation allowance, taxes and uncollectible bills were \$7,945.83, leaving a net income to the company of \$661.41. It is apparent, therefore, that the company is entitled to an increase in revenue in order that it may earn a reasonable return upon the value of its property.

The company may reasonably expect during the coming year an estimated revenue of \$11,400 from the rate structure which is proposed. A careful estimate of expenses for the same period has been made and amounts to \$9,500. This will give the company a reasonable return upon the plant value without increasing the rates to the extent requested in the application.

Included in the estimated expenses for the coming year is an item for depreciation amounting to \$1,260. This amount, in our opinion should be set aside in a separate fund and used only for the purposes for which it is collected from the subscribers. It is equally important, however, that the company should actually use this fund for replacements of plant and not charge such replacements to operating expenses as has been its practice in the past. For this reason it is recommended that the company be required to file with this Commission its suggestions for rules governing the use of this fund. Upon approval of the plan as submitted or modified they should be adhered to by the company.

In its application the company sets forth as a reason for the necessity of an increase in rates the statement that it does not have sufficient revenue remaining

after paying expenses and dividends to make additions to plant. It cannot be expected by the company that the public should be required to furnish the capital to build the plant and in addition pay a return upon the system which was built from their own money.

We recommend that the company should offer the following classes of service and authorize the following rates:

		<u>Per Month</u>	
		<u>Business</u>	<u>Residence</u>
Main line	Wall	\$ 2.50	\$ 2.00
Two party line	"	2.00	1.75
Four party line	"	1.75	1.50
Ten party line	"	1.25	1.00
Suburban	"	2.25	2.00
Extensions		1.00	1.00
Extension bells		.25	.25
Farmers' lines		7.20	3.60

Desk telephones are 25 cents additional per month on all classes of service except extensions and farmers' lines.

The above main-line, two, four and ten-party line rates apply only within the primary rate area which shall coincide with the city limits of the town of Ferndale.

For the following classes of service a mileage charge, based upon the shortest airline distance from the subscriber's station to the city limits, may be made:

Main line, per quarter mile or fraction thereof	\$ .50
Two-party line per quarter mile or fraction thereof	.35
Four-party line per quarter mile or fraction thereof	.25

All services, rules and regulations not covered in this opinion shall remain as provided for in the Commission's Decision No. 2879, Case 683, decided November 5, 1915. Within thirty days of the date of this order the Company shall file its rules and regulations and miscellaneous equipment rates for approval by the Commission.

Suburban subscribers as here used are defined as those located without the city limits of Ferndale having ten-party line service on lines which are wholly owned and maintained by the company. Further, the company shall own and maintain the telephones and associated equipment located on the subscribers' premises.

The company has made a practice in the past of requiring subscribers to furnish a part of the material or capital necessary to furnish so-called suburban service. It is the opinion of the Commission that good telephone service cannot be given unless the company owns and maintains the plant which it operates. We therefore recommend that the applicant be required to acquire the equities held by the various suburban subscribers and to file with this Commission within thirty days of the date of this order a statement showing the number of equities held by subscribers and the amount of each, together with a definite plan for acquiring ownership of same. Upon approval by this Commission of the plan as submitted or modified, the company should file a report at definite intervals, to be determined later, which will show the progress being made along this line.

We recommend the following form of order:

#### O R D E R

Bel River and Southern Telephone Company having filed with the Commission its application for an increase of rates, a hearing having been held, and 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 (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 schedule 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 \$1,260.00 per annum in installments of \$105.00 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) Applicant shall file with the Commission within thirty (30) days of the date of this Order a statement concerning its suburban subscribers as set forth in the Opinion.

Dated at San Francisco, California,  
this 9<sup>th</sup> day of July, 1920.

H. J. Loveland  
Frank R. Brown  
H. P. Brundage

Commissioners.