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Decision No. 9039.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the
McFARLAND TELEPHONE COMPANY for author-
ity to increase rates for telephone ser-
vice.

Application No. 6170.

L. F. Galyon and Ernest Irwin for applicant.

BY THE COMMISSION:

O P I N I O N

The McFARLAND TELEPHONE COMPANY, hereinafter re-ferred to as the company, in Application No. 6170, asks the Commission's authority to increase rates for telephone service, alleging that the income from the present rates is insufficient to pay operating expenses.

The company filed with its application a statement of the monthly revenue and expenses and an inventory and appraisal of its property. The revenue and expenses as shown in the exhibit are based on estimates rather than upon records kept by the company.

The rates which the company has on file with the Commission at present are as follows:

<u>Classification</u>	<u>Business</u>		<u>Residence</u>	
	<u>Wall</u>	<u>Desk</u>	<u>Wall</u>	<u>Desk</u>
Main Line	\$2.50	\$2.75	\$2.00	\$2.25
Two-party Line	2.00	2.25	1.75	2.00
Four-Party Line	1.75	2.00	1.50	1.75
Suburban*	1.75	2.00	1.50	1.75
Farmer Line*	.50	.50	.25	.25
Extension Bell	.25	--	.25	--

**** Mileage Charges**

Main Line Telephone, 50¢ per month per quarter mile or fraction thereof.

Two-party Line "	35¢	"	"	"	"	"	"	"
Four-party Line "	25¢	"	"	"	"	"	"	"

* Farmer line rates are for a minimum of five subscribers per line. Suburban rate is for a minimum of four subscribers for the first three miles of line required from the central office and a minimum of five subscribers per line for the first five miles of line.

** The mileage charges apply only for telephones of these classifications which are located outside of the primary rate area. The mileage shall be the air-line distance from the subscriber's station to the primary rate area.

The primary rate area is now defined by a circle drawn with a three quarter mile radius and with its center, or origin, at the central office.

An investigation of the subscriber's ledger of the company revealed the fact that it had not been charging the rates filed with the Commission, in that subscribers were given the choice between a wall and a desk telephone at the lower rates, this course resulting in loss of revenue. The company was acting within its rights in this matter but, inasmuch as it desires more revenue, it should have applied the rates authorized by this Commission. The ledger also showed that the company was charging discriminatory rates in a few cases, and collecting a rate for switching service which had not been authorized by the Commission. These two matters should be corrected.

A hearing was held in McFarland upon above application by Examiner Westover. An independent inventory and appraisal of the company's property was made by the Commission's engineers and presented at the hearing. From an analysis of these appraisals submitted by the company and by our engineers, we are of the opinion that a fair valuation of this property for rate-making purposes will be approximately \$6,500.00.

The records kept by the company of its revenues and expenses were so incomplete that it was impossible to determine from them either the income or the expenditures during the past year. We have therefore used estimated revenue and expenses in this instance.

A careful estimate of the operating expenses, uncollectible revenue, taxes and depreciation amounts to \$2,550.00 for the coming year. Under the present rates, assuming a 5% increase in business, the company would receive a total revenue of approximately \$2,450.00. It is apparent, therefore, that the company is entitled to an increase in revenue in order that it may pay even its operating expenses.

The company may reasonably expect during the coming year an estimated revenue of approximately \$2,750.00 under the proposed rate structure. With the estimated expenses for the

same period amounting to \$2,550.00, the company will have remaining only \$200.00 as a return upon its investment. This is a return of 8 per cent on \$2,500.00 while the rate base, as stated above, is \$6,500.

The above condition is caused by the fact that the company is serving a territory which is in the development stage. During the last five years the number of stations served by it has increased over 100 per cent. At the present time, however, the number of stations is so small (they have 72 stations) that a rate structure which would give a reasonable return upon the investment would be excessive and defeat the very purpose for which it was granted.

Included in the estimated expenses for the coming year is an item of \$288. which shall be set aside in a fund for the purpose of taking care of depreciation which will take place subsequent to the time this fund is set aside. This amount shall be added to the fund annually and the fund itself regulated as directed in the order.

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

<u>Classification</u>	<u>Per Month</u>	
	<u>Business</u>	<u>Residence</u>
Main Line - wall	\$ 2.50	\$ 2.00
Two-party Line - wall	2.00	1.75
Four-party Line - wall	1.75	1.50
Suburban Line - wall	2.25	2.00
Extensions	1.00	1.00
Extension Bells	.25	.25
	<u>Per Annum</u>	
Farmers' Lines	6.00	3.00

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

The above main-line, two and four-party line rates apply only within the primary rate area which shall be defined as the territory within one-half mile, air line, from the central office of the company.

Mileage Charges

A mileage charge, based upon the shortest air-line distance from the subscribers' station to the primary rate area, may be made for the following classes of service:

	<u>Per Month</u>
Main Line, per quarter mile or fraction thereof	\$.50
Two-party Line " " " " " "	.35
Four-party Line " " " " " "	.25

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

All services, rules and regulations not covered in this opinion shall remain in effect as provided for in the Commission's Decision No. 2879, Case No. 683, decided November 5, 1915 and as modified by Decision No. 8146, Application No. 5767, decided September 24, 1920.

We recommend the following form of order:

O R D E R

The McFARLAND TELEPHONE 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, 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 from 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 in a depreciation fund the sum of \$288.00 per annum in installments of \$24.00 per month for the purpose of taking care of such renewals and replacements of property 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 books and records of the company shall be kept in conformity with the Uniform Classification of Accounts for Telephone Companies as prescribed by this Commission and made effective January 1, 1914.

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 3^d day
of ~~May~~ ^{June}, 1921.

H. P. Rowdige
A. D. Loveland

W. F. Benedict

Commissioners.