

Decision No. 9255

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application
of the Reedley Telephone Company
for authority to issue bonds and
for authority to increase its
rates for telephone service.

} Application No. 6287.

Ernest Irwin, for applicant

BY THE COMMISSION.

OPINION.

The Reedley Telephone Company, hereinafter referred to as the Company, in Application No. 6287 asks the Commission to authorize it to issue such an amount of bonds as will net it \$15,000.00 and also asks permission to increase its present rates for telephone service. The money secured by the bond issue, the company states, is to be used to pay existing debts which were incurred in making extensions to its plant, to reimburse its treasury and to finance further new construction. The increase in rates, it alleges, is necessary in order that it may secure a fair return upon its investment.

The rates in effect at present are those authorized by the Commission in Decision No. 7027, dated January 20, 1920, and modified by Decision No. 7830, dated July 9, 1920. The latter decision discontinued the 25 cent discount for prompt payment of bills, but did not change the rates. The

present rate schedule is as follows:

		<u>Per Month</u>	
		<u>Business</u>	<u>Residence</u>
Main Line	- wall	\$2.75	\$2.25
Two Party Line	- wall	2.25	2.00
Four Party Line	- wall	- --	1.75
Six Party Line	- wall	- --	1.50
Suburban	- wall	2.25	2.00
*Extensions		1.50	1.00
*Farmers' Lines		.60	.40

Desk telephones are 25 cents additional per month on all classes of service except those marked with an asterisk.

A hearing was held in Reedley. The Company did not file any exhibits at the hearing, since the application itself sets forth the net additions to fixed capital since September 1, 1919, the date of the Commission's appraisal of applicant's property in Application No. 4858; the revenue and expenses from January 1, 1920 to September 1, 1920, as shown by the Company's books and the estimated revenue and expenses for one year under present and proposed rates.

The Commission's engineers presented a report which showed the investment in fixed capital as found by taking the sum of the net additions to plant since September 1, 1918, and the appraisal which they had made of the Company's property as of that date; the revenue and expenses for the period from December 1, 1919, to November 30, 1920, and an estimate of the revenue and expenses for a period of one year under present rates.

From an analysis of the figures presented by the Company and by our engineers it is our opinion that \$36,500.00 is a fair value for this property for rate-making purposes, and suggest this amount as the proper rate base.

The net income exclusive of interest deductions, for the year ending November 30, 1920, amounted to \$1840.00. The gross revenue collected during this period amounted to \$15,767.00, and the expenses for the same period, including taxes, uncollectible revenue and a reserve for accrued depreciation, amounted to \$13,927.00. It is apparent, therefore, that a sufficient return has not been made upon the investment during the period analyzed.

A careful estimate of revenues and expenses for one year indicates that the Company may reasonably expect a gross revenue of \$17,100.00 for this period under present rates, with an increase in business amounting to 5%. The expenses for the same period with present rates will be approximately \$14,750.00, leaving a net income for the year of \$2,350.00. This amount would be a return of approximately 6½% upon the rate base suggested above.

The rate structure which we propose should yield, during the next twelve months, a gross revenue of approximately \$17,700.00, while the expenses will amount to about \$14,800.00. This, in our opinion, will give the company a fair return upon its investment.

The increase in expenses for the year 1921 over the year 1920 is due to the additional allowance of \$700.00 per annum for depreciation of plant not covered heretofore by the fund and to the increase in taxes. No allowance was made for an increase nor for a decrease in wages of employes in the estimate.

It is recommended that the Commission order the Company to offer the following classes of service and authorize the following rates:

	<u>Per Month</u>	
	<u>Business</u>	<u>Residence</u>
Main Line - wall	\$3.00	\$2.25
Two Party Line - wall	2.50	2.00
Four Party Line-- wall	- --	1.75
Six Party Line -wall	- --	1.50
Suburban -wall	2.25	2.00
*Extensions	1.00	1.00
**Farmers' Lines	.60	.40

Desk telephones are 25 cents additional per month on all classes of service except those marked with an asterisk. Grab-phones are 50 cents additional per month on all classes of service except farmers' lines.

The above rates for farmers' line service are based upon a minimum of five subscribers per line. Any number less than five shall pay the proper pro-rata to equal the revenue from five subscribers.

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

Service and Accounting.

Subscribers on the so-called Squaw Valley-Dunlap line complained of the service rendered on their line. This matter has been before the Commission informally on several occasions, and is now being handled as a formal proceeding

apart from this application.

The Company has recently altered its accounting system to conform to the Commission's Uniform Classification of Accounts for Telephone Companies, as recommended by our engineers and accountants.

Issuance of Securities.

In Exhibit A applicant reports \$9,582.20 of notes outstanding as of November 1, 1920. In addition the Company reports other liabilities amounting to \$4,136.27.

Applicant asks permission to issue bonds to refund its indebtedness and to reimburse its treasury. It asks authority to issue such an amount of bonds as will net it \$15,000.00.

Applicant proposes to issue 7% twenty year bonds and sell such bonds at not less than 95 and accrued interest. No arrangements have been made by applicant for the sale of the bonds nor has applicant submitted a deed of trust securing the payment of the bonds.

This Commission can obviously not make a final order in this proceeding until there has been filed with the Commission for its consideration a proposed mortgage or deed of trust securing the payment of the bonds.

The order herein, insofar as it relates to the issue of bonds, is of a preliminary character and subject to such modification as may become necessary.

The following form of order is recommended:

ORDER

REEDLEY TELEPHONE COMPANY, having applied for permission to increase its rates for telephone service and to issue bonds and execute a mortgage, a public hearing having

been held, and the Commission being of the opinion that the rates authorized and the classes of service prescribed in this Order are just and reasonable and that the money, property or labor to be procured by the issue of the bonds herein authorized, is reasonably required by applicant and that the expenditures herein permitted are not in whole or in part reasonably chargeable to operating expense or to income:

IT IS HEREBY ORDERED that 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. Upon approval 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. The depreciation reserve of \$900.00 per annum ordered set aside in the Commission's Decision No. 7027, decided January 12, 1920, shall be increased to \$1600.00 per annum in monthly installments of \$133.33, and applicant shall file with the Commission within thirty days of the date of this Order its suggestions for rules governing the functions and use of the depreciation fund and these rules shall thereafter go into effect as approved or modified by the Commission.

IT IS HEREBY FURTHER ORDERED that the Reedley Telephone Company be, and is hereby authorized to issue and sell at not less than 95% of their face value and accrued interest, \$15,700.00 face value of the 20 year 7% bonds, provided that none of the bonds be delivered until the Commission

has authorized applicant to execute a deed of trust securing the payment of the bonds. The Commission will hereafter by supplemental order specify the purposes for which applicant may use the proceeds obtained from the sale of the bonds.

The authority herein granted is subject to further conditions as follows: -

1. Reedley Telephone Company shall keep such record of the issue and sale of the bonds herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this Order.

2. The authority herein granted will not become effective until applicant has paid the fee prescribed in the Public Utilities Act.

3. The authority herein granted will apply only to such bonds as may be issued, sold or delivered on or before December 31, 1921.

Dated at San Francisco, California, this 23rd day of July, 1921.

Notary Public, State of California

[Signature]
JUL 27 1921
[Signature]
BY _____

[Signature]

[Signature]

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Commissioners.