

Decision No. 9450

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of  
San Antonio Home Telephone Company  
for an order to increase its rates.

Application No. 6059

Hugh R. Osburn, for applicant.

By the Commission:

O P I N I O N

The applicant operates a telephone system between Jolon and King City, between Jolon and Bradley and in the vicinity of Jolon, Monterey County, California. Application is made to increase the rate paid by the stockholders of the company from \$8.00 per year to \$15.00 per year; and to increase the rate paid by non-stockholders from \$18.00 per year to \$21.00 per year. This increase is asked for the purpose of providing sufficient revenue to make necessary repairs to the system, to pay outstanding accrued bills and to obtain funds with which to purchase a new switchboard.

In addition to the above rates, applicant has also in effect a charge of 20 cents on calls between Jolon and King City and between Jolon and Bradley and a charge of 10 cents on local calls from the Jolon Exchange.

A public hearing was held upon this application at King City before Examiner Satterwhite.

The system is comprised principally of one grounded line between Jolon and King City, a distance of 17 miles and one grounded line between Jolon and Bradley, a distance of 23 miles. The

company operates an exchange office at Jolon and also a small exchange at a point known as "Glan" which is in the line between Jolon and Bradley. There is a line known as the Bryson Line extending from Glan to Pleyto and to other points, and there are a few subscribers on separate short lines connected with the Jolon exchange. There is one farmers line terminating at Jolon, known as the Gorda Line. This entire system is connected with the lines of The Pacific Telephone and Telegraph Company through its exchanges at King City and Bradley. The connection is on a farmer line basis only, the applicant paying to The Pacific Telephone and Telegraph Company \$3.00 per year for each station on its system. On March 8th 1921 there were 24 subscribers on the line between Jolon and King City; 22 between Jolon and Glan; 20 between Glan and Bradley; and a total on all lines of 90. Subscribers between Jolon and King City can call King City directly and those between Glan and Jolon can be connected with King City through the Jolon exchange. With the present number of subscribers, the lines are very much overloaded. It is our opinion that the requirements of public service demand that this situation be remedied by the construction of additional lines. The applicant should reduce the number of subscribers per line to 10, unless it can be shown that the conditions on its system are of such a special nature that it is able to render efficient telephone service otherwise.

The company is at present collecting discriminatory rates from its subscribers and from the public in several ways. In the first place, the stockholders in the company pay \$8.00 per year for telephone service while non-stockholders, or so-called renters, pay \$18.00 per year. One rate must be put in effect for stockholders and non-stockholders alike. Stockholders are entitled to some return on their investment, but it must be in the form of dividends declared out of net income.

Another case of discrimination exists in the manner of collecting an "other line" charge. Subscribers of the applicant may call the King City central office through the Jolon central office free and may also call subscribers of The Pacific Company's exchange at King City through the Jolon central office free. However, subscribers of The Pacific Company, who desire to call subscribers of the applicant through the King City central office and through the Jolon central office are required to pay an "other line" charge of Twenty Cents plus Five Cents war tax. Through the operation of the farmers' line agreement all subscribers of the applicant are, in effect, subscribers of The Pacific Company's exchange at King City. Therefore the collection of an "other line" charge is discriminatory under the present arrangement. We believe that the applicant may be entitled to make a charge for the use of its line by non-subscribers, but both the subscribers of the applicant, and the subscribers of The Pacific Company's exchange at King City, should be allowed free service to stations on the lines of either company when the calls are placed from such subscribers' own stations. Any subscriber of either company, or any outsider, desiring to place a call from the central office, or from a public station of either company to a point on the lines of either company may properly be charged for the service.

Still another irregular practice exists, namely, the furnishing to its subscribers by the applicant of coupon tickets, by the use of which they may obtain free service from the central office of The Pacific Company's King City exchange to various stations on the applicant's system. This is in the nature of a rebate and is prohibited by law.

The question of long distance service between points on the system of applicant and points on The Pacific Company's system,

beyond King City or Bradley, was discussed at the hearing. In view of the size of the applicant's exchange, we have recommended to the applicant a toll circuit be installed between its exchange and the King City exchange, and we have suggested, for the operation of this circuit that a connecting company agreement be entered into between the applicant and The Pacific Company. By means of this agreement, tolls would be collected for all interexchange calls. Applicant has stated, however, that it is not its desire at the present time to construct a new toll line and has given as its opinion that its subscribers would be unwilling to pay for the toll service.

It is claimed that a number of its subscribers do practically all of their business with King City and have frequent use for the telephone. For this reason the cost of telephone service to these subscribers would be greatly increased by establishing toll rates. To offset this increase, we would point out the decreased cost of exchange service. The operation under a connecting company toll agreement would mean the discontinuance of the present rental of \$3.00 per station per month to The Pacific Company for farmer line service. However, in view of the applicant's desire to avoid at present the construction of a new toll circuit in addition to the extensive replacements which are contemplated and also in view of the fact that the construction of new circuits is needed to relieve the present overcrowded lines, we are willing to allow the applicant to continue its present practice of allowing its subscribers, when calling from their own stations, to use its lines for toll purposes; and to charge non-subscribers for the use of its facilities, but only in the manner described in a preceding paragraph.

An inspection of the applicant's property was made by an engineer of the Commission and an inventory was also prepared. The applicant has outstanding stock amounting to \$3450.00. This amount of money was paid in by the stockholders for the original construction

of the system. There has been little change in the plant since its construction in 1905 and 1906, except the addition of new telephone instruments. Applying unit costs used in appraising other plants of similar construction, our engineer estimates that the historical reproduction cost of the present system is approximately the sum of \$8500.00. This figure includes full allowance for all labor and superintendence which must have been required in the construction of the system. Also, overhead costs of engineering, interest during construction and general expense have been estimated and included.

This system was originally built in the years 1905 and 1906. The president and the manager of the company both testified at the hearing that replacements must now be made of instruments, wire, poles and central office equipment. The sum required for this purpose was not named and we understand that no definite estimate has been made as to the extent to which replacement work should be undertaken at the present time. It should be clearly understood that present and future subscribers cannot be required to pay more than their share of replacement costs. In the past no provision has been made for depreciation, while at the same time the stockholders, who are also subscribers, have benefited by a discriminatory rate. The stockholders should now be required to finance the replacements which should have been taken care of by the gradual accumulation of a depreciation reserve. Had the present sixty stockholders paid the same rate as others, namely, \$18.00 per year, instead of \$8.00 per year during the fifteen years of the company's operation, the company's income would have been increased by \$9000.00. From this amount the stockholders would have been entitled to take dividends. Most of the stockholders had an investment of \$50.00, this being 10 shares at \$5.00 each. Assuming yearly dividends at 8 per cent, the total amount

thus taken out by stockholders would have been \$3600.00.

Stockholders have paid assessments at various times. Testimony was received at the hearing showing an assessment to have been levied in 1914 at 60 cents per share; one in 1918 at 25 cents per share; and one in 1921 at 50 cents per share. Therefore, six hundred shares of stock must have been assessed \$810.00. Deducting the above sums, estimated as dividends and assessments, from the estimated additional income of \$9000.00 leaves the sum of \$4410.00. The sum may be said to represent the difference between what the service actually cost the stockholders and what it would have cost them had they paid the same rate as the non-stockholders. If it is a fact that there have been an average of more than sixty stockholders, or if the assessments levied were not collected in full, then our estimate of \$4410.00 is too low and the stockholders have benefited by an amount even greater. It is, therefore, just that the stockholders should now be required to furnish the replacements to those portions of the plant which have become depreciated.

In regard to operating costs the company's manager, Mr. Merritt submitted the following:

Operating Revenue, Jan. 1, 1920 to Dec. 31, 1920, .....	\$ 989.50
Operating Expenses, " " " " " " " " , .....	1103.19

Our engineer estimated that the future annual revenue under the present rates would be, if all accounts were collected, \$1202.00; and the future annual expense would be \$1223.00. Allowing as expense a depreciation annuity of \$382.00, gives a total operating expense of \$1605.00. This would result in a deficit of \$403.00.

It is estimated that the rates hereinafter provided will produce a total revenue of \$2090.00. The net income, which, it is estimated, will be derived from this, will provide a return of 5.7 per cent on \$8500.00, and 14 per cent on \$3450.00, the original cost.

O R D E R

San Antonio Home Telephone Company, having applied for an order to increase its telephone rates in Jolon and vicinity, the matter having been heard and submitted,

It is hereby found that the rates heretofore charged for telephone service by said applicant are unjust, unreasonable and discriminatory, and that the rates hereinafter provided are just, reasonable and non-discriminatory.

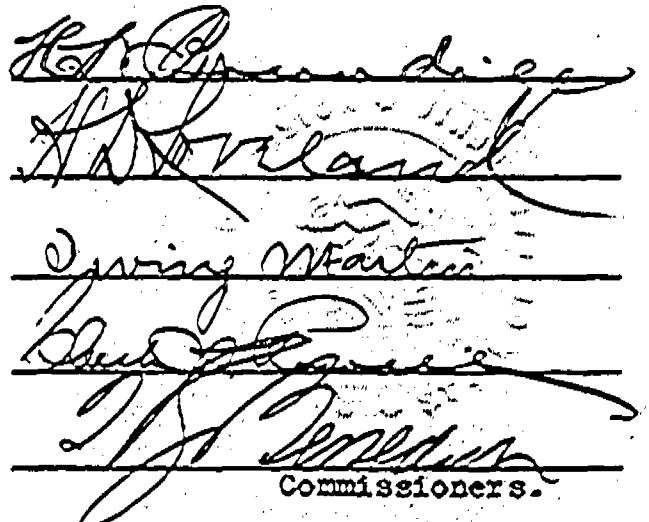
Basing its conclusions herein upon said finding and upon the facts set forth in the Opinion preceding this Order,

IT IS HEREBY ORDERED, by the Railroad Commission, that said applicant be, and it is hereby authorized to file with the Railroad Commission, within thirty days from the date of this Order, and thereafter so long as the present manner of operation on a farmer line basis is continued, or until otherwise ordered, to charge and collect rates in accordance with the following schedule:

Exchange Party Line Service, wall telephone, per year, .....	\$21.00
Farmer Line Service, per year, .....	6.00
Toll Service, local calls, each, .....	.10
Toll Service between King City and Jolon, or Between Bradley and Jolon, each call, .....	.20

The above charges for toll service may be made only in those cases which are specifically stated in the Opinion preceding this Order.

Dated at San Francisco, California, this 31st day of August, 1921.

  
Commissioners.