

Decision No. 9456

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
DELTA TELEPHONE & TELEGRAPH COMPANY)
for authority to increase rates and)
to make certain changes of rules and)
regulations relating thereto.)

ORIGINAL

Application No. 5534.

Albert A. Rosenshine for Applicant.

BY THE COMMISSION.

O P I N I O N

The Delta Telephone and Telegraph Company, in Application No. 5534, asks the Commission's authority to increase its rates for certain classes of telephone service and to change some of its rules and regulations, alleging that it is not making a fair return upon its investment and that its business must be placed upon a dividend paying basis in order to attract new capital with which to make necessary extensions and betterments to its plant.

Public hearings upon the application were held by Examiner Westover at Sacramento.

Territory Served and Effect on Rates.

The company furnishes telephone service to the district along the Sacramento River beginning about eight miles south of Sacramento and extending in a general southerly direction for a distance of twenty-eight miles. Branch lines have been extended from the main leads to give service to residents on the many islands in this district.

The following towns or communities are served by the company's own lines:

Clarksburg
Courtland
Freeport

Hood
Isleton
Paintersville

Ryde
Vorden
Walnut Grove

Long distance connections are made with the Rio Vista Telephone and Telegraph Company at Rio Vista and with The Pacific Telephone and Telegraph Company's lines at Sacramento.

The territory served by applicant consists principally of land reclaimed from the marshes along the Sacramento and San Joaquin Rivers. It is strictly a farming community with no centers which can properly be called towns. Practically all highways are built on top of the levees and the company's lines usually parallel the latter so that they will be accessible from them.

The above description of this district is given because it has an important bearing upon the investment which the company has in plant and upon its operating expenses, consequently upon the rates for service. The fixed capital per station is unusually high on account of the considerable amount of submarine cable, the almost total absence of urban lines and the greater length of lines because they are built along levees instead of along straight highways. The operating expenses are increased by these same factors. In addition to these, the securing and retaining of operators increases this expense. The local residents are wealthy and need not work for the telephone company. City operators will not stay in this isolated district for the usual scale of wages and boarding and lodging cannot be secured by them in Courtland, the company's headquarters. To overcome the latter difficulties, the company pays a higher wage scale to its operators and maintains as part of its operating system a boarding and lodging establishment.

Operating Methods

A brief description of the company's methods of charging for service and of operating its system will assist in understanding the arguments and requests of applicant and the recommendations of

our engineers. As stated above, practically all lines of the company furnish suburban service and, as a result, have from five to seventeen subscribers' stations connected with each circuit. Each subscriber on a particular line may communicate with all others on the same line without paying a toll charge. For all calls from stations on one line to stations on another line, subscribers pay a ten cent toll for three minutes and five cents for each additional minute. These calls are handled in the same manner as ordinary "long distance" calls. As a result of this method of operating, every local call which is completed thru the switchboards of the company is manually recorded, giving calling number, called number, and duration of the conversation.

The entire system of the company is operated as one exchange although there is a central office at Courtland and one at Isleton. The long distance rates are the same to or from all stations on the company's system regardless of their distance from the connecting point with other companies' systems.

Valuation, Revenues and Expenses

In addition to the statement of revenue and expenses for the years 1918 and 1919 and the estimated revenue and expenses for the year 1920 which were filed with the application, applicant submitted at the last hearing an amendment to the proposed rate schedules and a graph showing the various sources and amounts of revenue for the past year. Subsequent to the hearing it filed a brief setting forth various data concerning the estimated cost of doing certain work recommended by our engineers, which would increase the rate base, and giving its views on the best method of increasing the gross revenue to the amount required to net a fair return upon the investment.

Mr. A. N. Johns, one of the Commission's engineers, made an inventory and appraisal of the company's property as of September 1, 1920. The inventory was made in company with a company representative. The appraisal, with the net additions to plant to May 31, 1921, was submitted at the last hearing and amounted to \$118,940. The company did not make an appraisal of the plant and accepted our engineer's figures. The company, however, must spend approximately \$1,740. for additions to plant in order to comply with certain requirements which we impose in the order. It is our opinion, therefore, that \$120,500. is a fair valuation of the property for rate making purposes.

The revenues and expenses of the company for the year ending May 31, 1921, were carefully analyzed by Mr. Johns. The revenue amounted to \$40,093.60, and the expenses, including a reasonable sum set aside by the company for depreciation, amounted to \$33,021.14, leaving a net income, before interest deductions, of \$7,072.46 (compensation for loss during Federal control, amounting to \$4,193.52, was not included in above figures).

Mr. Johns submitted an estimate of 10% increase in the number of stations and 9% increase in volume of toll business during the coming year, on which basis the company might reasonably expect a gross revenue of \$42,330. His estimate of expenses for the same period amounts to \$35,526., including \$5,100. for the depreciation reserve fund. The net income before interest deductions, therefore would be approximately \$6,800. It is evident from the above that the company is entitled to additional revenue in order that it may make a fair return upon its investment.

Under the rates which we authorize the company may reasonably expect a net return which will attract new capital with which to make such extensions and betterments to plant as are required.

Rates and Service

Applicant's present exchange rates are as follows:

- a. Flat monthly rental of 50 cents per station with
 - b. Free calls to stations on same line with
 - *c. A 10-cent charge for 3 minutes and 5 cents for each additional minute or fraction thereof on all calls from one line to another on the company's system.
- * This rate applies to subscribers and stockholders only. Non-subscribers pay 20 cents for the initial period and the usual overtime rate.

Applicant's present toll rates:

These are identical with those in the Order under the caption "Toll Telephone and Telegraph Rates" except those between Rio Vista and stations on applicant's system. Between these points, non-subscribers pay 10 cents additional for the initial 3 minute period.

The only guaranteed amount of revenue from each subscriber's station under present rates is the fifty cent flat rate charge. Applicant now requests that in addition to this amount, the Commission shall require a \$2.50 per month per station guarantee for the local 10-cent service. It suggests a reduction of 5 cents in its toll rates to compensate for the increase in revenue derived from this source.

As already noted, applicant must receive additional revenue and the problem now before us is to find the most equitable means of securing it. We are of the opinion that it would be unjust to increase the burden on the exchange service by reducing the toll rate.

We therefore deny the request for the slight reduction in toll rates at the present time and provide for a very substantial reduction in applicant's proposed exchange rates.

There are two methods of securing a guaranteed amount of revenue for exchange service. One is to charge a flat rate for un-

limited service and the other is to give measured service with a guaranteed minimum revenue. The company opposes the former method, alleging that its present facilities would be inadequate to handle the increased traffic. On the other hand, measured service on a magneto system is very expensive from an operating point of view and is rarely furnished.

After careful consideration of the testimony offered by applicant and the data submitted by Mr. Johns, it is our opinion that it would be unwise to order unlimited exchange service at the present time. In lieu thereof, however, applicant should furnish the class of exchange service and charge the rates set forth in the order. This schedule permits the subscriber each month to make 15 calls, each of 3 minutes duration, free of charge to any station on applicant's system, exclusive of calls for stations on his own line. Overtime should be charged on these 15 messages at the usual overtime rate and all messages in excess of 15 should be paid for at the usual rate. For this local service, the subscriber must pay \$1.75 per month per station under the rates authorized.

The present rate schedule of applicant requires non-subscribers to pay 100 per cent. more than subscribers or stockholders for the initial period of three minutes for calls on the company's own system. This is obviously unfair and must be discontinued.

The company at present charges the same rate for business and residence service and makes no additional charge for a desk telephone. It requests permission to make an additional charge of 25 cents per month for the latter, continuing the present practice regarding business and residence rates. While an additional charge for desk telephones is the general practice of telephone companies, we are of the opinion that the present system of rates should be disturbed as little as possible and yet give the company a fair return upon its investment, until such time as data will be available to

analyze and revise the entire rate system. We therefore deny the request to make additional charge for desk telephones at present. Applicant proposes instituting on its "long distance" service a report charge, an appointment call charge and a messenger call charge. These charges are taken from the so-called Burleson schedule. The company, however objects to computing rates on the Burleson basis. We are of the opinion that the long distance rates and charges should remain as at present except that the rates to Rio Vista shall be the same to non-subscribers as those to subscribers and stockholders. We base our conclusion on the same reasoning as set forth above. These rates are shown in the order.

There was practically no complaint at the hearings against the service furnished by applicant. Our engineer, however, called attention to the fact that a number of lines had more than 10 stations per circuit and recommended that all lines be reduced to a maximum of 10 stations. Applicant submitted an estimated cost of about \$14,000. for doing the work necessary to make this change. In view of the fact that the volume of traffic on these lines is below normal, due to the measured service, and in view of the fact that the cost of labor and material is still very high it is our opinion that the recommendations of our engineer on this matter should be applied at this time only to the present lines No. 15 and No. 28. The company should restrict all lines in the future to 10 stations each and make every effort to reduce other existing lines to the same number of stations. We make the above exception to reducing the number of stations to 10 per line at the present time on account of the unusual conditions existing in this system, and it may not be taken as a precedent in future cases before the Commission.

Our engineer further recommends that the territory served by the applicant should be divided into two distinct exchange areas,

to be served from Isleton and Courtland exchanges.

Mr. Johns' report containing above recommendations, and that following relating to records, was filed in evidence at the last hearing. It was the result of a detailed study of the situation, with the purpose of improving service conditions^{and} effecting economies in operation without requiring large capital expenditure at this time. The company at the hearing reserved the privilege of discussing the report in a brief to be filed later. In its brief now on file, it acquiesces in his recommendations, except those relating to the amount of the guarantee, the service to be rendered for^{the} guarantee, and to having the present toll rates remain effective.

Records to be kept by Company

As shown above, the methods of charging for both toll and local service by applicant differ from those in use in most exchanges. The company urges that the peculiar conditions present in this territory make these methods necessary. We have not sufficient data available to decide whether or not this position is correct, therefore we provide that applicant shall keep the following information for a period of at least one year, sending to the Commission a monthly report of same:

1. The total number of messages and the average holding time of messages from:-

a.	Isleton	to	Courtland				
b.	Isleton	"	Rio Vista				
c.	Isleton	"	Sacramento or other outsidepts				
d.	Courtland	"	Isleton				
e.	Courtland	"	Rio Vista				
f.	Courtland	"	Sacramento	"	"	"	"
g.	Rio Vista	"	Isleton				
h.	Rio Vista	"	Courtland				
i.	Rio Vista	"	Sacramento	"	"	"	"
j.	Sacramento	"	Courtland				
k.	Sacramento	"	Isleton				
l.	Sacramento	"	Rio Vista				

2. The cost of work charged to maintenance which was made necessary on account of dividing the system into two exchanges and reducing the lines to 10 stations each.

Rules and Regulations

Applicant filed proposed Rules and Regulations in accordance with the Commission's Decision No. 2879, Case No. 683, and information affecting rates and service. Inasmuch as these were designed to cover the company's proposed rates and not those authorized by the Commission, we recommend that applicant shall file within thirty (30) days from the date of this order a revised set of Rules and Regulations.

O R D E R

Delta Telephone and Telegraph Company having filed with this Commission its application for an increase in rates for telephone service and for changes in rules and regulations, public hearings 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 and rules and regulations authorized and the classes of service prescribed in this order are just and reasonable,

IT IS HEREBY ORDERED that applicant is hereby authorized to file with the Commission within thirty (30) days from the date of this order a schedule of rates, services and rules and regulations as outlined in the foregoing opinion and ordered to offer the classes of service as shown herein, which ^{rates, rules and regulations} upon approval, may be made effective:

Exchange Service Rates

1. The monthly rental shall be \$1.75 for business or residence service, wall or desk telephone.
2. The monthly rental shall entitle the subscriber to the following:
 - a. Free calls, unlimited, between stations on the same line.
 - b. Fifteen messages, each of three minutes or less duration, to any of the company's subscribers not on the same line, all excesses of the three minute limit to be paid for at the overtime rate shown in (c) below.

- c. All messages to company's stations in excess of the fifteen allowed in Paragraph (b) above, except as provided in Paragraph (a) above, shall be paid for at the rate of ten cents for the first three minutes or fraction thereof and five cents for each additional minute or fraction thereof.

Toll Telephone and Telegraph Rates

1. The toll telephone rates between Sacramento and all stations on applicant's system shall be 30 cents for the initial period of 3 minutes and 10 cents for each additional minute or fraction thereof. The toll telegraph rates shall be 30 cents for a ten-word or less day message, and 2 cents for each additional word over ten.
2. The toll telephone rates between Rio Vista and all stations on applicant's system shall be 15 cents for an initial period of 3 minutes and 5 cents for each additional minute or fraction thereof. The toll telegraph rates shall be 35 cents for a ten-word or less day message and 2 cents for each additional word over ten.
3. The toll telephone rates between Rio Vista and Sacramento shall be 35 cents for the first 3 minutes and 10 cents for each additional minute or fraction thereof. The toll telegraph rates shall be 35 cents for a ten-word or less day message, and 2 cents for each additional word over ten.
4. All rates are for particular person service.

IT IS HEREBY FURTHER ORDERED that applicant shall divide its system into two exchange areas, the dividing line to follow the township line between townships No. 4 and No. 5, Ranges 2 and 3 East, thence due east to the Sacramento River, thence following the river north and east to a point approximately one mile below Walnut Grove, thence in a southeasterly direction to point of intersection of above township line extended, thence due east. All subscribers south of this exchange line shall be served from the Isleton Central Office and all stations north of the line shall be served from the Courtland Central Office. This work shall be completed within ninety (90) days from the date of this order.

IT IS HEREBY FURTHER ORDERED that lines No. 15 and No. 28 shall be so changed that they shall each have a maximum of 10 stations per circuit. This work shall be completed within ninety (90)

days from the date of this order. All other existing lines in the system shall be gradually reduced to a maximum of 10 stations per circuit by transferring subscribers on overloaded lines to other lines on which vacancies occur by reason of discontinuance of service or by transferring them to new lines which are built from time to time to serve additional subscribers.

IT IS HEREBY FURTHER ORDERED that applicant shall set aside in a depreciation fund the sum of \$5,100 per annum in monthly installments of \$425 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 from 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 applicant shall keep the records set forth in the Opinion under the caption "Records to be kept by Company" and shall forward a report on same each month as outlined therein.

Dated at San Francisco, California, this 3rd day of September, 1921.

H. B. Prudice
H. D. Loveland
Dwight Martin

Commissioners