

Decision No. 9457

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the matter of the application  
of the Kerman Telephone Company  
for authority to increase rates  
for telephone service. -----

Application No. 5793.

Max E. Socha and Ernest Irwin, for applicant.

By the Commission:

O P I N I O N

The Kerman Telephone Company in Application No. 5793 requests the Commission's authority to increase rates for telephone service alleging that it is not receiving sufficient revenue to pay operating expenses and a fair return upon its investment.

Applicant furnishes service to the town of Kerman and the territory surrounding it. This is a comparatively new community, having been placed on the market a number of years ago by the Fresno Farms Company.

The present monthly rates on file with the Commission and those proposed by the company are as follows:

		<u>Per Month</u>			
		<u>Business</u>		<u>Residence</u>	
		<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
Main Line	Wall	\$2.50	\$3.50	\$2.50	\$3.00
Two-Party Line	"	2.00	--	2.00	--
Four-Party Line	"	--	2.50	--	--
Three-Party or More	"	1.50	--	1.50	--
Six-Party Line	"	--	--	--	1.75
Suburban	"	1.25	*3.50	1.25	*3.00
Extension		0.50	0.75	0.50	0.75

Under the present rates no distinction is made between the rates for wall and desk telephones. There seems to be no well defined primary rate area.

\*applicant proposes an alternate suburban rate which is 50¢ per month less than the one shown.

Under the company's proposed rates desk telephones are to be 25¢ per month additional on all classes of service including extensions.

The proposed primary rate area is bounded by a circle whose radius is one half mile.

Beyond the primary rate area <sup>proposed</sup> mileage charges apply for each quarter mile or fraction thereof, as follows:

Main Line	50¢ per month
Four-Party Line	25¢ " "
Six-Party Line	25¢ " "

by Examiner Westover.

A hearing was held in Kerman/ At the hearing applicant submitted an income and profit and loss statement for the period December 20, 1919 to December 20, 1920; a comparative statement of income under present and proposed rates; a comparative statement of revenue and expenses under its proposed rate structure, and an estimated cost of new construction necessary to reduce the number of subscribers on suburban lines to 10 per circuit. This estimate was made to meet the conditions imposed by the Commission in the order.

An appraisal of applicant's property was made and presented by the Commission's engineers. The inventory was made by our engineers with the assistance of a company representative. Applicant did not submit an independent appraisal of the property. After analyzing our engineer's figures we are of the opinion that for rate making purposes a fair valuation of the property as it existed at the time the inventory was made would amount to approximately \$24,000. A portion of the poles in this plant was furnished by the subscribers. We do not think it proper for applicant to receive a return upon property for which it has made no outlay of capital nor do we think the subscribers should be made to pay a return upon plant for which they themselves have furnished the capital. Consequently the estimated amount furnished by the subscribers has been eliminated from the above figure. As stated above, the engineers of the company have submitted an estimated cost of

construction necessary to reduce the number of subscribers on suburban lines to 10 per circuit. This estimate has been checked by our engineers and amounts to approximately \$4,000. This would make the fair valuation of the property, after the above changes, amount to \$28,000 and we use this amount as a proper rate basis.

The gross revenue for the year ending December 20, 1920, amounts to \$4,976.00, while the total expenses of the company, before interest deductions, amount to \$5,162. Under the present rates the company would receive, for the period ending May 20, 1922, gross revenue amounting to \$5,845.00, while the expenses for the same period would be approximately \$6,800.00. It is apparent therefore that it is entitled to an increase in revenue in order to make a return upon its investment.

The rate schedule authorized in the Order, with an estimated increase in business amounting to 7 per cent in exchange service revenue and 15 per cent in toll revenue, should produce a gross revenue of \$8,350. during the coming year. The estimated expenses for the same period, including \$1,000. for the replacement of depreciable property, amount to approximately \$6,800.00 leaving an estimated net revenue, before interest deductions, of \$1,550. or approximately 5½ per cent upon the rate base of \$28,000.

As the territory served is new and undeveloped, the company has a large investment in plant and the operating expenses are high considering the present number of subscribers, but under the rates provided in the order it is to be anticipated that the system will grow and soon produce an adequate return upon the investment. A full return upon the investment at this time would result in rates so high as to retard the company's normal development.

The service furnished by applicant was criticized at the hearing. The main complaint indicated that the suburban lines were overloaded by having too many subscribers connected to them. We are of the opinion that efficient telephone service cannot be given on any circuit to which more than 10 stations are connected and provide that applicant should meet this requirement at an early date. As stated above, we have allowed an amount sufficient to cover the added fixed capital required to make these changes.

Applicant has been furnishing six-party residence exchange service. This service, in our opinion, should be discontinued and four-party line service substituted therefor. We make this recommendation on account of the fact that applicant does not furnish selective signaling on his party line service.

No provision has been made by applicant for the replacement of plant when it becomes necessary to do so. It is our opinion that this is an unsound policy and that in the future a depreciation fund should be set aside and so held that money will be available for this purpose and should be used for no other purpose without the consent of this Commission.

#### O R D E R

The Kerman Telephone Company having applied for permission to increase its rates for telephone service, a 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,

IT IS HEREBY ORDERED, that applicant is hereby authorized to file with the Commission within thirty (30) days from the date of this order the schedule of rates and services set forth in Schedule A, and after approval, by supplemental order herein, it is authorized to make said schedule of rates effective, subject to the

conditions hereinafter set forth, and it is hereby ordered to provide the classes of service set forth in Schedule A:

SCHEDULE A

		<u>P e r M o n t h</u>	
		<u>Business</u>	<u>Residence</u>
Main Line	Wall	\$ 2.75	\$ 2.25
Two-Party Line	"	2.25	2.00
Four-Party Line	"	2.00	1.75
Suburban Ten-Party Line	"	2.25	2.00
Extension (With or without bell)		1.00	1.00

Desk telephones are 25¢ additional per month on all classes of service excepting extensions.

The following mileage charges may be made outside of the primary rate area based upon the air line distance from the primary area:

	<u>Per Quarter Mile</u> or <u>Fraction thereof</u>
Main Line	50¢ per month
Two-Party Line	35¢ " "
Four-Party Line	25¢ " "

The primary rate area shall be defined by a circle with the center at the central office and with a radius of three-quarters of a mile.

All miscellaneous rates not provided for in Schedule A shall be submitted to the Commission for its approval. All services, rules and regulations not therein provided for, shall remain as set forth in the Commission's Decision No. 2879 of November 5, 1915, as modified by Decision No. 8146, of September 24, 1920.

IT IS HEREBY FURTHER ORDERED that exchange lines shall not have connected thereto more than the number of subscribers' stations which the rate schedule permits for the class of service furnished and that suburban lines shall not have connected more than 10 stations each, and that upon lines having more than the maximum number of stations above provided for the work of reducing said stations shall be completed within 90 days from date hereof.

Approval of the rates herein provided for will be given only after satisfactory showing that applicant has fully complied with the conditions above as to the maximum number of stations per line herein permitted, and may be made effective subject to the following conditions:

- a. Adequate and efficient telephone service must be rendered at all times for all classes of service.
- b. A depreciation reserve of \$1,000 per annum in installments of \$83.33 per month shall be set aside in a special fund for the purpose of maintaining the plant in good condition and shall be used for such purposes only, or as may be authorized by the Commission. 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.
- c. An accounting system must be followed which will conform to that prescribed by the Commission in its Uniform Classification of Accounts for Telephone Companies as made effective on January 1, 1914.

Dated at San Francisco, California, this 3<sup>rd</sup> day of September, 1921.

*H. B. Pringle*  
*A. D. Merrill*  
*Dwight Martin*  
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Commissioners.