

Decision No. 9846**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Investigation on the)
 Commission's own motion of the Rates, Ser-)
 vice, Operating Methods, Accounting and)
 other practices of J.G.Kirkman to secure)
 Equitable Rates and Efficient Operation and)
 Management of his telephone system.)

Case No. 1667.

Appearances:- Farnsworth, McClure & Burke

by

James M. Burke.

By the Commission:

O P I N I O N

J. G. Kirkman, owning and operating the telephone system at Exeter, Tulare County, under the name of Central Telephone Company, applied to the Commission, in Application No. 6207, for authority to increase his rates for telephone service. In making an investigation in connection with this application, our engineers found that applicant was charging discriminatory rates, was not keeping account of his revenue and expenses as prescribed by this Commission and was not practicing various operating methods necessary to give good telephone service economically.

The application for an increase in rates was denied and this proceeding was instituted to permit Mr. Kirkman, hereinafter referred to as the owner, to show cause, if any he has, why the Commission should not order such changes in rates, rules and practices as it finds just and reasonable.

A hearing on this matter was held by Examiner Satterwhite in Exeter on September 24, 1921. Our engineers presented a report setting forth the results of their investigation into the affairs of the utility and made specific recommendations for certain changes. The owner submitted no evidence to disprove or to justify the conditions set forth in this report, copy of which was sent him prior to the hearing. He agreed to the recommendations made in it and, subsequent to the hearing, stipulated by letter that he would install selective signaling apparatus on all his party-line telephones. The necessity for this type of apparatus will be shown under a later paragraph on the subject of service.

We feel that in justice to the owner we should commend him upon the excellent plant and equipment which he has in his telephone system and upon his readiness to make any improvements which will tend to better the service.

Valuation, Revenue and Expenses.

A valuation of this property was made and presented by our engineers in connection with Application No. 6207. The owner did not submit any evidence in Application No. 6207 or in this proceeding relative to the value of the property. After careful consideration of our engineers' figures and of the additions to plant since the date of the appraisal, we find the fair valuation of the property amounts to \$31,500 and we use this as a proper rate base.

It was impossible to determine the revenue and expenses of the utility for the year ending August 31, 1921, because no attempt had been made by the owner to keep an accurate record of them prior to February of this year. It was apparent from the analysis made by our engineers, however, that the owner would make a liberal return upon his investment during the coming year with the present rates in effect and with the present force of employees.

Under the rate structure which we authorize, the owner may reasonably expect, during the next twelve months, a gross revenue amounting to \$12,000. This anticipates an increase of 10 per cent in the number of stations and no increase in the volume of toll business. The present rates would yield approximately the same amount of revenue. Discrimination, however, will be removed by the authorized rates.

A careful estimate of the expenses of the utility during the coming year has been made by our engineers. Their estimate indicates that after making allowance for an additional operator for the busy part of the day and for a depreciation reserve fund for the replacement of depreciable property, the authorized rates will yield a fair return upon the investment.

Rates.

The report referred to above shows that the present rate for individual line telephones is the same for both business and residence service. This, in our opinion, is poor practice in an exchange of this size and we have made a differential between them in our authorized rate structure.

The report also shows that the rate for 10-party suburban service varies from \$1.50 to \$2.00 per month for wall telephones and that various other cases of discriminatory rates exist. These, of course, must be rectified.

The authorized rates are set forth in the Order following this Opinion.

Service.

The service furnished at the time this hearing was held was far superior to that given earlier in the year. However, there still remains room for improvement in certain respects. Supervision over the operators should be improved and extra operating help employed during the busy hours. Allowance has been made for this in our estimate of expenses.

At the present time code signals are used on party line stations. As a result, a four-party-line subscriber's bell rings when any one of the other three parties on his line is called. This can be eliminated by the use of selective signaling and, as stated earlier in this Opinion, the owner has agreed to install this system.

The owner has permitted more subscribers to be connected to certain party lines than are permitted under the grade of service furnished. This is not only illegal but is very poor telephone practice and must be corrected.

He has also permitted a practice with certain subscribers which has been found to be detrimental to the service and which is an injustice to the other rate payers. This consists of furnishing a subscriber with a telephone at the usual rate, then permitting him to attach his own instruments to the line, using them as extension sets. This practice must be discontinued.

Accounting Methods.

In order to keep his books according to the accounting methods prescribed by this Commission in the resolution adopted September 23, 1921, making the Interstate Commerce Commission's Uniform Classification of Accounts for Class C Companies effective January 1, 1922, the owner should install a set of books showing the various accounts which he must keep, and should also employ a book-keeper who is sufficiently familiar with telephone accounting to properly allocate the expenses. Allowance has been made in our estimate for this additional item of expense.

Besides a new set of books, all the various voucher forms, daily work reports and other detail sheets necessary to determine the proper charges should be installed in order to perform the accounting as prescribed.

Our engineers called attention to the fact that the owner kept no record of the class of service desired nor the rate to be paid by applicants for service. This will necessitate the adoption of some form of application blank which must form a part of the owner's permanent records.

The system of collection used by the owner does not permit a check to be made of the amount of money secured. This should be replaced by a duplicate receipt or some other system which will show the amount collected from each subscriber and which will enable an accountant to make a complete analysis of the revenue.

Management.

Certain evidence collected in this case and in Application No. 6207 indicated that there was a lack of responsibility in the management of this system. We feel that this responsibility must be assumed by one individual who will execute the policies and plans of the utility and we have required this in the Order.

O R D E R

Proceedings in the above entitled matter having been instituted on the Commission's own motion, the case having been heard, the Commission being fully advised and the matter having been submitted,

The Commission HEREBY FINDS that the present rate schedule is discriminatory; that the service should be improved; that the accounting methods should be changed to meet the requirements of the Commission's Uniform Classification of Accounts for Telephone Companies and that some one individual should be charged with the duty of managing the affairs of the company. Basing its conclusions on the foregoing findings

IT IS HEREBY ORDERED that Mr. J. G. Kirkman, hereinafter referred to as the owner, shall file with this Commission within thirty (30) days from the date of this Order, a schedule of rates which will remove discrimination and which in no case will exceed the rates set forth in the following paragraph of the Order. This schedule, upon approval by the Commission, may be made effective on and after January 1, 1922.

IT IS HEREBY FURTHER ORDERED that the owner is authorized to file with the Commission within thirty (30) days from the date of this Order, the following schedule of rates. Upon approval these rates may be made effective:

Rate Schedule

<u>Classification</u>	<u>Per Month</u>	<u>Per Month</u>
	<u>Business</u>	<u>Residence</u>
Individual Line	2.75	2.25
Two-party Line	2.25	2.00
Four-party Line	2.00	1.75
Suburban-10-Party	2.25	2.00
Extensions	1.00	1.00
	<u>Per Annum</u>	<u>Per Annum</u>
Farmer Line (1)	7.20	3.60
Farmer Line (2)	9.60	6.00

Note:- Farmer line rate marked (1) indicates that subscriber owns both the line and the telephone instrument. Farmer line rate marked (2) indicates that the company owns the telephone instrument.

All of the above rates are for wall telephones. Desk telephones are 25 cents additional per month on all classes of service except extensions and farmer lines where the subscriber owns the instrument.

If owner desires he may bill and collect farmer line rental on a monthly basis.

The above rates for individual-line, two-party line and four-party line service apply only within the primary rate area which shall be defined by the city limits of the City of Exeter. The following mileage charges shall apply beyond this area:

<u>Classification</u>	<u>Mileage</u>	<u>Per quarter mile or fraction thereof</u>
Individual Line - per month		\$.50
Two-party Line - " "		.35
Four-party Line - " "		.25

Mileage shall be based upon the shortest airline distance from the subscriber's premises to the primary rate area.

IT IS HEREBY FURTHER ORDERED that the service shall be improved by the following:

1. Closer supervision must be maintained over the operating force.
2. An additional operator shall be employed during the "peak load" period of the day when this is necessary to give good service.
3. Selective signalling apparatus shall be installed on all party-line stations. This work shall be completed by February 15, 1922 unless good cause is shown for an extension of time.
4. No telephone line shall have connected thereto more stations than the grade of service furnished permits. This condition shall be fulfilled within ninety (90) days from the date of this order.
5. The owner shall not permit subscribers to attach privately owned telephones to any exchange lines or stations to be used as extension sets. All such cases existing at this time shall be corrected within thirty (30) days from the date of this Order.

IT IS HEREBY FURTHER ORDERED that the owner shall adopt a system of application blanks which will show the class of service desired and the rate to be collected for each applicant for service; a system of duplicate receipts or other means of showing the actual amount of money collected from each subscriber. These shall become effective not later than January 1, 1922, and shall form a part of the permanent records of the company.

IT IS HEREBY FURTHER ORDERED that the owner shall designate to the Commission an individual who shall be responsible for

the character of the service furnished and for the management of the company.

IT IS HEREBY FURTHER ORDERED that the owner shall set aside into a depreciation fund the sum of \$1080 per annum in monthly installments of \$90 for the purpose of taking care of such renewals and replacements as shall be covered by the fund. He shall file with the Commission within sixty (60) days from the date of this Order his 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. The setting aside of the fund shall begin on February 1, 1922.

Dated at San Francisco, California, this 8th day of December, 1921.

H. B. Medina
H. J. Lawrence
Charles H. Lawrence
J. J. Medina
Commissioners.