

Decision No. 37457

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation upon the Commission's own motion into the reasonableness of all rates, tolls, rentals, charges, classifications, rules, regulations, contracts, and practices, or any of them, of PUBLIC UTILITIES CALIFORNIA CORPORATION, applicable to California intrastate telephone service in the Susanville Area.

ORIGINAL

Case No. 47

Hillyer Brown, for Public Utilities California Corporation.

SACHSE, COMMISSIONER:

OPINION

This is a proceeding instituted on the Commission's own motion for the purpose of determining and effecting modifications of the rates and charges of Public Utilities California Corporation and with particular reference to toll telephone service in the Susanville area.

A public hearing was held in the courtroom of the Commission at San Francisco, California, on Tuesday, October 31, 1944.

Public Utilities California Corporation, hereinafter also termed the Company, is a wholly-owned and operated subsidiary of Citizens Utilities Company, Minneapolis, Minnesota. The Company, in addition to furnishing telephone service and various other communication services in Elk Grove, Ferndale, Rio Vista, and Susanville area, distributes electric energy and water in several separate areas of California. This utility's gross revenues from California operations for the year 1943 amounted to approximately \$519,000 segregated as follows: eleven per cent electric, thirty-six per cent water, and fifty-three per cent telephone. At the end of 1943 the Company served 3,662 telephone stations in the state.

The Susanville area, here under investigation, includes a toll network in addition to Alturas, Susanville and sixteen other exchanges within five counties: Lassen, Modoc, Plumas, Shasta, and Tehama. Within this area, the Company served 2,176 stations at the end of 1943 and for the year 1943, received over \$223,000 in gross revenues, of which approximately twenty-two per cent was from local service, seventy-two per cent from toll service, and the balance, or six per cent, was from miscellaneous services.

Starting in June, 1944, pursuant to instructions from the Commission, certain analyses were made by the Commission's staff into the Company's Susanville area operations covering the year 1943. These analyses indicated that the Company's level of earnings in that area was at a rate higher than has been considered reasonable in the past by the Commission. In view of this fact, the Commission addressed a letter to the Company on July 12, 1944, requesting it to submit a proposal of revised rates within thirty days which would result in a substantial reduction in its earnings. Thereafter, conferences between the Commission's staff and representatives of the Company were held on August 30 and 31, 1944, at which time the Company presented estimates of its view concerning probable future operations, setting forth expected earnings. It was the Company's opinion that no rate reduction should be made at this time because of what was felt to be almost certain material losses in business, both in the immediate future and in the postwar period.

After careful consideration of all pertinent factors, the Commission's staff made two recommendations to the utility: First a reduction in telephone rates in the amount of \$10,000; second, the advisability of establishment of a contingency reserve in the amount of \$10,000 out of 1944 earnings. The Company's earnings, it should be noted here, do not come within the excess profits tax limits. It is proposed that upon written request of the Company and approval by the Commission such contingency reserve will be available to take care of deferred maintenance, or to make up possible deficiencies in

earnings or for such other purposes as the Commission may approve. The Company, through its Vice-President F. J. Keys, expressed its willingness to follow these recommendations.

Testimony was presented at the hearing by members of the Commission's staff. No other testimony was offered.

Evidence as to the probable results of operations for the year 1945, including the effect of a \$10,000 rate reduction (Exhibit No. 1), was presented by Walter B. Wessells, Telephone and Telegraph Engineer of the Commission's staff and is summarized as follows:

<u>Item</u>	<u>Susanville Area (1)</u> <u>Estimated 1945 Operations</u> <u>Including Effect of</u> <u>\$10,000 Rate Reduction.</u>
Operating Revenues	\$ 185,000
Operating Expenses, before Taxes and Depreciation	137,000
Depreciation (Straight Line Method)	12,000
Taxes Other than State Corporation and Federal Income	10,000
State Corporation Franchise Tax	500
Federal Normal and Surtax (2)	<u>7,500</u>
Total Operating Expenses	\$ 167,000
Net Revenue	\$ 18,000
Rate Base (Depreciated)	\$ 285,000
Rate of Return	6.3%

(1) Includes a certain amount of Nevada and Oregon operations.

(2) The testimony accompanying Exhibit No. 1 shows that the Company was not subject to Federal excess profits tax for the year 1943 in view of the fact that the earnings of Citizens Utilities Company, the holding company, which company filed a consolidated tax return, were not in the excess profits tax bracket. No such taxes are estimated for the year 1945.

While a fairly complete record is in evidence as to the basis of the revenue and expense estimates it is not believed necessary to review these in detail.

The historical cost rate base developed from the recorded telephone plant, including plant under construction, was modified to exclude Donations in Aid of Construction. Materials and Supplies and Working Cash were added to the adjusted plant. As the Company computes its depreciation expense on a straight-line basis, it is proper to use a depreciated rate base for purposes of this proceeding for comparison with earnings on a similar basis in prior years. Such treatment of the subject is considered proper in this proceeding. No specific finding of a rate base for the operative property or of a specific rate of return is made at this time. The Company did ^{not} introduce testimony on its own behalf and stated that its silence should not be construed as approval of the staff's estimates. J. G. M.

It is apparent from this earning statement that the proposal made as to the reduction in rates is justified. Mr. W. W. Dunlop, Senior Engineer of the Commission's staff, testified that the approximate earnings of this utility's Susanville area for the year 1944 would be in excess of 14%. It does not appear unreasonable, therefore, that a contingency reserve of \$10,000 should be set up by the Company out of its 1944 earnings.

Mr. Wessells testified that of the \$10,000 rate reduction \$8,200 should be assigned to a revision in message toll telephone service rates as hereinafter described and the balance, or \$1,800, used to eliminate the \$.25 monthly rate differential between hand and desk set station services.

The present and the proposed toll service schedules were presented in evidence as Exhibits Nos. 2 and 3 respectively. The proposed schedule eliminates the report charge which is now applicable on certain person-to-person calls. It reduces the station-to-station overtime rates from one-third to one-fourth of the initial period rates; it reduces the person-to-person overtime rates for the first three minutes of overtime from

one-third to one-fourth the initial period rates; and it reduces the person-to-person overtime rates applicable after six minutes of conversation to the corresponding station-to-station overtime rates. No changes in initial period rates are made in the proposed toll service schedule.

Exhibit No. 4 sets forth a comparison of present and proposed charges for three, six, and ten-minute conversations between Alturas and selected points and between Susanville and selected points.

It is of record that a substantial number of toll messages which originate in the Susanville area and terminate within the State of California, travel over interstate routes and are charged for in accordance with the interstate rates of the Company and of connecting companies. The present intrastate and interstate toll rates of the Company are on the same basis and in order that uniform rates may continue to apply to interstate and intrastate business, the Company agreed to revise its interstate toll schedule to conform with the revised intrastate schedule proposed herein (Exhibit No. 3). Accordingly, the proposed toll rate reduction of \$8,200 includes interstate and intrastate business.

Requests for a further hearing in this matter to be held at Alturas were received by the Commission from the Chairman, Board of Supervisors, Modoc County, the Mayor of the City of Alturas and from other interested parties. These requests appear to deal primarily with service rather than rates.

In order that the reduction in rates of this utility may become effective without further delay, I recommend that an Order be made at this time concerning the proposals herein reviewed and that the proceeding be held open for such further consideration by the Commission on the matter of service as may be required.

The following form of Order is recommended:

O R D E R

The above entitled matter having been initiated by the Railroad Commission on its own motion, a public hearing having been held, and the Commission being of the opinion that an Order should be issued,

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA hereby finds as a fact that the reductions in telephone rates and the establishment of a contingency reserve as discussed in the foregoing Opinion are justified, therefore

IT IS HEREBY ORDERED that Public Utilities California Corporation shall file with the Railroad Commission in accordance with General Order No. 96, not later than five (5) days immediately preceding the effective dates, modifications of its California intrastate schedules of rates applicable within the Susanville area as follows:-

1. Eliminate the \$.25 per month differential in rate between service furnished with a hand set station compared with a desk set station by reducing the hand set station rate, to become effective on December 1, 1944.
2. Revise Toll Service Schedule B-1 to eliminate the report charge and reduce overtime rates as set forth in Exhibit No. 3 introduced in this proceeding, to become effective on or before December 21, 1944.

IT IS HEREBY FURTHER ORDERED that Public Utilities California Corporation establish a contingency reserve in the amount of \$10,000 out of 1944 earnings to be used upon written request by the Company and after approval by the Commission to take care of deferred maintenance, deficiency in earnings or for such other purposes as the Commission may approve.

Except as otherwise prescribed herein, the effective date of this Order shall be the date hereof.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated San Francisco, California, this 9th day of November, 1944.

Richard Lachse
Julius F. Casner
Francis R. Havens
Grant Fawcett

Commissioners