

Decision No. 40456

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
WEST COAST TELEPHONE COMPANY OF CALIFORNIA
to increase rates.

Application No. 27925

ORIGINAL

Peter A. Nenzel, for Applicant.

O P I N I O N

West Coast Telephone Company of California requests authority to increase rates and charges for telephone service in its Crescent City, Klamath, Orick, and Smith River exchanges located in Del Norte and Humboldt Counties, California, in order to augment its over-all gross annual local service revenues by approximately \$5,100, or 32%, based upon the station development as of July 20, 1946. Appropriate notification was given the Office of Temporary Controls. A public hearing was held in this matter in Crescent City on April 30, 1947 before Examiner Wessells.

Applicant is a California corporation and is a wholly-owned subsidiary of West Coast Telephone Company, which company operates both in Washington and in Oregon and has its headquarters at Everett, Washington. Applicant's communication system is located entirely within Humboldt and Del Norte Counties, California. The system includes exchange operations at Crescent City, Klamath, Orick, and Smith River. It also includes a toll network extending from Trinidad, Humboldt County, where connection is made with facilities of The Pacific Telephone and Telegraph Company north to the Oregon state line where connection is made with facilities of West Coast Telephone Company. At the end of 1946, Applicant served 608 telephone stations, of which approximately 89% were within the Crescent City exchange. For the year 1946, Applicant received in excess of \$46,000 in gross revenues, of which approximately 33.7% was derived from local service, 65.2% from toll service, and the balance, or 1.1% from miscellaneous service.

Applicant entered into a new union working agreement providing for substantial wage increases effective on June 24, 1946, which Applicant estimates based upon the August, 1946 pay roll, will result in increasing its annual pay roll expenses approximately \$9,465. Of this amount, \$7,929 is applicable to the traffic department and \$1,536 to the plant department. A witness for Applicant testified that because of such wage increases and the continuing rising prices of materials, it will be necessary to have increases in rates as soon as practicable.

The present rates for exchange telephone service and the rates requested by the company for such service are set forth in detail in Exhibits 3 and 4, respectively, attached to the application. A comparison of the present and requested rates for the principal classes and grades of service is as follows:

Class and Grade of Service	Rate per Month - Desk or Hand Set Station							
	Crescent City		Klamath		Orick		Smith River	
	Pres.:	Req.:	Pres.:	Req.:	Pres.:	Req.:	Pres.:	Req.:
Total Stations 12-20-46		541		12		6		34
Business Service:								
Individual line	\$3.75	\$5.00	\$3.00	\$4.75	\$3.00	\$4.75	\$3.00	\$4.75
Two-party line	3.25	4.50	-	-	-	-	2.50	4.25
Four-party line	2.50	4.00	-	-	-	-	2.25	3.75
Ten-party line (Suburban)	2.50	4.00	2.50*	3.75*	2.50*	3.75*	2.50	3.75
Extension station	1.25	1.50	1.25	1.50	1.25	1.50	1.25	1.50
Residence Service:								
Individual line	3.25	3.50	2.50	3.25	2.50	3.25	2.50	3.25
Two-party line	-	-	-	-	-	-	2.00	2.75
Four-party line	2.00	2.50	-	-	-	-	1.75	2.25
Ten-party line (Suburban)	2.25	2.50	2.25*	2.25*	2.25*	2.25*	2.25	2.25
Extension station	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

* Ten-party line service is also furnished within the base rate area.

- Business and residence two- and four-party line services are not offered in the Klamath and Orick exchanges, and residence two-party line service is not offered in the Crescent City exchange.

Increases are also requested in rates for commercial and hotel private branch exchange services, local private line channels, miscellaneous services, and supplemental equipment. No changes in rates are requested for toll telephone and telegraph services.

Evidence as to the probable results of operation for the year 1947 under present and requested rates was presented both by the Applicant (Exhibit 13) and by the Commission's staff (Exhibit 14). These estimates are summarized in the

tabulation below. The last column shows the revenues, expenses, and rate base herein adopted by the Commission for the purpose of determining the reasonableness of the increased rates as proposed in this application.

Item	Estimated Year 1947			
	Year 1946 Recorded	Applicant's Exhibit 13	Staff's Exhibit 14	Cal. P.U.C. Adopted

UNDER PRESENT RATES

Total Operating Revenues	\$ 46,218.32	\$ 52,800	\$ 58,900	\$ 55,200
Operating Expenses, excluding Depreciation and Taxes	33,008.94	44,000	41,750	42,500
Depreciation (Straight Line)	6,744.30	6,800	6,355	6,400
Taxes	4,015.18	4,400	5,700	4,600
Total Operating Expenses	43,768.42	55,200	53,805	53,500
Net Operating Revenues	2,449.90	(2,400)	5,095	1,700
Rate Base (Depreciated)	110,600	*	128,600	129,600
Rate of Return	2.2%	*	4.0%	1.3%

UNDER COMPANY PROPOSED RATES

Total Operating Revenues	\$ 58,500	\$ 64,600	\$ 60,900
Operating Expenses, excluding Depreciation and Taxes	44,000	41,750	42,500
Depreciation (Straight Line)	6,800	6,355	6,400
Taxes	5,100	7,150	6,000
Total Operating Expenses	55,900	55,255	54,900
Net Operating Revenues	2,600	9,345	6,000
Rate Base (Depreciated)	*	128,600	129,600
Rate of Return	*	7.3%	4.6%

(Red Figure)

* Applicant did not present a rate base in this proceeding.

The principal difference between the revenue estimates presented by Applicant and by the Commission's staff appears to be in the toll service category. Applicant has estimated an amount of \$34,000, or approximately \$50 per average station. The Commission's staff has estimated an amount of \$40,000, or approximately \$60 per average station. There is no disagreement as to the estimated average station development for 1947 of 673. If to the 1946 message toll telephone revenue of \$29,919.97 is added the amount of \$587 (reported in January, 1947 but which should have been included in November and December, 1946), and the

sum of these two amounts, or \$30,506.97, is divided by 565, which is the average number of stations in service during 1946, it is indicated that the message toll telephone revenue per average station for the year 1946 amounted to \$53.99. Multiplying the \$53.99 by the average station development of 673 estimated for 1947 produces an amount of approximately \$36,300 which is herein adopted as the amount of toll service revenues for the year 1947. Local service revenues of \$18,400 under the present rates and of \$24,100 under the rates requested, miscellaneous revenues of \$600, and uncollectibles of \$100 are herein adopted for the year 1947.

Operating expenses, exclusive of depreciation and taxes for the year 1947, were estimated in the amount of \$44,000 by the Applicant and \$41,750 by the Commission's staff. The principal differences between the expense estimates appear to be for traffic expenses and for general services and licenses. These differences will be noted on the following summary, which also shows the amounts which are herein adopted after careful consideration of the evidence.

Item	: Est. Year 1947 - Pres. & Requested Rates :			
	Year 1946	Applicant's	Staff's	Adopted
	Recorded	Exhibit 13	Exhibit 14	

Expenses, excluding				
Depreciation and Taxes:				
Maintenance	\$ 10,835.36	\$ 13,000	\$ 12,800	\$ 12,800
Traffic	14,373.25	19,600	18,400	19,200
General Services & Licenses	2,100.00	3,900*	3,000	3,000
Other Operating Expenses	5,700.33	7,500#	7,550	7,500
Total, excluding Depreciation and Taxes	33,008.94	44,000	41,750	42,500

* Shown as General and Miscellaneous Expenses in company Exhibit 13
Shown as Commercial Expenses in company Exhibit 13

For the year 1947 depreciation expense of \$6,400 and taxes, other than state corporation franchise and federal normal and surtax, of approximately \$4,300 are herein adopted. State corporation franchise and Federal normal income tax and surtax have been adjusted to reflect the adopted estimates of revenues and expenses.

Applicant did not present a rate base in this proceeding, but shows in Exhibit 11 total telephone plant in service as of December 31, 1946 in the amount of

\$171,852.08. For the year 1947, Applicant estimates that gross construction additions will be \$40,990, resulting in net additions of \$35,000.

The historical cost rate base developed by the Commission's staff from (1) the telephone plant as reported for the year 1946 and (2) Applicant's estimate of \$35,000 net additions for the year 1947, was modified to exclude contributions of telephone plant and to include working cash. While no amount for materials and supplies is recorded in the company's annual reports to the Commission or included in Exhibit 14 filed in this proceeding, a witness for the Commission's staff testified that an amount of approximately \$1,000 would be proper. Since Applicant computes its depreciation expense on a straight-line basis, the Commission will use a depreciated rate base. For the purpose of this proceeding a depreciated rate base in the amount of \$129,600 for the estimated year 1947 is herein adopted.

The rate of return computed from the amounts herein adopted for the year 1947 is 1.3% under the present rates and 4.6% under the rates requested by the Applicant. It is apparent from the earning statement that an increase in rates in the amount requested is justified.

The evidence shows that the Crescent City Chamber of Commerce, by resolution adopted on March 17, 1947, expressed its approval of Applicant's request for an increase in rates and that the District Attorney of Del Norte County expressed his approval of the requested increase in rates in a letter, dated January 28, 1947, addressed to the general manager of the West Coast Telephone Company. The Del Norte Pomona Grange No. 42 objected to the increase in rates unless a more adequate service is furnished.

Included in Applicant's 1947 construction budget set forth in Exhibit 15 are two amounts of \$5,640 each for the conversion from magneto to dial operation of the Klamath and Smith River exchanges. In authorizing the increases in rates as requested, the Commission will expect the company to proceed with due diligence in providing these and other necessary service improvements and in furnishing service to the more than 150 waiting applicants. The company will be expected to furnish periodic progress and operating reports in order that the Commission may be assured

that the progress of the company in completing its construction program and in furnishing service to waiting applicants is as rapid as possible.

Further, the Commission will expect Applicant to give serious consideration to connecting no more than four parties to party lines served within the Klamath and the Orick base rate areas and to revising its tariffs to reflect such condition. The Applicant will be expected to review the base rate areas of the Crescent City and Orick exchanges to determine whether or not additional territory should be included therein.

O R D E R

West Coast Telephone Company of California having applied to the Public Utilities Commission of the State of California for an order authorizing increases in local service rates, a public hearing having been held, and the matter having been submitted for decision, the Public Utilities Commission of the State of California hereby finds as a fact that the increases in rates herein ordered are justified, therefore

IT IS HEREBY ORDERED that West Coast Telephone Company of California be and hereby is authorized to file and publish, in accordance with General Order No. 96, the rates set forth in Exhibit 4 attached to the application and, after not less than five (5) days' notice to the Commission and to the public, make said rates effective on and after August 10, 1947, for bills covering service furnished on and after August 10, 1947.

This Order shall become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 28th day of June, 1947.

Harold Kula
Justice F. Brewer
Walter J. Powell
R. P. [unclear]
Kenneth P. [unclear]
Commissioners.