

Decision No. 40526

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of INTERSTATE TELEGRAPH COMPANY, a corporation, for an Order Authorizing Proposed Increases in Telephone Service Rates, including proposed Revisions of Tariffs and Conditions Pertaining Thereto.

Application No. 28359

ORIGINAL

Willard Wade and H. M. Hammack, for Applicant.

O P I N I O N

MITTELSTAEDT, Commissioner:

An application was filed by Interstate Telegraph Company on April 12, 1947, which requested authority to increase rates and charges for exchange and toll telephone service furnished in California, in order to augment its over-all gross annual revenues by approximately \$68,750 or 11%, based upon the 1946 level of business.

Public hearings were held in this proceeding in Independence on June 4, 1947 and in San Francisco on July 15, 1947. At the hearing on July 15, the company amended its application to include increases in rates for telegraph service and modified its request in order to obtain only approximately \$58,850 of added revenue, or \$9,900 less than originally requested. This latter amount the company estimates will be offset by \$10,000 annual increase in toll settlement accruing to the Interstate Company on traffic interchanged with The Pacific Telephone and Telegraph Company by virtue of the increased toll rates placed into effect by said Pacific Company on July 6, 1947 pursuant to this Commission's Decision No. 40437, dated June 24, 1947.

Applicant is engaged in a general exchange and toll telephone and telegraph business in the Counties of Inyo, Kern, Mono, and San Bernardino, in the State of California; and in the Counties of Esmeralda, Lyon, and Nye, in the State of

Nevada.<sup>1/</sup> Within this area, Applicant serves 13 exchanges, all located in California, and had connected to its system as of December 31, 1946 a total of 4,079 stations, 4,075 of which were in California and four in Nevada. Applicant furnishes toll telephone service within and into its service territory. Toll telephone messages are interchanged with The Pacific Telephone and Telegraph Company at Highland, Mojave, and San Bernardino, and with United Farmers Telephone and Telegraph Company at Coleville, Mono County, California. Applicant's financial statement, Exhibit 2, shows telephone plant in service as of December 31, 1946 of approximately \$2,058,000 and total operating revenues for the year 1946 of approximately \$638,000 of which 23% was from local service, 74% from toll service, and 3% from miscellaneous services.

During the period 1939 to 1946, Applicant's revenues increased 261% whereas during the same period Applicant's expenses before taxes increased 374%. Seven wage increases were made effective during the period from 1940 to 1946, four of which occurred during the two years 1945 and 1946. It is estimated that the wage awards made effective during 1945 and 1946 increased Applicant's annual wage costs by approximately \$122,500 over 1944 levels. Revenues in 1946 were \$66,925 less than in 1945, due principally to a decline in war activities in Applicant's territory, whereas expenses before taxes in 1946 were \$51,775 more than in 1945. It is because of increases in wages and operating expenses and the decline in revenues that Applicant is seeking increases in rates at this time.

The company presented testimony as to earning results for the years 1946, 1947, and 1948 under present and proposed rates. The Commission's staff presented evidence as to the results of operations under the proposed rates for the years 1947 and 1948. These estimates are summarized as follows:

| Item                   | Company Estimates  |                               |                               | C.P.U.C. Staff Estimates:     |                               |
|------------------------|--------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                        | Recorded Year 1946 | Under Co. Proposed Rates 1947 | Under Co. Proposed Rates 1948 | Under Co. Proposed Rates 1947 | Under Co. Proposed Rates 1948 |
| Avg. Rate Base - Depr. | \$2,021,082        | \$2,444,391                   | \$2,909,624                   | \$2,255,000                   | \$2,919,000                   |
| Total Operating Revs.  | 638,222            | 829,700                       | 942,100                       | 810,400                       | 935,700                       |
| Total Operating Exps.  | 581,750            | 701,770                       | 784,830                       | 687,000                       | 778,100                       |
| Bal. Net Revenues      | 56,472             | 127,930                       | 157,270                       | 123,400                       | 157,600                       |
| Rate of Return         | 2.8%               | 5.2%                          | 5.4%                          | 5.5%                          | 5.4%                          |

<sup>1/</sup>The company provides only toll and private line services in Nevada, and has approximately 3.4% of its entire telephone plant properties located in the State of Nevada and 1.2% of the total operating revenue is received from services and operations in that state.

The preceding estimates are for the system as a whole. Witnesses for the company and the Commission's staff testified, however, that in view of the fact that only approximately 15% of the company's total revenues are derived from operations in the State of Nevada and from interstate toll business, the estimates generally would reflect the rate of earnings for California intrastate operations.

The company's depreciated rate bases as shown in Exhibit 4 reflect net additions to plant of \$489,600 during 1947 and \$578,800 during 1948. The plant (beginning and end of year average) was modified by the company to include materials and supplies and working cash, and to exclude customers' advances for construction, and contributions to telephone plant. The depreciation reserve (beginning and end of year average) was deducted in arriving at the depreciated rate base.

The revenues and expenses for the year 1946 are as recorded on the books of the company and as set forth in Exhibit 5.

The company's estimate of revenue for the years 1947 and 1948 is shown in Exhibits 5, 6, and 17. In general the estimate reflects an increase of 15% over the preceding year and the full annual revenue effect of the revised proposed rates, shown in Exhibits 15 and 18 and of the increase in toll settlement on traffic interchanged with the Pacific Company.

The company's estimate of expenses, exclusive of depreciation and taxes estimated for 1947, relates basically to the results for the first two months of 1947 projected to an annual basis. The 1948 expenses reflect the increase in business estimated to be realized in that year. Straight line depreciation expense, calculated upon the beginning and end of year average depreciable plant, and local, state, and federal taxes are included in total operating expenses estimated by the company.

The Commission staff's calculations of depreciated historical cost rate bases for the year 1946 and estimated for the years 1947 and 1948 are set forth in Exhibit 19. Weighted average net additions to plant of \$185,535 and \$308,874, respectively, for the years 1947 and 1948 are reflected in the staff's rate bases. The weighted average telephone plant was adjusted to include materials and supplies and working cash and to exclude customers' advances, contributions to telephone

plant. The weighted average book depreciation reserve was deducted in arriving at the depreciated rate base.

The staff's estimates of earnings are set forth in Exhibit 22. The revenues and expenses exclusive of taxes and depreciation for the year 1947 in general are based upon the actual results for the first three months of the year projected to an annual amount. The 1948 revenues and expenses reflect a growth in business. The full annual revenue effect resulting from the company's requested rates shown in Exhibits 15 and 18 and from increased toll settlement on traffic interchanged with the Pacific Company are included in the staff's revenue estimates for the years 1947 and 1948. Total operating expenses include straight line depreciation expense, based upon the weighted average depreciable plant, and also include local, state, and federal taxes at current tax rates. Actually, the increases in toll settlement will be realized only subsequent to July 6, 1947 and such increases as the Commission may authorize would be effective even for a shorter period in 1947. Savings in traffic expenses in the amount of approximately \$24,000 on an annual basis, resulting in part from certain dial conversions, have been reflected in the 1948 expense estimates. Approximately one-half of such traffic savings actually will be realized in the year 1948. These factors would tend to lower the actual earning results for both 1947 and 1948 below the indicated amounts.

The company proposes the following basic exchange rates:

| Exchange                                       | Rate Per Month - Wall, Desk, or Hand Set Station |         |         |           |                   |         |         |           |
|--|--|---------|---------|-----------|-------------------|---------|---------|-----------|
|  | Business Service                                 |         |         |           | Residence Service |         |         |           |
|  | 1-Party  | 2-Party | 4-Party | Suburban* | 1-Party           | 2-Party | 4-Party | Suburban* |
| Barstow, Big Bear Lake, Bishop and Victorville | \$6.00   | \$5.25  | \$4.75  | \$4.75    | \$4.75            | \$4.25  | \$3.50  | \$3.50    |
| All Other Exchanges                            | 5.00   | 4.25    | 3.75    | 3.75      | 3.75              | 3.25    | 2.50    | 2.50      |

\*The suburban rates shown are those which apply to services located in the first zone, which includes the area within four and one-half miles airline distance from the base rate area. Higher rates are proposed in the second and third zones.

It is proposed to eliminate the 50-cent per month prompt payment discounts, the 5% annual prepayment discounts, and the differential between rates for wall, desk, and hand set stations. Extension and PBX station rates of \$1.50 per month for

business service, and \$1.00 per month for residence service are proposed. Off-premises mileage rates in Big Bear Lake exchange are proposed to be placed on an airline basis, which is now in effect in the other exchanges. PBX trunk rates are proposed to be increased in relation to the individual line business service rates. Increases are proposed in rates and charges for directory listings, joint user service, supplemental equipment, and service connection charges. Because of the varying level of charges now applicable for exchange service in the several exchanges, the proposed rates result in certain decreases estimated in the amount of \$2,300 and in gross increases of \$43,400 on an annual basis. Although the increases in certain particular rates range in excess of 100%, the net over-all increase in exchange rates is approximately 30%.

Station-to-station night and Sunday message toll telephone rates are proposed to be increased \$15,900 on an annual basis. This revision will make the station-to-station night and Sunday discount from the day rates consistent with toll schedules generally in effect in California. While these changes result in increases of over 200% in particular rates for certain distances, the average increase on an annual basis is 52% related to the station-to-station night and Sunday category and only 4% related to the total message toll telephone revenue. The toll rates, as proposed by the company, also provide for the interchange of traffic between (1) Mono County and Inyo County points and (2) points on the lines of United Farmers Telephone & Telegraph Company, through facilities of The Pacific Telephone and Telegraph Company rather than through the connecting point at Coloville.

Rates for local and interexchange private line telephone and teletype-writer services are proposed to be increased \$1,850 on an annual basis to place such rates on the same level as now applies on the company's interstate business. Rates for intra-company message telegram, press dispatch, and money order services are proposed to be increased to correspond in amount to the current rates of The Western Union Telegraph Company. It is estimated that these changes will result in negligible increases, approximately \$50 on an annual basis, because of the small amount of intra-company telegraph business handled. The company also proposes to cancel certain tariff sheets covering a map of the system, a chart of the airline distances,

and a table of computed overtime charges, all of which are obsolete. These sheets are not essential to the tariff schedules and they may be cancelled.

The company is faced with an unprecedented construction program, which will increase its investment during the next several years approximately 50% over the present book amounts. This program is required to improve service and to provide telephones to the more than 700 waiting applicants. Included in the company's construction budget for 1947 and 1948, set forth in Exhibit 3, are amounts for additional toll and exchange facilities, including the conversion to dial operation of Bridgeport, Randsburg, and Inyokern exchanges and the extension of service to areas where demands exist. The record shows that the revenue and expense estimates have been coordinated with the company's increased construction program and, accordingly, the earnings as heretofore set forth give recognition to the added telephone service that is expected to be served.

In view of the character of territory served, the probable growth in business and capital requirements, and the resulting level of earnings, it appears that the increases in tariff rates sought are justified and should be authorized. In authorizing the increases in rates herein ordered, the Commission expects the company to proceed with due diligence in making the necessary service improvements and in providing service to waiting applicants.

The following form of Order is recommended:

ORDER

Interstate Telegraph Company having applied to the Public Utilities Commission of the State of California for an Order authorizing increases in exchange, toll telephone, and telegraph rates and charges; public hearings having been held; and the matter having been submitted for decision; the Public Utilities Commission of the State of California hereby finds that the increases requested are justified and should be authorized, therefore,

IT IS HEREBY ORDERED that the Interstate Telegraph Company is authorized to file and publish, in accordance with General Order No. 96, the schedule of rates and conditions set forth in Exhibits 15 and 18 filed in this proceeding, and, after

not less than five (5) days' notice to the Commission and to the public, make said rates and conditions effective by billing periods on and after September 1, 1947 for bills covering service furnished on and after September 1, 1947, except rates and conditions applicable to message toll telephone, message telegram service, service connection charges, and installation charges, which may be made effective on September 1, 1947.

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

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

Dated at San Francisco, California, this 22<sup>nd</sup> day of July, 1947.

Harold J. Kula

Justice F. Casner

Jack H. Kowall

A. J. [Signature]

Commissioners.