

Decision No. 12354

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of  
KERNAN TELEPHONE CO., a corporation,  
for an order authorizing increases  
and changes in rates for exchange  
telephone service.

Application No. 29698

William G. Sebastian and F. V. Rhodes for  
applicant; F. V. Rhodes for California  
Independent Telephone Association; J. J.  
Deuel for California Farm Bureau Federation;  
Richard D. Crowe for Dos Palos Telephone  
Company; and John H. Evans for Patterson  
Telephone Company.

POTTER, COMMISSIONER:

O P I N I O N

In this application, the Kerman Telephone Company requests authority to increase exchange telephone rates approximately 42% in the Kerman exchange, Fresno County. Public hearings were held in this proceeding in Kerman, California, on October 15 and December 17, 1948. At the first hearing, applicant introduced Exhibits 3, 4, 5, and 6, which set forth proposed schedules for service connection charges, move and change charges, Rule and Regulation No. 1, and supplemental equipment, respectively, and requested authority to make these schedules effective. At the adjourned hearing, a report showing results of operation for the company was introduced by a witness for the Commission, and received as Exhibit 7.

The applicant furnishes 24-hour telephone service in the town of Kerman and surrounding territory by means of a common battery switchboard at Kerman, and a dial concentrating unit at Biola. Connection is made at Kerman with toll facilities of The Pacific

Telephone and Telegraph Company. As of November 11, 1948, there were 818 stations being served, all company-owned, and 145 held orders. Of the 818 stations, 586, or 71.6%, were residence stations, 71 being Fresno foreign exchange stations. The applicant's financial statement, Exhibit B attached to the application, shows telephone plant, as recorded on the company's books at June 30, 1948, in the amount of \$74,135.13; total operating revenue for the six-month period ending June 30, 1948 of \$21,843.19, of which 45.5% was from local service, 51.9% from toll service and 2.6% from miscellaneous service; and expenses of \$17,800.43.

During the period 1941 through 1947 the applicant's revenue increased 276%, whereas during the same period, the applicant's expenses, before taxes and depreciation, increased 315%. Since April 1, 1948, the pay roll charged to operations has increased approximately 30%. Applicant's employees work a 48-hour week and are paid time and a half for the last eight hours. Applicant testified that material prices had increased substantially in the last two years. It is because of increased operating expense and the low earnings on its investment that the applicant is seeking rate increases.

Applicant and the Commission's staff presented testimony as to the earning results for 1947, and 1948, under present rates, and an estimate for 1949 under proposed rates. These earnings results are summarized as follows:

Item	1947	1948 Estimated		1949 Estimated	
	Actual	Present Rates	Co. Prop.	P. U. C.	Trial Rates
	P.U.C.	Co. Est.	PUC Est.	Rates	Trial Rates
Total Oper. Rev.	\$36,299	\$42,625	\$43,439	\$58,644	\$58,060
Oper. Exp., Excl. Depr. & Taxes	27,942	38,785	37,778	47,390	48,590
Depreciation (Straight Line)	682	3,188	2,193	4,232	2,769
Taxes	2,703	2,000	1,823	2,500	2,811
Total Oper. Exp.	31,327	43,973	41,794	54,122	54,170
Net Operating Rev.	4,972	(1,348)	1,645	4,522	3,890
Avg. Depr. Rate Base	29,500	59,728	46,500	72,188	62,500
Rate of Return	16.9%	(2.3)%	3.5%	6.3%	6.2%

(Red Figure)

The record shows that the applicant plans to spend approximately \$25,000 in plant additions and improvements in 1949 to provide service for present and anticipated applicants, and dial central office equipment for the scheduled conversion to dial in 1950. The principal differences in the company's and staff's estimates for 1949 result from the more current data used by the Commission's staff and a general wage increase granted company's employees on December 1, 1948 that was included in the staff's estimates.

At the second hearing, the company's witness introduced testimony to the effect that the maintenance expenses for 1949 will be in the neighborhood of \$19,000, instead of the \$16,900 shown in Exhibit E of the application. A comparison of the methods used by the company and the staff in estimating the 1949 maintenance expenses shows that the company's estimates are based largely on the average expense per station estimated for 1948, whereas, the Commission staff's figures are based on estimated labor expense at the new rates of pay and a 10% increase in material and vehicle expense.

The company, in its estimates of operating results, used a depreciation rate of 4% of depreciable capital and a hypothetical depreciation reserve of 30%. The staff's estimates reflect a depreciation rate of 3% and the reserve as recorded on the books of the company. The testimony shows that the present management has not in its possession adequate detail to support its reported investment in telephone properties. It is essential that applicant make an inventory and historical cost appraisal of its properties and a depreciation reserve requirement study. Applicant's president testified that an inventory and appraisal of its telephone properties would be made as soon as possible and that additional personnel would be employed for that purpose if the added expense were included in

the estimated operating expense. The added expense has been reflected in the development of the rates authorized in the following order, and the company will be required to complete an inventory and historical cost appraisal of its properties, together with a depreciation reserve requirement study.

The basic rates for business service are increased in amounts from 75 cents to \$1.50 and for residence service from 25 cents to 75 cents. Rates for individual business, individual residence, and four-party line residence service in the Biola special rate area are authorized. Extension rates are made uniform at \$1.25 for business service and \$1 for residence service. Rates for PBX trunks are established at 150% of the rates for individual line service. The minimum guarantee for semipublic service is increased 3½ cents per day. Service connection charges, move and change charges, and supplemental equipment charges are authorized at the rates requested by the applicant. The authorized rates will increase charges for exchange telephone service approximately \$5,500 or 27%.

The rates herein authorized are based on the company's showing that it will proceed with due diligence to complete the plant additions and improvements program scheduled for 1949.

The following form of order is recommended:

O R D E R

Request having been made by the Kerman Telephone Company for an order authorizing increases in telephone rates and charges, the matter having been submitted for decision, and the Commission hereby finding that the increases in rates and charges hereinafter set forth are justified; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file and publish in accordance with General Order No. 96 the rates and conditions set forth in Exhibit A attached hereto.

2. Applicant is authorized after not less than five (5) days' notice to the Commission and to the public to make said rates effective on and after January 21, 1949, for bills covering service furnished on and after January 21, 1949.
3. Applicant shall make an inventory and historical cost appraisal, and a depreciation reserve requirement study, of its telephone properties and submit the findings to the Commission prior to January 1, 1950.

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.

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

Dated at San Francisco, California, this 28<sup>th</sup> day of December, 1948.

*R. Z. ...*  
*Justin F. ...*  
*Samuel ...*

COMMISSIONERS.

CERTIFIED AS A TRUE COPY

Secretary, Public Utilities Commission  
of the State of California.

AUTHORIZED CHANGES IN RATES AND CONDITIONS

<u>Item</u>	<u>Wall, Desk, or Hand Set Stations Rate per Month</u>	
	<u>Residence Service</u>	<u>Business Service</u>
<u>Preliminary Statement</u>		
Revise to show that only common battery service is furnished.		
<u>Schedule No. A-1, Flat Rate Exchange Service</u>		
Each individual line primary station	\$ 3.25	\$ 4.50
Each two-party line primary station	-	3.50
Each four-party line primary station	2.25	3.00
Each extension station	1.00	1.25
<u>Schedule No. A-1(a), Biola Special Rate Area</u>		
Each individual line primary station	5.75	7.00
Each four-party line primary station	3.50	4.25
<u>Schedule No. A-5, Suburban Service</u>		
Each ten-party line primary station	2.75	3.50
<u>Schedule No. A-7, PBX Service</u>		
Each central office trunk line	-	6.75
		<u>Rate per Day</u>
<u>Schedule No. A-3, Semipublic Coin Box Service</u>		
Each individual line coin box hand or wall set station	-	0.16
Revise Condition 2 to permit hand set stations and extension stations without coin boxes		
<u>Schedule No. A-15, Supplemental Equipment</u>		
Rates and conditions, as shown in Exhibit 6.		
<u>Schedule No. A-16, Service Connection Charges</u>		
Rates and conditions, as shown in Exhibit 3, revised to provide rates for PBX trunks identical with rates for individual line station		
<u>Schedule No. A-17, Move and Change Charges</u>		
Rates and conditions, as shown in Exhibit 4		
<u>Rule and Regulation No. 1, Description of Service</u>		
Revise to conform to Exhibit 5-A		
<u>Rule and Regulation No. 9, Service Charge for Restoration of Service</u>		
Cancel and withdraw		