

ORIGINAL

Decision No. 44277

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 Sunland-Tujunga Telephone Company,
 a corporation, for an Order of the
 Commission authorizing it to
 increase certain rates and charges
 for telephone service.

Application No. 30915

J. T. Naylor, for applicant; C. H. Sturm, for
 Board of Public Utilities and Transportation,
 City of Los Angeles; and Frank V. Rhodes, for
 the California Independent Telephone Association
 and for Manteca Telephone Company.

O P I N I O N

Sunland-Tujunga Telephone Company on January 11, 1950,
 filed an application with the Commission for an order authorizing an
 increase in its telephone service rates estimated by it to produce
 about \$62,000 of additional revenue on an annual basis. Public hear-
 ings on the application were held in Sunland on May 10 and 11, 1950,
 before Examiner O'Brien, and the matter was submitted for decision
 at the conclusion of those hearings.

Telephone service in this area has been provided by the
 present applicant since 1910; first, under the name of Sunland Rural
 Telephone Company, and, since 1940, under the name Sunland-Tujunga
 Telephone Company. Applicant furnishes service in a 40-square-mile
 area in Los Angeles County, 18 square miles of which is within the
 city limits of the City of Los Angeles. It serves about 5,000
 stations in the exchange area and offers extended service to about
 100,000 stations in the Glendale exchange and in adjoining exchanges
 in the Los Angeles extended area.

Confronted with extraordinary demands for additional and higher grade service since the end of World War II, applicant has undertaken a program of almost complete reconstruction of its telephone plant. This program included conversion from manual to dial operation. It also included installation of automatic ticketing equipment, permitting direct subscriber dialing for both local and extended service subscribers to all of the Los Angeles extended area exchanges which are in the extended area numbering plan. Mechanized billing and accounting procedures, in conjunction with the automatic ticketing equipment, have also been adopted. Investment in plant has increased about nine times, from approximately \$200,000 on December 31, 1945, to more than \$1,800,000 estimated for the end of 1950. The number of stations served has increased three times during the same period, from 1,805 to an estimated 5,400. The number of unserved applications for service, or held orders, has been reduced from 754 at the end of 1945 to 137 as of the date of the hearing. Construction work programmed for 1950 is anticipated to eliminate the held orders and enable applicant to provide service on a current basis by the end of the year.

Customer Complaints

Applicant provides suburban service to a group of customers in Big Tujunga Canyon, a number of whom filed a petition in this application calling the Commission's attention to service conditions which they deemed sufficiently unsatisfactory to justify opposing any increase in rates. The petition indicated, however, that if extended service were made available to such customers, or service were improved, an appropriate increase in rates would not be objectionable. Applicant did not request increases in the suburban rates in this proceeding. It appears that applicant should take all practicable means to improve the transmission and reduce the noise level on

suburban lines. Also, after acquainting the suburban subscribers with the charges applicable for extended service at the locations involved, the applicant should undertake to provide facilities to meet the expressed demand for such service.

A number of other subscribers, appearing in their own behalf, brought to the Commission's attention service conditions which they considered unreasonable. An examination of the construction projects which applicant proposes to carry out during 1950 indicated that the matters complained of would be relieved within a relatively short period of time.

In view of the limited scope of the service complaints and the program for their elimination, it appears that the character of applicant's service is not unreasonable and need not further be considered in connection with its request for increases in rates.

Summary of Earnings - Present Rates - 1950

Both applicant and the Commission staff submitted estimates of revenues, expenses, and rate base, from which net revenues and rate of return were calculated. The estimates, segregated to the principal items of revenue and expense, are compared in the following tabulation:

Summary of Earnings
Present Rates
1950

Item	Staff	Applicant	Staff Higher Than Applicant Amount	Per Cent
<u>Operating Revenue</u>				
Local Service	\$ 207,000	\$ 182,040	\$24,960	12.06%
Toll Service	156,100	184,070	(27,970)	(17.92)
Miscellaneous	18,700	19,000	(300)	(1.60)
Uncollectibles (dr.)	(2,400)	(3,000)	600	25.00
Total Operating Rev.	379,400	382,110	(2,710)	(0.71)
<u>Operating Expenses</u>				
Maintenance	55,000	55,020	(20)	(0.04)
Traffic	34,000	34,140	(140)	(0.41)
Commercial	35,800	36,348	(548)	(1.53)
General Office Sal. & Exp.	34,000	36,536	(2,536)	(7.46)
Other Operating Expense	10,700	12,160	(1,460)	(13.64)
Depreciation (Straight Line)	54,300	56,154	(1,854)	(3.41)
Operating Taxes	75,300	79,440	(4,140)	(5.50)
Total Operating Exp.	299,100	309,798	(10,698)	(3.58)
Net Revenue	80,300	72,312	7,988	9.95
Average Deprec. Rate Base	1,775,000	1,808,403	(33,403)	(1.88)
Rate of Return	4.52%	3.98%		

(Red Figure)

The staff estimate of revenues and expenses is based upon recorded figures for the first three months of 1950, adjusted to reflect the lesser costs of automatic operation from the beginning of the year and with nine months estimated on this adjusted basis. The rate base likewise reflects weighted average fixed capital estimated on the basis that automatic operation would be available throughout the year. Applicant, on the other hand, adopted a rate base predicated upon its estimate of the cost of plant at the conclusion of the modernization program, and expense is estimated to reflect the anticipated level of costs associated with completion of the plant expansion. The revenues were predicated upon the estimated

average number of customers served in 1950. Applicant's estimate was made prior to the filing of the application and was consequently based upon recorded results prior thereto.

Applicant contended that its departure from the customary method of estimating revenues, expenses, and rate base pursued by the staff was justified because of the sharp uptrend in these factors experienced within the past few years. It urged that, for the purpose of establishing rates for the future, the ultimate level of investment and the revenues and expenses, which the company anticipated would be effective beyond 1950, were of major importance.

It urged that the Commission recognize a \$10,000 higher ad valorem tax estimate than that proposed by the staff. The staff tax estimate was predicated upon one-half of the 1949-1950 tax bill, adjusted to reflect an anticipated increase in assessed valuation in relation to plant in service, and one-half of the estimated 1950-1951 taxes. The company's tax estimate was predicated upon a ratio of taxes to invested capital developed from an analysis of past experience. That experience was adjusted to reflect applicant's negotiations with the State Board of Equalization respecting tax treatment during the recent plant expansion period. Upon analysis, the difference is traceable partly to the higher capital base urged by applicant and partly to the time lag between the assessment date and the date taxes would be payable.

Applicant's rate base is \$33,000 higher than that suggested by the staff; \$28,000 of the difference results from use of 1950 year-end capital costs urged by applicant. For a working cash allowance, applicant used one-twelfth of annual expenses, excluding depreciation, and the staff used one-twelfth of annual expenses less taxes and depreciation. Neither estimate reflected the offsetting effect

of taxes accrued ahead of payment. If applicant's figures were to be adjusted to reflect the revenue level of the full year station growth, with an appropriate modification of the income tax estimate, and if the working cash were adjusted to reflect the larger tax accruals, applicant's showing and that of the staff would be in substantial agreement that present rates would produce earnings of about 4.5%.

Cost of Capital

As of December 31, 1949, applicant's capital structure included \$525,000 of long-term serial notes bearing interest rates of 3%, 3-3/8%, and 4%; \$200,000 of 5-1/4% cumulative preferred stock of a par value of \$25; and \$675,000 of \$25 par common stock. Surplus was stated at about \$115,500. The record indicates that the annual cost of the notes is approximately 3.6% and that of the preferred stock 5-1/4%. The record also shows that earnings available for common stock have declined from a high of 23.75% in 1941 to 9.83% in 1949. Applicant, in estimating the distribution of required earnings on the capital base after the reconstruction program is complete, inferred that an annual requirement of \$114,905.56 was necessary. Under the circumstances here present, we are of the opinion that a return of about 6% on the staff rate base, or approximately \$107,000 of net revenue, will be adequate compensation to applicant to cover its interest and preferred dividend requirements, its common stock dividend requirements, and provide something in excess of such costs to increase the surplus account. The net revenue, estimated by the staff under present rates, of \$80,300 indicates the necessity for an increase in gross revenues of about \$45,000.

Summary of Earnings - Proposed Rates - 1950

Applicant and the staff both estimated the effect on revenues and expenses if the rates suggested by applicant were to be

in effect for the entire year 1950. The principal elements of those estimates are summarized as follows:

Summary of Earnings
Applicant's Proposed Rates
1950

Item	Staff	Applicant
Revenues	\$ 439,900	\$ 444,066
Operating Expense	169,500	174,204
Depreciation	54,300	56,184
Taxes	99,800	104,280
Total Expense	323,600	334,668
Net Revenue	116,300	109,398
Rate Base	1,775,000	1,808,403
Rate of Return	6.55%	6.05%

Under the proposed rates, applicant concluded that it would obtain approximately 6% return, whereas the staff estimate indicates a return of about 1/2% higher. In its presentation, the staff suggested two alternate schedules of rates and set forth the details of those alternates in its exhibits. The rates in the staff's trial Schedule 2 approximate the desired level of net revenues, compare favorably with rates charged for similar service elsewhere in the area, and, with the exception of the increases in suburban rates heretofore discussed, will be authorized in the order herein.

Authorized Rate Changes

The present rates, the rates requested by the applicant, and the rates authorized herein for the principal classes and grades of service are set forth as follows:

Item	Rate per Month - Hand Set Station					
	Residence Service			Business Service		
	Pres.*	Request.	Auth.	Pres.*	Request.	Auth.
<u>Extended Service</u>						
Individual line	\$3.75	\$4.50	\$4.25	\$6.25	\$10.00	\$9.00
Two-party line	3.25	3.75	3.50	-	7.50	7.00
Four-party line	-	3.25	3.00	-	-	-
<u>Local Service</u>						
Individual line	3.25	4.00	4.00	3.75	6.50	6.50
Two-party line	2.75	3.50	3.25	3.25	5.25	5.25
Four-party line	2.25	3.00	2.75	3.00	-	5.00

* Wall set station - 25 cents per month less.

The prompt payment discount is authorized to be discontinued and as there are no wall set stations presently in service, the rates for that type of station equipment are authorized to be canceled. Also, an increase of 25 cents per month in rates for business and residence extension stations is authorized.

The applicant requested authorization to close the local service schedules to new customers, and such closure, except as to applications presently on file, is permitted in the order. The order provides for the discontinuance of local semipublic coin-box service and the provision of extended semipublic service with message unit rate treatment. The request of applicant to discontinue business four-party local service will not be granted; however, the schedule will be closed with the closure of the other local schedules.

Increases in service connection and move and change charges authorized herein include increases in charges for the installation of business and residence primary and extension stations for PBX trunks and for moves of telephone sets.

Installation charges are authorized and monthly rates increased for manual PEX switchboards and Key System relay equipment. Rates for PBX and Key System flat rate trunk lines are 50% higher than the rates for individual line primary stations. Increases in

installation charges and monthly rates for a number of items of supplemental equipment are also authorized.

Staff trial Schedule 2 rates for private line service, joint user service, interexchange receiving service, and foreign exchange service, are authorized. An increase of 5 cents in the station collect and person toll rate for toll messages between Tujunga and Glendale is authorized.

The gross revenue effect of the changes in rates authorized herein is estimated at \$45,000 on an annual basis.

O R D E R

Sunland-Tujunga Telephone Company having applied to this Commission for an order authorizing increases in rates, public hearings having been held, and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file with this Commission, after the effective date of this order, in conformity with General Order No. 96, the schedules of rates and conditions shown in Exhibit A, attached hereto, and on not less than three (3) days' notice to the Commission and the public to make such rates effective for bills covering service furnished on and after

RATES

The presently effective rates, charges, and conditions are changed only as specifically set forth in this exhibit.

Schedule No. A-1, Individual and Party Line ServiceEach Primary Hand Set Station - Rate Per Month

<u>Grade of Service</u>	<u>Residence Flat Rate Service</u>		<u>Business Flat Rate Service</u>	
	<u>Extended</u>	<u>Local</u>	<u>Extended</u>	<u>Local</u>
	One-party	\$4.25	\$4.00	\$9.00
Two-party	3.50	3.25	7.00	5.25
Four-party	3.00	2.75	-	5.00

Each Extension Hand Set Station - Rate Per Month

Residence	\$1.00
Business	1.25

Special Conditions 1, 4, 5, 6, and 7 are authorized to be cancelled.

Revise Special Condition 2 to read:

Local service and extended service will not be furnished concurrently to the same subscriber on the same premises, except that extended semipublic coin-box service will be furnished concurrently with local service on the same premises.

Add Special Condition to read:

Extension stations at the above rates are installed on the premises on which the associated primary station is located. Extension stations located outside such premises will be provided at the rates shown above and mileage rates as set forth in Schedule No. A-4.

Add Special Condition to read:

The rates and conditions set forth in this schedule for local service apply only to services established or applied for prior to July 1, 1950, furnished to the same subscriber, either on the same premises, or as moved to a different address of the same subscriber within the Sunland-Tujunga exchange, provided there is no change in the class of service. Regrades of service, additions to the service, and supersedures of service are permitted under this condition.

Schedule No. A-3, Semipublic Coin-box Extended Service

<u>Primary Station Rate</u>	<u>Minimum Charge Per Day</u>	<u>Monthly Rate*</u>
Each individual line coin-box station	\$0.22	\$1.25

* In addition to daily guarantee.

Message Rate

Each exchange message \$0.05

Exchange messages include messages terminating in the exchanges and district areas listed below:

Charleston#	Glendale	Sunland-Tujunga
Chase#	San Fernando	
Crescenta	Sylvanφ	

District area of the Burbank exchange.
φ District area of the Pasadena exchange.

Each message terminating beyond those exchanges and district areas listed above will be charged at the message unit rates as set forth in Schedule No. H-1, Message Unit Service.

<u>Extension Station Rate</u>	<u>Monthly Rate</u>
Each extension hand set station without coin box	\$1.25
Each extension station with coin box	1.75

Rates and special conditions for local semipublic coin-box service are authorized to be cancelled.

Special conditions as shown in Exhibit 14-D are authorized, except that Special Condition 4 shall be revised to read:

Moneys deposited in coin boxes of primary and extension stations in payment for exchange messages and message units only will apply against the minimum charge per day.

Schedule No. A-4, Mileage Rates

Add the following rates and special conditions:

Rates:

Off-premises Stations:

Same Subscriber Each extension station line or private branch exchange station line	<u>Rate Per Month for Each One-quarter Mile or Fraction Thereof</u>
1. Where the terminals are in the same building or in different buildings on continuous property within 300 feet from the primary station or private branch exchange switchboard.	No charge
2. Where the terminals are in different buildings on continuous property, where such buildings are located beyond 300 feet from the primary station.	\$1.00

The above rates apply to air-line distances measured between the terminals of the line involved.

Special Conditions

Except as otherwise provided, the mileage rates are applicable in connection with extension stations or private branch exchange stations located off the premises on which the primary station is located and within the exchange area, in addition to the other rates applicable to the service.

No mileage charge is applicable to an extension station from an off-premises extension or private branch exchange station located on the same premises as that off-premises extension or private branch exchange station.

In this schedule, "terminals" means the stations or station and switchboard between which the off-premises line is connected.

Schedule No. A-5, Suburban Service

<u>Each Extension Hand Set Station, Without Bell - Rate Per Month</u>	
Residence	\$1.00
Business	1.25

Special Conditions 1 and 3 are authorized to be cancelled.

Schedule No. A-5, Suburban Service (Cont'd.)

Add Special Condition to read:

Rates for local service comprehend service without additional charge to all stations receiving service from the Sunland-Tujunga exchange.

Schedule No. A-6, Private Line Service

<u>Local Channels</u>	<u>Monthly Rate</u>
First $\frac{1}{4}$ -mile air line or fraction thereof	\$2.00
Each additional $\frac{1}{4}$ air-line mile	1.00
Each station	1.25

Schedule No. A-7, Private Branch Exchange Service

Rates and special conditions for local private branch exchange service are authorized to be cancelled.

Schedule No. A-7, Private Branch Exchange Flat Rate Extended Service

File monthly rates and installation charges for private branch exchange switchboards as set forth in Exhibit 14-H.

<u>Trunk Rate</u>	<u>Monthly Rate</u>
Each trunk line	\$13.50
<u>Station Rate</u>	
Each hand set station not located in hotel guest room	1.25
Each hand set station located in hotel guest room	1.00

Special Conditions 1, 5, 7, and 8 are authorized to be cancelled.

Add Special Conditions to read:

Stations provided at the above rates are installed on the premises in which the switchboard is located. Stations will be provided off the premises in which switchboard is located at the above rates and mileage rates as set forth in Schedule No. A-4.

The company may enter into a contract with an applicant for private branch exchange or key system service whereby the applicant deposits with the company an amount equal to the installation charge for the equipment involved, at the time the application for service is filed. In the event the order for service is cancelled prior to the installation of the equipment, the company will refund to the applicant an amount equal to the amount deposited less the actual expense incurred.

Schedule No. A-9, Key System Service

Installation charges as set forth in Exhibit 14-1 are authorized.

<u>Trunk Rate</u>	<u>Monthly Rate</u>	
	<u>Residence</u>	<u>Business</u>
Extended service - each trunk line	\$6.25	\$13.50
Local service - each trunk line	-	9.75

Rates for local residence key system service are authorized to be cancelled.

Special Conditions 1, 4, 6, and 12 are authorized to be cancelled.

Revise Special Condition 3 to read:

Extended service and local service will not be furnished concurrently to the same subscriber on the same premises, except that extended semipublic coin-box service will be furnished concurrently with local service on the same premises.

Add Special Conditions to read:

The rates and conditions set forth in this schedule for local service apply only to services established or applied for prior to July 1, 1950 furnished to the same subscriber, either on the same premises or as moved to a different address of the same subscriber within the Sunland-Tujunga exchange. Additions to the service and supersedures of service are permitted under this condition.

The company may enter into a contract with an applicant for private branch exchange or key system service whereby the applicant deposits with the company an amount equal to the installation charge for the equipment involved, at the time the application for service is filed. In the event the order for service is cancelled prior to the installation of the equipment, the company will refund to the applicant an amount equal to the amount deposited less the actual expense incurred.

Special Conditions 3 and 5 as set forth in Exhibit 14-I are authorized.

Schedule No. A-11, Public Pay Station Service

Rates and conditions as set forth in Exhibit 14-J are authorized, except that the last paragraph under "RATE" shall be changed to read as follows:

Each message terminating beyond those exchanges or district areas listed above will be charged at the message unit rates as set forth in Schedule No. H-1, Message Unit Service.

Schedule No. A-13, Joint User Service

	<u>Monthly Rate</u>	
	<u>Extended Service</u>	<u>Local Service</u>
Each joint user service in connection with:		
Business flat rate service	\$3.00	\$2.00
Commercial PBX flat rate service	4.00	-
Semipublic coin-box service	1.00	-

Rate for joint user service in connection with local business coin-box service is authorized to be cancelled.

Schedule No. A-15, Supplemental Equipment

Installation charges, monthly rates, and special conditions as set forth in Exhibit 14-L are authorized, except that an installation charge for single or double-head receivers of \$1 is authorized.

	<u>Installation Charge</u>	<u>Monthly Rate</u>
Add under Rate (16):		
Each retractile type cord, not exceeding 7 feet when extended, substituted for regular hand set cord	\$1.50	-

Schedule No. A-16, Burbank Foreign Exchange Service in Tujunga

Rates and special conditions for Burbank business and residence foreign exchange service in Tujunga are authorized to be cancelled.

Schedule Nos. A-16 and A-17, Crescenta Foreign Exchange Service in Tujunga

Staff trial rates as set forth on Sheet 4, Table 13-A, Exhibit 19, are authorized.

Rates for Crescenta private branch exchange local foreign exchange service in Tujunga are authorized to be cancelled.

Schedule No. A-16, Los Angeles Service in Tujunga

Staff trial rates as set forth on Sheet 4, Table 13-A, Exhibit 19, are authorized.

Schedule No. A-18, Vacation Rate Service

Rates and conditions as set forth in Exhibit 14-M are authorized.

Schedule No. A-21, Interexchange Receiving Service

	<u>Monthly Rate</u>
Each interexchange receiving service	\$5.00

Schedule No. A-22, Wall Set and Hand Set Telephones

Rates as set forth under this schedule are authorized to be cancelled.

Schedule No. A-29, Move and Change Charges

Charges as set forth in Exhibit 14-P are authorized.

Schedule No. A-30, Service Connection Charges

Charges as set forth in Exhibit 14-Q are authorized.

Schedule No. B-1, Toll Service

Toll service schedule as set forth in Exhibit 14-S is authorized to be filed, and the present rates and conditions applicable to toll service between Tujunga and Glendale are authorized to be cancelled. The filed intrastate toll rate schedule of The Pacific Telephone and Telegraph Company is authorized to be made applicable to service between Tujunga and Glendale.

Schedule No. D-1, Classified Telephone
Directory Advertising Service

Revise Condition 14 to read:

The June, 1950 directory will be a nine-month directory. The March, 1951 and subsequent directories will be issued at 12-month intervals, except where operating conditions make a variation necessary.

Preliminary Statement

The Preliminary Statement as set forth in Exhibit 14-B, excluding paragraphs 3 and 4, is authorized.

Schedule No. H-1, Message Unit Service

The following schedule is authorized:

APPLICABILITY

Applicable in connection with business individual line and two-party line, residence individual line, two-party and four-party line, commercial and hotel private branch exchange, business and residence key system, semipublic and public telephone and Los Angeles business foreign exchange services.

TERRITORY

Within the Sunland-Tujunga exchange as said area is defined on a map filed as part of the tariff schedules.

RATES

	<u>Rate Per Month</u>
(1) Flat Rates and Message Rates:	
Primary and extension stations	As set forth in Extended Service Schedules.
(2) Message Unit Rate:	<u>Rate Per Unit</u>
(a) Semipublic, public telephone, hotel private branch exchange, and foreign exchange service	\$0.05
(b) Other services	.035
(3) Number of Message Units:	

The number of message units applicable to a message is in accordance with the message unit service tariff provisions of the connecting companies.

SPECIAL CONDITIONS

1. This schedule is supplemental to all Extended Service Schedules.
2. Rate (1) above comprehends service as set forth in the Extended Service Schedules.
3. Rates (2) and (3) above are applicable to sent-paid station-to-station messages to all stations receiving service from exchanges and district areas in which message unit service is applicable in the Los Angeles Extended Area, except messages to stations receiving service from the exchanges and district areas included in the respective local service areas as set forth in Extended Service Schedules.

Schedule No. H-1, Message Unit Service (Cont'd.)

SPECIAL CONDITIONS (Cont'd.)

4. Message unit charges in connection with a particular message are applicable to and are billed only to the service from which the message originates.

5. Total monthly charges shall be determined by adding the charges under Rate (1) above to the total number of message units multiplied by Rate (2) above, except that in connection with message rate services receiving message unit service, other than foreign exchange services, no distinction is made between exchange messages and message units in the application of the rates.

July 1, 1950, excepting that increases in installation charges shall be effective on applications received by applicant on and after July 1, 1950.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 7th day of June, 1950.

R. E. Anderson
Justus F. Cooper
Wm. H. Lawrence
Harold Hule
Kenneth Potter
Commissioners.