

Decision No. 45258

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
the LOS GATOS TELEPHONE COMPANY for  
authority to increase certain rates  
and charges applicable to exchange  
telephone service.

Application No. 31765

Leib and Leib by C. B. Leib and Lyndon Farwell,  
for applicant; F. V. Rhodes, for California  
Independent Telephone Association; J. J. Deuel  
and Eldon Dye, for California Farm Bureau  
Federation; Frank L. Custer, protestant;  
C. Vernon Snider, protestant.

INTERIM OPINION

Los Gatos Telephone Company, a California corporation and applicant in this proceeding, by the above-entitled application filed September 18, 1950, requests authority to place in effect, on an emergency and interim basis, an increase in telephone rates to subscribers located in the towns of Los Gatos and Morgan Hill and areas contiguous thereto. A copy of applicant's proposed rates is attached to the application and marked Exhibit F.

Public hearings on this application were held before Examiner Edwards on November 21, 27, and 28, 1950, at Los Gatos, California. At these hearings, applicant amended Exhibits C, D, and G, attached to the original application.

Company's Position

The company has just recently expended approximately \$600,000 to install dial central office switching equipment and it has retired certain manual switchboards. After allowing for this retirement, the increased capital for inclusion in rate base is approximately \$500,000. As a result of this change,

traffic and maintenance expenses are expected, on the one hand, to decrease by approximately \$32,000 per year; but, on the other hand, annual fixed charges of interest, depreciation, and ad valorem taxes on the new equipment are estimated to be considerably greater than this saving. The company is asking for an interim increase of approximately \$40,000 on an annual basis to decrease this loss and to maintain its financial stability and enable it to sell additional common stock to provide capital to take care of 563 held orders plus an estimated growth of 300 new stations in 1951. As of November 20, 1950, the held orders were equivalent to 10.7% of the 5,246 total company stations in service. Part of the request for higher rates is due to increase in tax rates which the utility also will face in 1951. Before submitting a supplemental application, asking for permanent rates and charges, applicant proposes to finish its studies covering the establishment of an extended service plan.

At this time, applicant is asking that its local exchange service rates be increased to be comparable with those in effect on The Pacific Telephone and Telegraph Company system for similar sizes of exchanges. The Morgan Hill exchange corresponds to the grouping of 501-4,000 stations and the Los Gatos exchange to 4,001-8,000 stations. Proposed increases in business rates vary from 50 cents to \$1.75 per month, and residence from no change up to 75 cents per month, the larger increases applying to the higher grades of service.

#### Customer Statements

A total of 23 persons furnished statements regarding the type of telephone service furnished by the company and the activities of the company employees and management. Four general types of difficulties were found: First, there was complaint as to slow answering

time by the operators, some subscribers stating that they had to wait as long as 15 minutes to obtain an operator; second, approximately 90% of those present expressed a desire for extended service; third, many reported telephones out of service for several days at a time; and fourth, many complained as to delay in connecting new subscribers or in obtaining higher grades of service.

The competency of the present management to furnish the type of telephone service needed in the Los Gatos area was challenged by several of the subscribers. One subscriber testified that the company's plans were out of balance, the inside plant was overbuilt, and the outside lines underbuilt. Another subscriber stated that the management fails to live up to promises made regarding improved, new, or extended service. Other subscribers brought out the fact that the employees, as well as the management, are very courteous in taking complaints and orders but there was too much delay before anything was done regarding the complaints.

Complaints as to rate levels or the proposed increase were predicated primarily on the poor quality of service and the size of toll bills. Extended service is not available to subscribers of the Los Gatos Telephone Company.

The company witnesses answered many of the complaints at the hearing and promised to follow up the unanswered ones. With regard to the slow answering time, the situation has been improved by the installation of dial switching equipment in the central office and rearrangement of operator schedules. Tests made during the last week in November, 1950, indicated that 91.3% of the calls appearing on the operators' boards were answered within 10 seconds.

Regarding extended service, the company promised to proceed to bring its investigation to an early conclusion. The people living close to the common boundary between the Los Gatos and Saratoga exchange are particularly desirous of obtaining extended service without a toll charge. This problem also involves the facilities of The Pacific Telephone and Telegraph Company and it will be some six to eight months before that company will be in a position to handle such extended service calls. An analysis of toll calls during the period January 20, 1950, to February 4, 1950, indicated that less than one-half of the subscribers on the entire system would realize savings at the extended service rates being studied by the applicant.

During two recent storms, the company has experienced an abnormal number of telephones being out of service. The first storm involved heavy winds, and the second, heavy and continued rainfall. These abnormal conditions required that construction crews be diverted to maintenance work which, in turn, has delayed the installation of outside plant facilities for new customers by several weeks.

Another type of complaint, which we consider very serious and which should be corrected, is that telephone wires and cables are lying on the ground, particularly on rural lines. There was no testimony in the record as to the reason for this condition. The cooperation of the subscriber in permitting proper trimming of trees so that the lines can be kept in the air is essential in this instance to the rendition of good service. *Delayed*

Applicant's manager testified that the company desires to keep up the service and to furnish good service. At the same time,

he pointed out some of the problems inherent in the area. It is a difficult area in which to maintain a telephone plant, as there are many mountains and trees. Falling limbs from trees cause many outages. Roads slide and take down main lines. Squirrels and bugs eat holes into the cables, which do not show up until a heavy fog or rain appears. To improve conditions, the company has adopted the practice of spinning all cables to messengers and using neoprene insulated drop wires.

The company's showing of its estimated results of operation, as taken from revised Exhibit D, Page 2, may be summarized as follows and compared to the latest 12 months results:

	12 Months Ending Sept. 30, <u>1950</u>	Estimate for 1950 as <u>Experienced</u>	1950 Estimate Normalized for Dial Operation	
			<u>Present Rates</u>	<u>Proposed Rates</u>
Revenues	\$337,407	\$342,878	\$ 356,559	\$ 396,425
<u>Expenses</u>				
Operation	229,853	228,311	196,051	196,051
Depreciation	33,732	39,499	53,472	53,472
Taxes	<u>36,243</u>	<u>35,991</u>	<u>50,452</u>	<u>69,267</u>
Total Exp.	299,828	303,801	299,975	318,790
Net Revenue	37,579	39,077	56,584	77,635
Rate Base (Depr.)	806,899	959,147	1,334,610	1,334,610
Rate of Return	4.66%	4.07%	4.24%	5.82%

In determining whether or not an interim rate increase should be granted, the Commission should be guided by the latest actual operating results covering a representative period of the utility's operations, together with reliable estimates of operating results for a representative period in the immediate future. The effect of the conversion to dial service is so marked on this small utility that it constitutes an important element in this case.

The rate base is comprised of capital invested in plant, plus working capital items consisting of materials, supplies, and

working cash capital, less customers' advances for construction and depreciation reserve. In analyzing the company's showing, the staff determined that a year-end rate base was used instead of a midyear figure. Furthermore, the company had not provided for amortizing the nonrecurring dial conversion expenses over a reasonable period of years. After moving the revenue and expenses forward so that they represented six months before and after the end of 1950, it would appear that the present rates normalized would produce net operating revenues of approximately \$58,600. A review of the record indicates that additional revenues are required to enable applicant to meet its requirements and to continue to attract the capital necessary to finance the cost of equipment to serve the public. At this time, increases in rates which are designed to yield additional revenues of \$23,000 per year will be authorized.

In authorizing this increase, we are cognizant of the fact that many customers testified that no increase should be granted until service is improved. The testimony of several witnesses definitely indicated that some improvement in service has taken place since the dial system was installed, which in part justifies this increase. In addition, we feel that some allowance should be made for the characteristics of the area. The houses are scattered in a substantial part of the area and, obviously, the outside telephone plant per customer must be greater than if the houses were close together. The difficulty of maintaining an adequate telephone service in this area is recognized.

There is no question but that more improvement in service is necessary and that it is the responsibility of the management to furnish the telephone facilities to give the subscribers service which will reasonably meet their requirements. This area is growing very fast and customer complaints indicate that the present management has not adequately planned to meet this situation. Subscribers in the area desire a modern city telephone system and not a rural one. The management has not operated on a budget system, has not maintained adequate performance records, and has not established up-to-date standards for clearing of trouble. Before final settlement of this case, the utility will be expected to rectify these matters. We are well aware that it may increase costs to hire competent consulting, engineering, and management talent to plan the system adequately and see that facilities are installed to handle the probable growth and demands for higher grades of service, but we believe that the testimony at the hearing, by the subscribers, points to the essentiality of such a program.

It is understood that only the company's presentation for the interim increase has been completed, and the Commission has based its finding upon the record thus far made in the proceeding. The Commission will retain jurisdiction in this matter for the purpose of determining permanent rates.

Authorized Interim Rates

A comparison of the present rates for the basic classifications of service with the rates requested by the applicant and those authorized in the order herein follows:

<u>Classification</u>	<u>Monthly Rate - Hand Set Station</u>			
	<u>Present</u>	<u>Requested</u>	<u>Rate</u>	<u>Authorized Increase</u>
<u>Los Gatos Exchange*</u>				
<u>Business</u>				
1-party	\$4.75	\$6.50	\$6.00	\$1.25
2-party	4.00	5.25	5.00	1.00
Suburban	3.50	4.50	4.25	.75
Extension	1.25	1.50	1.25	
<u>Residence</u>				
1-party	3.25	4.00	3.75	.50
2-party	2.75	3.25	3.00	.25
4-party	2.50	2.75	2.50	-
Suburban	3.00	3.25	3.00	-
Extension	1.00	1.25	1.00	-
<u>Morgan Hill Exchange*</u>				
<u>Business</u>				
1-party	3.75	5.75	5.25	1.50
2-party	3.25	4.75	4.25	1.00
Suburban	3.75	4.25	4.00	.25
Extension	1.00	1.50	1.25	.25
<u>Residence</u>				
1-party	3.00	3.75	3.50	.50
2-party	2.75	3.25	3.00	.25
4-party	2.50	2.75	2.50	-
Suburban	3.25	3.25	3.25	-
Extension	1.00	1.25	1.00	-

\* Rates for 1-, 2-, and 4-party line services are applicable in the base rate area.

No increases are authorized in the rates for farmer line service or in the rates for residence four-party and residence suburban services. No increases were requested in the rates for business and residence individual line and two-party line services

in the Burrell special rate area. The increases in basic rates which are set forth above and which are authorized in the following order are estimated to increase annual revenues by \$13,500.

In addition to the increases in the basic rates, the applicant requests increases in monthly rates for miscellaneous services, including rates for semipublic service, PBX equipment, supplemental equipment, directory listings, foreign exchange service, and leased line services. The rates authorized for these services are no higher than requested and are comparable to the rates for such miscellaneous services which have been authorized by the Public Utilities Commission for other telephone utilities operating in California. The increases authorized in the order for these miscellaneous services are estimated to produce added annual revenues of \$4,500.

The applicant also seeks authority to increase certain nonrecurring installation charges, move and change charges, and service connection charges. The charges requested are generally in accordance with those now applicable elsewhere in California. In view of the present higher costs of labor and materials compared with prior years, the increases requested in these nonrecurring charges will be authorized. Such increases are estimated to augment annual revenues to the extent of \$5,000.

In total, the rates authorized by the following order are estimated to increase annual revenues by \$23,000 on the basis of the level of business estimated for the end of the year 1950. It is estimated that this increase in revenues will increase the return to *added* 5.36% on the company's rate base of \$1,334,610.

The applicant, in cooperation with a connecting company, furnishes foreign exchange service. Inasmuch as the Commission is

authorizing increases in rates for the applicant, and a portion of the increase in revenue will be obtained from foreign exchange services, it follows that affected foreign exchange rates filed by the connecting company should be consistent. Therefore, such connecting company should request authority of the Public Utilities Commission of the State of California to make the necessary tariff filings to reflect the increases authorized in the following order in the serving exchange.

At the hearing in this matter on November 28, 1950, the Commission staff asked that the applicant place in evidence a report on the practicability of offering Saratoga, Campbell, and San Jose foreign exchange extended service in the Los Gatos exchange. In response to this request, the applicant filed Exhibit No. 10. It is the applicant's position that the offering of such extended foreign exchange service is not practicable at this time due to plant facility limitations and, further, that such service does not appear economically justifiable or in the public interest until such time as the correct solution to the Los Gatos extended service problem has been determined. In view of these considerations, the Commission will hold in abeyance a decision on the offering of extended foreign exchange service for a reasonable period.

In awarding this interim increase, we have kept in mind the necessity for stabilizing prices during the existing emergency consistent with the economic needs of this applicant under today's *deleted* inflated costs of labor and material. In this regard, we are allowing only the minimum amount in the range of increase warranted by the record herein and have assigned as much as practicable of the increase to classes other than regular monthly services.

INTERIM ORDER

Los Gatos Telephone Company having applied to this Commission for an order authorizing an emergency and interim increase in telephone rates pending completion of an extended service study and filing of a supplemental application for permanent relief, public hearings having been held and it appearing to this Commission that certain increases are warranted on an interim basis,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified, and to the extent and in so far as the present rates differ from those authorized in this decision, they are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order, in conformity with General Order No. 96, revised rates in accordance with the changes shown in Exhibit A attached hereto, and, after not less than five (5) days' notice to this Commission and to the public, to make said rates effective for service furnished on and after February 15, 1951.

IT IS HEREBY FURTHER ORDERED that applicant may revise and modernize its tariff book in the manner proposed in Paragraph VIII of its application and in a manner to be consistent with Exhibit A herein.

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

Dated at San Francisco, California, this 16<sup>th</sup> day of January, 1951.

*R. J. ...*  
*Justice J. ...*  
*Harold P. Hills*  
*Russell P. ...*

Commissioners.

RATES

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

Schedule No. A-1Individual and Party Line ServiceLocal Service Monthly Rates - Each Primary Station

<u>Exchange</u>	<u>Residence Flat Rate Service</u>			<u>Business Flat Rate Service</u>	
	<u>1-Party</u>	<u>2-Party</u>	<u>4-Party</u>	<u>1-Party</u>	<u>2-Party</u>
Los Gatos					
Base Rate Area	\$3.75	\$3.00	\$2.50	\$6.00	\$5.00
Morgan Hill					
Base Rate Area	3.50	3.00	2.50	5.25	4.25

	<u>Monthly Rate</u>	
	<u>Residence</u>	<u>Business</u>
Each Extension Station:		
Los Gatos and Morgan Hill	\$1.00	\$1.25

Schedule No. A-4Mileage RatesMorgan Hill

The proposed rates set forth on Pages 11 and 12 of Exhibit F, attached to the application, are authorized to be made effective.

Conditions set forth on Los Gatos Telephone Company Revised PUC Sheet No. 296-T are authorized to be made effective in the Morgan Hill exchange.

Schedule No. A-5Suburban Service

	<u>Local Service Monthly Rates</u>	
	<u>Residence Flat Rate Service</u>	<u>Business Flat Rate Service</u>
Los Gatos		
8-Party Line Service	\$3.00	\$4.25
Morgan Hill		
10-Party Line Service	3.25	4.00
	<u>Monthly Rate</u>	
	<u>Residence</u>	<u>Business</u>
Each Extension Station:		
Los Gatos and Morgan Hill	\$1.00	\$1.25

Schedule No. A-7Commercial Magneto Private Branch Exchange ServiceMorgan Hill

Rates and conditions for magneto private branch exchange flat rate service in Morgan Hill are authorized to be cancelled.

Schedule No. A-7Hotel Private Branch Exchange Service  
Los Gatos

	<u>Monthly Rate</u>
<b>Equipment Rate</b>	
Each switchboard position with battery and ringing power supply circuit and switchboard telephone	
80-line cord type nonmultiple	\$15.00
<b>Trunk Rate</b>	
Each bothway trunk line	
Los Gatos base rate area	9.00
Burrell special rate area	14.50

Schedule No. A-8Commercial Private Branch Exchange Service  
Los Gatos and Morgan Hill

	<u>Monthly Rate</u>
<b>Equipment Rate</b>	
Each switchboard position with battery and ringing power supply circuit and switchboard telephone.	
Cordless type switchboard with maximum of 5 trunks and 20 stations	\$ 9.00
<b>Trunk Rate</b>	
Each central office trunk	
Los Gatos base rate area	9.00
Burrell special rate area	14.50
Morgan Hill base rate area	7.75
<b>Station Rate</b>	
Each station	1.25
<b>Isolated Power Plant Rate</b>	
The installation charges, monthly rates, and conditions applicable to isolated power plants set forth on Morgan Hill Schedule A-8, Sheet 120-T, and Sheet 121-T, are authorized to be made effective in the Los Gatos exchange.	

Schedule No. A-11Key System Service  
Los Gatos

	<u>Rate</u>
<b>Trunk Rate</b>	
Los Gatos base rate area	
Business service	\$7.00
Residence Service	4.50

## Add condition to read:

The above rates and conditions apply only to systems in service or applied for as of February 15, 1951, furnished to the same subscriber on the same premises.

Schedule No. A-11  
Semipublic Service  
Morgan Hill

Each individual line coin-box station	
Each exchange message	\$0.05
Minimum charge per day	.18
Each extension station without coin box, per month	1.25

Schedule No. A-12  
Semipublic Service  
Los Gatos

	<u>Los Gatos Base Rate Area</u>	<u>Burrell Special Rate Area</u>
Each individual line coin-box station, per month	\$	\$5.25
Each extension station without coin box, per month	1.25	1.25
Each exchange message	.05	.05
Minimum charge for exchange messages, per day	.20	.20

Schedule No. A-12  
Joint User Service  
Morgan Hill

	<u>Monthly Rate</u>
Each joint user service in connection with flat rate business service	\$1.50
Each joint user service in connection with semipublic coin-box service	1.50

Schedule No. A-14  
Directory Listings  
Los Gatos and Morgan Hill

	<u>Monthly Rate</u>
Additional listings and lines of information	
Each business listing	\$0.50
Additional information, each line	.50

Schedule No. A-15  
Supplemental Equipment  
Los Gatos and Morgan Hill

The proposed monthly rates and installation charges set forth on Pages 6, 7, 13, 14, 16, and 17 of Exhibit F, attached to the application, are authorized to be made effective except that no change is authorized in the monthly rate for amplifiers.

Schedule No. A-19  
Move and Change Charges  
Los Gatos

The proposed move and change charges set forth on Page 16 of Exhibit F, attached to the application, are authorized to be made effective.

Schedule No. A-20  
Service Connection Charges  
Los Gatos

The proposed service connection charges set forth on Page 16 of Exhibit F, attached to the application, are authorized to be made effective.

Rule and Regulation No. A-3  
Service Connection Charges  
Morgan Hill

The proposed service connection charges set forth on Page 17 of Exhibit F, attached to the application, are authorized to be made effective.

Schedule No. G-1  
Leased Line and Private Line Telephone Service  
Los Gatos and Morgan Hill

	<u>Monthly</u> <u>Rate</u>
Station Rate Each station	\$1.50

Rules and Regulations  
Los Gatos and Morgan Hill

The proposed title page, preliminary statement, and rules and regulations set forth in Exhibit I, attached to the application, are authorized to be made effective.