

Decision No. 45468

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of GILROY TELEPHONE COMPANY, a)
corporation, for an order author-)
izing increases and changes in)
rates for exchange telephone)
service.)

Application No. 31836

Dr. Elmer J. Chesbro, President, and
F. V. Rhodes, for applicant;
Sidney S. Johnson, City Attorney for
City of Gilroy; Eldon N. Dye, for
California Farm Bureau Rural Subscribers,
interested party; Frank V. Rhodes,
Secretary of California Independent
Telephone Association, interested
party; John H. Evans, Richard D. Crowe,
Harold O. Davis, interested parties.

O P I N I O N

In this application, filed October 10, 1950 and as amended on October 20, 1950, Gilroy Telephone Company seeks authority to increase certain telephone rates and charges in the amount of \$27,993 annually as of the level of business on August 1, 1950. By revision of Exhibits A, B, and C attached to the original application, applicant further amended its request, during the course of the public hearing in the matter held before Examiner Emerson in Gilroy on February 14 and 15, 1951, thereby seeking increases which would total \$37,625 annually on the basis of services furnished as of December 1, 1950.

Applicant is a California corporation engaged in furnishing exchange telephone service, and telephone toll service through connections with The Pacific Telephone and Telegraph Company, to approximately 2,400 telephone stations in the City of Gilroy and surrounding territory in Santa Clara County. The company's

exchange area covers approximately 190 square miles with a base rate area of 1-1/2 square miles. As shown by Exhibit No. 5 in this proceeding the present base rate area is to be enlarged by about 10%. The exchange area is primarily agricultural, with the City of Gilroy the center of agricultural and light industrial activity, and has been served by the present company since 1911 when it acquired the Gilroy properties of Sunset Telephone and Telegraph Company by purchase. The present basic rates for primary service were in effect in 1911, and Gilroy Telephone Company has operated under these rates for the past 40 years.

Since the end of World War II, applicant has had considerable demand placed upon it for additional and higher grade service and is presently in the midst of a program of expansion, reconstruction and rehabilitation which, upon completion, will provide a considerably higher degree of trouble-free and faster service than has heretofore been available. Completion of the program will also make additional facilities available so that applicants for service may receive the service desired without the long delays now existing, thus eliminating held orders and enabling the establishment of service on the basis of current requests. Barring limitations by the federal government such program is planned for completion during the next 12-month period. In the five years since the war's end net additions to telephone plant in service total in excess of \$124,000, an increase of about 100%. By the end of 1951, it is estimated, telephone plant will be increased by another net addition of \$85,000 to reach a total of about \$336,000. This will mean an average plant investment of approximately \$132 for every company telephone station on the system. In this connection the company has stated that several factors make a greatly increased maintenance and construction program imperative. First, the acquisition of some 251 farmer-owned stations require

both reconstruction and expansion of telephone plant in the rural area and additions to maintenance personnel to keep these lines and telephones in repair. Second, the new nine-position switchboard requires a higher grade of outside plant facilities, thus necessitating some rebuilding as well as more frequent maintenance. Third, retirement of plant that normally would have been done year by year must now be replaced in "wholesale" lots at today's increased labor and material costs. Fourth, eventual conversion to dial operation must be preceded by the reconstruction, rehabilitation, and expansion of plant to such level as will make the conversion feasible.

Of the 28 persons in the audience on the first day of the hearing none came forward to express either a protest as to increasing telephone rates or to register any complaint with respect to service. During the second day's hearing session, only the appearances were present. The City of Gilroy, through its City Attorney, however, stated that its position was not one of contesting the application in its particulars but that it would not take

kindly to a large increase in telephone rates while having the company's dividends on stock continue at a high rate.^{1/} A representative of the California Farm Bureau, which has many of its members as rural subscribers of the telephone company, took an active part in the cross-examination of witnesses, cited several instances of poor rural telephone service and closely examined the company's program for improvement as well as its budgeted construction projects for the year 1951. It appeared to be the position of the Farm Bureau that increased telephone rates would not be opposed provided the programmed improvement of rural service were to be accomplished.

^{1/} The staff exhibit shows the company's dividend record since 1940. During the postwar years it has paid dividends equivalent to 21.11% of the par value of its outstanding stock in 1946; at 13% during 1947 and 1948; at 8.63% during 1949, and at 6% during the first 11 months of 1950. However, its stock has been sold at a premium and the dividends paid in 1949 were equivalent to approximately 7.5% of the stated value and during 1950 were equivalent to about 5.2%. Earnings on the equity capital amounted to 6.3% in 1949 and 1.74% in the 11 months' period of 1950.

Both the applicant and the Commission staff presented evidence and submitted estimates regarding revenues, expenses, rate base and rates of return. The estimates, segregated to principal items, are compared in the following tabulation:

SUMMARY OF EARNINGS
ESTIMATED YEARS 1950 AND 1951

Item	Present Rates		Proposed Rates	
	Year 1950		1951	
	Staff*	Applicant	Staff*	Applicant
<u>Operating Revenues</u>				
Local Service	\$ 51,016	\$ 51,424	\$103,900	\$ 99,656
Toll Service	60,416	60,748	66,200	65,000
Miscellaneous	450	960	900	889
Uncollectibles	(1,046)	(1,148)	(1,500)	(1,545)
Operating Revenues	110,836	111,984	169,500	164,000
<u>Operating Expenses</u>				
Maintenance	10,655	11,200	27,100	27,592
Traffic	49,829	51,460	58,600	59,520
Commercial	14,193	14,363	13,000	13,145
General Office	3,769	4,081	3,400	3,396
Other Expenses	10,836	10,216	11,900	12,160
Subtotal	89,282	91,320	114,000	115,813
Taxes	10,804	10,549	21,100	19,341
Depreciation and Amortization	7,458	7,651	11,800	10,959
Operating Expenses	107,544	109,520	146,900	146,113
<u>Net Revenue</u>	3,292	2,464	22,600	17,887
<u>Average Rate Base, Depreciated</u>	163,092	186,718	267,700	280,930
<u>Rate of Return</u>	2.02%	1.32%	7.86%	6.37%

(Inverse Item)

* 12 months ending November 30, 1950.

From the above tabulation it is apparent that present rates are providing a less than satisfactory return on the present plant as depreciated. It is apparent also that the only major differences in the estimates for 1951 operations are in revenues and rate bases. With respect to revenues, the staff estimate was based upon the assumption that the year 1951 would be a normal year; that is, that the acquired farmer-line stations as well as all others were to be in full-year operation at the proposed rates and that a normal growth in business would be realized. The company, on the other hand, made its revenue estimate for the anticipated actual year 1951. Cross-examination of the applicant's assistant secretary, in order to reconcile the difference in revenue estimates, developed the fact that the company's estimate was low to the extent that neither the December, 1950 growth nor increases due to supplemental equipment usage had been included in the base from which the revised 1951 revenues were projected. Further with respect to toll revenue estimates the company used an assumed 7% increase, without recognizing station gain, as a matter of judgment; whereas the staff developed its estimate by recognizing the declining trend of the recent past toll revenue experience of the company, determining an average toll revenue on a per-station basis and then applying such figures to anticipated normal year 1951 stations. Applicant's estimated rate base for 1951 was developed as an arithmetic average of beginning and end-of-year figures. The staff's rate base estimate was developed by using a weighted average plant-in-service figure obtained by making gross additions, betterments and retirements for 1951 as of their estimated operative and out-of-service dates. The methods used by the staff appear to be the more accurate.

It is concluded that the rates requested by applicant would yield an excessive return. However, applicant is entitled to

some relief and the order herein will provide for rates which will increase gross revenues for local service by approximately \$34,500 annually.

A comparison of the present rates, the rates requested by applicant, and the rates authorized in the following order, for the principal classes and grades of service is as follows:

Item	Desk or Hand Set Station			
	Rate Per Month			
	Present	Requested	Authorized	Increase
FLAT RATE LOCAL SERVICE				
<u>Residence Service</u>				
Individual line	\$2.50	\$3.75*	\$3.50*	\$1.00
Two-party line	2.00#	3.25*	3.00*	1.00
Four-party line	1.75#	2.75*	2.50*	.75
Ten-party suburban line	2.25#	2.75*	2.75*	.50
Farmer line	.30	.70	.70	.40
<u>Business Service</u>				
Individual line	2.50	5.50*	5.25*	2.75
Two-party line	2.25#	4.75*	4.25*	2.00
Ten-party suburban line	2.25#	3.75*	3.75*	1.50
Farmer line	.30	1.25	1.25	.95

Wall set station - 25 cents per month less.

* Wall set stations installed prior to
May 1, 1951 - 25 cents less per month.

The record shows that applicant has financed the cost of its properties and assets generally through the issue of stock and short-term notes. As of November 30, 1950, it reported outstanding \$60,000 of short-term 4% notes and 12,128 shares of common stock of the par value of \$10 each, and of the aggregate par value of \$121,280, which had been issued at premiums of \$18,335, making total proceeds of \$139,615. In this proceeding applicant reports that it will have need for additional capital funds during 1951 and that it hopes to obtain approximately \$125,000 from the sale of additional shares of stock at \$15 a share. The testimony and exhibits in this proceeding indicate that a rate schedule designed to produce net revenues of approximately \$18,700 is fair and reasonable and should enable applicant to meet its interest requirements, to pay dividends

on its stock, including that proposed to be issued, and to provide for some accumulation of surplus. Such net revenue would represent a return of approximately 6.5% on a rate base of \$287,700. The rates hereinafter ordered are designed to produce such a return.

One of applicant's proposed rate schedules would increase rates for pay station local service from 5 cents to 10 cents. Because of the fundamental nature of such a change and the relatively small percentage of such service that applicant renders in California, the Commission is reserving judgment on the proposal at this time and the proposed increase will not be authorized herein.

Applicant seeks increases in certain nonrecurring charges, including charges for moves and changes, service connections and installations. Also proposed are certain installation charges applicable to PBX switchboards. Under cross-examination, applicant's witness indicated that requests for PBX installations were rare and that the proposed charges were in keeping with those charged by other telephone companies. In view of the special nature of these services the increases in nonrecurring charges will be placed at the level of such charges recently authorized by this Commission for comparable installations thereby establishing such charges at a level which will more nearly reflect the cost of providing service.

Applicant's mileage charges are presently 50 cents per one-half mile unit and applicant has requested that these charges be based upon one-quarter mile units with different rates applicable to individual, two- and four-party services. The mileage rates requested are those generally in use in California and will be authorized.

Increased rates for supplemental equipment and directory listings will be authorized in this order. Certain of applicant's

rules and regulations now on file, which will conflict with new schedules, will be authorized to be canceled. Applicant will be required to file a modern set of rules and regulations.

O R D E R

Gilroy Telephone Company having applied to this Commission for an order increasing rates, public hearing 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 and that the present rates, in so far as they differ from those prescribed herein, are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformity with General Order No. 96, the new schedules of rates presented in this proceeding as Exhibit No. 4 except as specifically modified by Exhibit A attached hereto and, on not less than five (5) days' notice to the Commission and the public, concurrently to cancel all existing rate schedules except Schedule D-1 and rules and regulations, and make said new rates effective for bills covering service furnished on and after May 1, 1951, excepting that increases in installation charges shall be made effective on applications received by applicant on and after May 1, 1951.
2. That applicant, within six (6) months from the effective date of this order, shall file in quadruplicate with this Commission, rules and regulations governing subscriber relations, revised to reflect present-day operating practices acceptable to this Commission and in conformity with the requirements of General Order No. 96, together with copies of current forms that are normally used in connection with customer services.

RATES

The rate schedules set forth in Exhibit No. 4 in this proceeding are authorized, except as specifically modified by the following:

Maps of Area

The proposed base rate area as shown in Exhibit No. 5 is authorized. The exchange area map filed on December 29, 1927 shall remain in effect.

Schedule No. A-1, Individual and Party Line Service

Schedule as shown in Exhibit No. 4, except that the following rates are authorized:

	<u>Wall, Desk, or Hand Set Station*</u>	
	<u>Rate Per Month</u>	
	<u>Residence</u>	<u>Business</u>
	<u>Service</u>	<u>Service</u>
Each individual line primary station	\$3.50	\$5.25
Each two-party line primary station	3.00	4.25
Each four-party line primary station	2.50	-
Each extension station	1.00	1.25

* Wall set stations installed prior to May 1, 1951 \$0.25 less per month.

Schedule No. A-5, Suburban Service

The schedule set forth in Exhibit No. 4 is authorized and the effective date to be inserted with respect to the wall set differential is May 1, 1951.

RATESSchedule No. A-7, Private Branch Exchange Service

Schedule as shown in Exhibit No. 4, except that Rates (1), (3), and (4), are authorized as follows:

<u>RATES</u>	<u>Installation Charge</u>	<u>Rate Per Month</u>
(1) Manual Switchboard Rate:		
Each switchboard position with battery and ringing power supply circuits and switchboard telephone:		
(a) Cordless Type Switchboard		
Maximum capacity 3 trunks, 7 station lines	\$50.00	\$6.00
Maximum capacity 3 trunks, 10 station lines	60.00	7.00
Maximum capacity 4 trunks, 16 station lines	80.00	9.00
(b) Cord Type Switchboard		
Nonmultiple, each position		
Maximum capacity 30 lines or less	120.00	12.00
Maximum capacity 31 to 100 lines	180.00	15.00
Over 100 lines capacity	250.00	20.00
Multiple, per position	600.00	35.00
(2) Trunk Line Rate		
Each central office trunk line		7.75
(3) Station Rate		
Each wall, desk or hand set station not located in hotel guest room		1.25*
Each wall, desk or hand set station located in hotel guest room		1.00*

* Wall set stations installed prior to May 1, 1951 \$0.25 less per month.

RATESCONDITIONS

The first paragraph of Special Condition 5 shall read:

"The equipment to provide the mechanical features of the system and the associated manual switchboard or attendant's cabinet may be furnished by the company at its option, subject to regulations set forth under (a) or (b) following:"

Schedule No. A-13, Public Telephone Service

Schedule as shown in Exhibit No. 4, except that the following rate is authorized:

	<u>Rate</u>
Each exchange message	\$0.05

Schedule No. A-13 (a), Semipublic Coin-Box Service

Schedule as shown in Exhibit No. 4, except that the following rates are authorized:

	<u>Wall Set or Wall Hand Set</u>		
	<u>Rate</u> <u>Per Month</u>	<u>Each Exchange</u> <u>Message</u>	<u>Minimum</u> <u>Charge</u> <u>Per Day</u>
Each individual line coin-box station	\$ -	\$0.05	\$0.20
Each extension station without coin box	1.25	-	-

Schedule No. A-21, Employees' Service

Schedule set forth in Exhibit No. 4 with the addition of Special Condition 4 is authorized, as follows:

"4. No charge is made for exchange service to employees whose duties require that they be readily available to call at any time and where the company considers such service essential to the company operations."

3. That applicant shall cancel its presently filed rules and regulations designated as Nos. 9, 14, 15, 16, 29, 30 and 31, as of May 1, 1951.

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

Dated at San Francisco, California, this 20th day of March, 1951.

R. Z. [Signature]
Justice J. [Signature]
[Signature]
[Signature]
Commissioners.