

**ORIGINAL**

Decision No. 45660

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

) Application No. 31855

William G. Sebastian and F. V. Rhodes, for  
applicant; F. V. Rhodes, for California  
Independent Telephone Association; Eldon N. Dye,  
for California Farm Bureau Federation, interested  
party; and C. T. Mess, for the staff of the  
Commission.

O P I N I O N

In this application, filed October 19, 1950, Kerman Telephone Company requests authority to increase its exchange telephone rates and to restate its books relative to fixed capital accounts.

A public hearing in this matter was held before Commissioner Potter and Examiner Emerson in Kerman on March 22, 1951. At the hearing, applicant asked that its request for a restatement of its books be held in abeyance pending review of its historical cost appraisal and depreciation reserve studies and the preparation of similar studies on the part of the Commission staff. The matters herein treated are, therefore, only those relating to the fixing of rates. Matters pertaining to the restatement of books will be the subject of further consideration at a later date.

At the beginning of 1951, applicant served 951 company-owned telephone stations in the Kerman exchange. All were dial stations, having been converted from manual common battery during 1950. Of the total served, 864 received local exchange service and 87 received foreign exchange service from the Fresno exchange of

The Pacific Telephone and Telegraph Company. Applicant's main office is in Kerman. The community of Biola is served by a small unattended dial central office, and the community of Lassen has an unattended dial concentrating unit. The service area of applicant is bounded, approximately, by the San Joaquin River on the north, Sumner Street on the south, Dickenson Avenue on the east, and Colusa Avenue on the west in Fresno County.

The company's construction and maintenance force during 1950 was engaged principally in the work of converting to dial telephone operations and consequently could not devote the normally required time to maintenance activities. The completion of 1950's major construction program will allow the resumption of normal maintenance which, because of the higher wage levels promised its employees, will increase future operating expenses. Traffic expenses will also rise due to wage increases scheduled by the company for 1951.

Applicant and the Commission staff presented testimony as to results of operations as recorded and adjusted for the years 1949 and 1950, together with estimates for 1951 based upon present rates and proposed rates. Since applicant adopted the staff method of estimating revenues, applicant and the staff are in close agreement at about \$66,000 for estimated 1951 revenues at present rates and at about \$74,500 for estimated 1951 revenues at applicant's proposed rates.

Exhibits and testimony, offered by the staff and by applicant, relative to estimated operating expenses are divergent in many particulars, primarily because of the different accounting procedures used. In this connection, we note that applicant's books have neither followed the prescribed standard classification of accounts nor have they been kept with accuracy. The record in this

proceeding discloses that book entries in numerous instances do not have accurate or adequate supporting data. It is also apparent that applicant included a number of nonrecurring expense items in the basic data from which its estimates of future normal operations were derived. The staff, on the other hand, made a complete examination of all of applicant's books and records for the year 1950, reassigned items to their proper accounts, made appropriate adjustments to correct for applicant's errors, and thereby determined dependable basic data from which its estimate of future normal operating expenses were made.

Applicant presented, as Exhibits Nos. 6 and 7, an estimate based only on the company appraisal. The staff report, entered as Exhibits Nos. 10 and 11, indicates a summary of earnings on three bases: (1) telephone plant and depreciation reserve per the company appraisal, (2) telephone plant per company appraisal and depreciation reserve based on applicant's books, and (3) telephone plant and depreciation reserve per applicant's books. Though the appropriateness of the company appraisal, made as of December 31, 1949, is not being considered herein and will be a subject for later consideration in this matter, it provides, at the moment, the only identical base for comparing the results of the staff's and applicant's estimates. These are summarized as follows:

Item	Earnings Based on Company Appraisal					
	1950		1951		1951	
	Company	Staff	Present Rates	Proposed Rates	Company	Staff
	Records	Adjusted	Company	Staff	Company	Staff
Operating Revenues	\$ 61,258	\$ 61,258	\$ 65,955	\$ 66,100	\$ 74,058	\$ 74,500
<u>Operating Expenses</u>						
Excluding depreciation and taxes	46,766	45,149	54,268	52,700	54,268	52,700
Depreciation	5,590	5,590	8,058	6,200	8,057	6,200
Taxes	2,947	3,840	3,203	3,500	4,230	5,600
Total	55,303	54,579	65,529	62,400	66,555	64,500
Net Revenue	5,955	6,679	426	3,700	7,503	10,000
Rate Base (depreciated)	116,300	116,300	140,156	128,000	140,000	128,000
Rate of return	5.12%	5.74%	0.3%	2.89%	5.35%	7.81%

The staff analysis based on the company's book records indicates a 1950 rate of return of 9.0% on a depreciated rate base of \$82,500. If present rates were to continue in 1951, the indicated return would be 4.9% and the proposed rates would yield 11.4% on a depreciated rate base of \$95,000.

From the above, it is apparent that applicant would experience a less than satisfactory earning position if present rates were to continue. It is also apparent, however, that the rates proposed by applicant would yield, in this instance, an excessive return. Some relief in the form of increased revenues is needed, however, in view of the indicated decline in yield and applicant's continuing program of service improvement and plant rehabilitation. For fixing rates herein, a rate base of \$120,000 for the year 1951 for the purposes of this proceeding will be adopted. The rates hereinafter authorized are designed to produce gross revenues of \$71,400 which, after total expenses of \$63,600, will result in net revenue of \$7,800, or approximately 6.5% return on the above rate base.

No person came forward at the hearing either to express a protest as to increasing telephone rates or to register any complaint with respect to service.

A comparison of the present rates for the basic classifications of service with the rates requested by the applicant and

those authorized in the following order is shown in the tabulation below:

<u>Classification</u>	<u>Present</u>	<u>Requested</u>	<u>Authorized</u>	
			<u>Rate</u>	<u>Increase</u>
<u>Kerman Base Rate Area</u>				
Residence, 1-Party	\$3.25	\$4.00	\$3.50	\$0.25
4-Party	2.25	2.75	2.50	.25
Business, 1-Party	4.50	6.00	5.00	.50
2-Party	3.50	5.00	4.00	.50
4-Party	3.00	4.50	3.50	.50
<u>Biola Special Rate Area</u>				
Residence, 1-Party	5.75	5.75	5.75	-
4-Party	3.50	3.50	3.50	-
Business, 1-Party	7.00	7.00	7.00	-
4-Party	4.25	4.75	4.50	.25
<u>Suburban Area</u>				
Residence, 10-Party	2.75	3.50	3.25	.50
Business, 10-Party	3.50	4.00	4.00	.50

A witness for the Commission staff recommended that consideration be given by the applicant to upgrading business four-party lines to two-party lines in the interest of service improvement. The applicant will be required to furnish a report to the Commission with respect to this matter, setting forth the plant, revenue, and expense effects which would result if such upgrading were accomplished.

In addition to the increase in the basic rates, the applicant requests an increase in the daily guarantee for semipublic coin-box service, as well as increases in the monthly rate for PBX equipment and trunk rates, directory advertising, and in residence foreign exchange mileage charges. These increases will be authorized.

Applicant will be authorized to file a new schedule of line extension charges and rates for local leased line and private line telephone service. 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 revised set of rules and regulations.

In total, the rates authorized by the following order are estimated to increase annual revenues by \$5,300 on the basis of the level of business estimated for the year 1951.

O R D E R

Kerman Telephone Company having applied to this Commission for an order authorizing increases in rates and charges, a public hearing having been held, and that portion of the matter relating to rates 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 changes in rates, rules and regulations set forth in Exhibit A attached hereto, and, on not less than five (5) days' notice to the Commission and the public, to make such rates effective for service furnished on and after June 21, 1951, excepting that increases in rates for directory advertising service shall be made effective with the next issue of the telephone directory scheduled on or about December 1, 1951.
2. Within ninety (90) days from the effective date of this order, applicant 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.
3. Not later than ninety (90) days from the effective date of this order, applicant shall submit a report to this Commission setting forth the plant,

revenue, and expense effects of upgrading four-party business service to two-party business service, together with a program for accomplishing such upgrading of service.

IT IS HEREBY FURTHER ORDERED that said portion of the within application relating to the restatement of the books of account of said applicant is hereby continued for further consideration and order of the Commission.

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

Dated at Los Angeles, California, this 8th day of May, 1951.

Q. E. Dwyer

Justus J. Calmes

Harold H. Hule

Samuel P. Patten

John E. Mitchell

Commissioners.

EXHIBIT A  
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The presently effective rates, rules and regulations are changed only as specifically set forth in this exhibit.

Preliminary Statement

Revise the preliminary statement to indicate that dial central office switching equipment is installed at Kerman.

Schedule No. A-1, Individual and Party Line Service - Kerman Base Rate Area

	<u>Monthly Rate</u>	
	<u>Residence Service</u>	<u>Business Service</u>
Each individual line primary station	\$3.50	\$5.00
Each two-party line primary station	-	4.00
Each four-party line primary station	2.50	3.50

Schedule No. A-1(a), Individual and Party Line Service - Biola Special Rate Area

	<u>Monthly Rate</u>
	<u>Business Service</u>
Each four-party line primary station	\$4.50

Schedule No. A-3, Semipublic Coin-Box Service

	<u>Minimum Charge Per Day</u>
Each individual line coin-box station	\$0.18

Schedule No. A-5, Suburban Service

	<u>Monthly Rate</u>	
	<u>Residence Service</u>	<u>Business Service</u>
Each ten-party line primary station	\$3.25	\$4.00

Schedule No. A-7, Private Branch Exchange Service

	<u>Monthly Rate</u>
Manual Switchboard Rate:	
Cordless type switchboard:	
Maximum capacity 3 trunks and 10 station lines	\$6.00
Trunk Line Rate:	
Each central office trunk line	\$7.50



EXHIBIT A  
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Schedule No. A-20, Residence Foreign Exchange Service

Rate for Each One-quarter Mile or Fraction Thereof Per Month	
<u>First One-</u>	<u>Beyond First</u>
<u>half Mile</u>	<u>One-half Mile</u>

Mileage Rate:

Kerman exchange area:

Each suburban line residence primary station	\$0.50	\$0.75
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Schedule No. A-21, Line Extension Charges

The proposed schedule set forth in Exhibit No. 8 is authorized.

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

The proposed rates set forth in Exhibit No. 5 are authorized to be made effective with the next issue of the directory scheduled on or about December 1, 1951.

Schedule No. G-1, Local Leased Line and Private Line Telephone Service

The proposed schedule set forth in Exhibit No. 9 is authorized.

Rules and Regulations

The following Rules and Regulations are authorized to be cancelled.

- No. 15 - Public Telephone Service.
- No. 31 - Line Extension.