

ORIGINAL

Decision No. 45662

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
COACHELLA VALLEY HOME TELEPHONE &)
TELEGRAPH CO. for an order authoriz-)
ing increases and changes in its)
rates for exchange telephone service)
and miscellaneous supplemental)
services.)

Application No. 32600

J. Curtis Newman, Vice President and General Manager, and Frank V. Rhodes, for applicant; California Independent Telephone Association, by Frank V. Rhodes, California Farm Bureau Federation, by J. J. Deuel California Water & Telephone Company, by F. H. MacGougan, interested parties; City of Indio, by Alexander W. Staples, City Attorney, Colorado River Basin Regional Water Pollution Control Board, by Mrs. Zenda Homan, Secretary, Desert Community Development Association, by Harry Ledington, Hidden Springs Ranch and Club by Charles Doyle, Palm View Ranch, by John E. Gurley, Randall Henderson, Leland E. Quick, Thomas Woody, Clifford Henderson, subscribers, interested parties, and protestants; Walter B. Wessells, for the Commission staff.

O P I N I O N

Coachella Valley Home Telephone & Telegraph Company, a corporation, by the above-entitled application filed July 23, 1951, seeks authority to increase and change its rates for exchange telephone service and miscellaneous supplemental services in and about the cities and towns of Coachella, Indio, La Quinta, Mecca, Oasis, Palm Desert, Thermal and Thousand Palms, Riverside County, California. The application was amended and corrected at the hearing by the filing of Exhibit No. 1 which contains the tariff schedules requested to be authorized for filing.

A public hearing in this matter was held before Commissioner Peter E. Mitchell and Examiner Stewart C. Warner on November 15, 1951, at Coachella, California.

Consideration of the application is discussed under the following headings:

1. General Information.
2. Request by Applicant to Change Designation of "Thermal Exchange" to "Coachella Valley Exchange".
3. Request by Applicant to Establish New Base Rate Area Boundaries.
4. Complaint by Consumers re Excessive Charges between Palm Desert Base Rate Area and Palm Springs, and Request by Consumers for Establishment of Extended or Foreign Exchange Service.
5. Service Complaints by Consumers and Applicant's Plans to Alleviate Them.
6. Capitalization of Applicant as of September 1, 1951.
7. Applicant's Alleged Needs for Establishment of Proposed Rates.
8. Samples of Applicant's Present and Proposed Business, Residence, and Suburban Rates.
9. Other Proposed Rates.
10. Recorded Earnings for the Year 1950 and Estimated Earnings for the Years 1951 and 1952 at Present and Proposed Rates.
11. Conclusions with Respect to Rate of Return and Rates Authorized to be Filed.
12. Other Conclusions.

1. General Information

Coachella Valley Home Telephone & Telegraph Company was incorporated on March 31, 1906, to conduct a telephone business in the Coachella Valley. Its principal place of business is Thermal, California, which is located approximately seven miles south of Indio. On September 1, 1951 it was furnishing telephone service to approximately 4,400 subscribers in two exchanges known as its "Thermal Exchange" and its "Thousand Palms Exchange". The "Thermal Exchange" comprises approximately 666 square miles and the "Thousand Palms Exchange" comprises approximately 27 square miles. The present population of the exchange areas is estimated to be 18,000 but due to the rapid increase in popularity of the area as a desert resort and the importation of Colorado River water through the All American Canal Project, which is resulting in increases in agricultural development of Coachella Valley, substantial and significant increases in population are anticipated, and over

5,000 stations in service are estimated by the end of the year 1952. The desert resort population fluctuates seasonally and accounts for substantial month-by-month variations in toll service revenues. For the year 1950, total toll service revenues amounted to approximately 35% of total operating revenues. The company is managed locally and has toll service connections at Thermal with The Pacific Telephone and Telegraph Company. Toll service to Palm Springs is furnished over the long distance toll lines of The Pacific Telephone and Telegraph Company by direct routing to the California Water & Telephone Company at Palm Springs.

As of July 31, 1951, there were 48 employees on the company's pay roll.

2. Request by Applicant to Change Designation of "Thermal Exchange" to "Coachella Valley Exchange"

Applicant requests authority to change the designation of its "Thermal Exchange" to "Coachella Valley Exchange" in order to designate more accurately the area included therein, and this appears to be a reasonable request and in the public interest and will be authorized by the order herein.

3. Request by Applicant to Establish New Base Rate Area Boundaries

Applicant also requested the establishment of new base rate area boundaries. The present boundaries, the boundaries recommended to be established by applicant and those recommended by the Commission staff are delineated by a set of maps filed at the hearing as Exhibit No. 6. Applicant's witness, J. Curtis Newman, Vice President and General Manager, testified that the enlargement of the base rate areas would, in nearly each instance, effect not only a loss in revenue but an increase in plant, thereby affecting applicant's estimated earnings position somewhat adversely. However, after careful consideration of the degree of such effects and in

view of the anticipated growth of the various base rate areas, particularly the Indio, Palm Desert and Thermal areas, it appears to be in the public interest that the area boundaries recommended by the Commission staff, which do not vary substantially from applicant's recommendations, be established and the order herein will so provide. According to applicant's presently filed tariffs suburban (10-party) service, only, is offered outside the base rate areas without mileage charges. Individual and party line service is offered in conjunction with monthly mileage rates per 1/4 mile or fraction thereof, air-line measurement, to the nearest point on the boundary of the base rate area. The expansion of the base rate area boundaries will, therefore, increase the availability of individual and party line service, up to four parties, without application of mileage rates, and will also result in the reduction of mileage charges applicable to subscribers located outside the base rate area boundaries.

4. Complaint by Consumers re Excessive Charges between Palm Desert Base Rate Area and Palm Springs, and Request by Consumers for Establishment of Extended or Foreign Exchange Service

The exchange area boundaries on the west of applicant's service area are the east boundaries of Townships 4, 5, 6, and 7 South, Range 5 East, S. B. B. & M., and these geographical boundaries comprise the east boundary of the service area of certain California Water & Telephone Company exchanges. Subscribers living along State Highway No. 111, and particularly those living in the Palm Desert area wishing to place a call to the California Water & Telephone Company service area immediately adjacent to the west are required to pay an initial period toll of 30 cents for a station call and 50 cents for a person call between points separated by less than a mile to four miles or more, because the toll centers are

located in Thermal and Palm Springs, respectively. Such a call is routed about 20 miles southeast to the Thermal exchange central office at Thermal, thence 32 miles northwest over the toll lines of The Pacific Telephone and Telegraph Company to Whitewater, thence 11 miles west to the Palm Springs exchange central office, thence 10 miles east to the exchange boundary, a total of 73 miles. At the hearing, several residents of Palm Desert community protested the existence of this toll charge and requested the establishment of extended or foreign exchange service to Palm Springs upon some equitable basis. The witness, Randall Henderson, publisher and editor of a desert magazine and two desert newspapers in the Palm Desert area, testified that there are about 2,500 residents along Highway No. 111 between Smoke Tree Ranch just south of Palm Springs, and La Quinta, of whom about half live in the California Water & Telephone Company service area and the other half live in the service area of applicant. These residents comprise a group with general community interests and activities. Applicant agreed to conduct a study with California Water & Telephone Company looking toward the inception of such extended or foreign exchange service and the order herein will provide for the completion of such study and submission to the Commission of the results thereof.

5. Service Complaints by Consumers and Applicant's Plans to Alleviate Them

At the hearing, numerous operational service complaints were registered by appearances of individuals, property owners, municipalities, and business associations. These complaints indicated that telephone conversations from Palm Desert to Thermal and on to Palm Springs were inaudible; that telephones were out of order once or twice each month for as much as one to two hours on each occasion; that there were delays in getting the toll service

operator; that there was cross-ringing and buzzing; that there had been cut ins by other parties and that conversations had been interrupted without restoration of service; that operator response was unduly slow; and that, particularly with respect to toll service, the telephone service was not generally reliable. The consensus of these subscriber complaints is that such subscribers objected strongly to increases in rates unless and until normal telephone service is established and maintained. The witness, Zenda Homan, testified regarding the poor toll service out of Indio experienced by the Colorado River Basin Regional Water Pollution Control Board. Clifford Henderson, President of Palm Desert Corporation, which is the owner of the Shadow Mountain Club and Firecliff Lodge, Palm Desert, complained bitterly about interruptions and cut ins on toll service to Los Angeles and the East. He stated that in one or two instances hotel guests had felt obliged to transfer their residences to Palm Springs in order to be assured of satisfactory telephone connections with their businesses, homes and friends in other sections of the state and nation. The witness, Thomas Woody, complained about poor exchange service between his ranch and his home, situated about 20 miles apart, in Thermal and La Quinta, respectively. He also requested that the Commission establish a vacation rate; such to apply while he visited his home in Minneapolis, for a period of about four months each year. He was advised at the hearing by a company representative that a vacation rate has been placed in effect and is now available to him. The witness, Harry Ledington, requested the Commission to require applicant to maintain 24-hour trouble service. He stated that no repair service is available to week-enders visiting their desert homes, after late Saturday afternoon until early Monday morning. A witness for applicant stated that this would involve increased operating costs for a repairman's wages,

but that applicant would study the request looking into the economics of the possible inauguration of such 24-hour trouble service.

Applicant's witness, Newman, testified that substantial expenditures for additions to telephone plant were known to be necessary and were planned for the years 1951 and 1952 in order to alleviate the operating conditions complained of. Such planned additions to plant are summarized in the following tabulation:

COACHELLA VALLEY HOME TELEPHONE & TELEGRAPH COMPANY
PLANNED ADDITIONS TO PLANT YEARS 1951 AND 1952

<u>Item</u>	<u>1951</u>	<u>1952</u>
Thermal conversion, manual to dial	\$ 85,000	\$
Net addition of 729 stations	39,000	
Net addition of 700 stations		37,200
New toll building at Indio		12,750
Central office additions		111,000
PBX board for Coachella Valley		
Water District	5,000	
PBX boards		5,600
Pole lines	6,000	
Rebuild pole line, Indio to		
Palm Desert		30,000
Aerial Cable	22,000	18,000
Aerial Cable, Indio to Palm Desert		40,000
Aerial Wire, various locations	13,500	21,400
Underground conduit under railroad		
tracks	8,500	
Motor vehicles	2,800	3,600
Miscellaneous	6,150	8,100
	<u>187,950</u>	<u>287,650</u>

The witness, Newman, stated that, particularly, the installation of aerial cable -- 10 miles of 51-pair, 19-gauge between Indio and Palm Desert -- and the additions to central office equipment including a 1,000-terminal addition to the Indio office to convert from terminal-per-line to terminal-per-station, would significantly improve the present telephone service throughout the Palm Desert, LaQuinta, Indio and Coachella areas; whence have originated most of the complaints regarding poor service.

Applicant has just completed change-over from manual to automatic dial equipment in the area served by the Thermal central office, and its exchange service system is now 100% dial operated.

6. Capitalization of Applicant as of September 1, 1951

As of September 1, 1951, applicant had authorized and issued capital stock of 14,352 shares of \$20 par value common stock with an aggregate par value of \$287,040; and authorized 5,000 shares of \$20 par value 5% series cumulative preferred stock, of which 2,040 shares of an aggregate par value of \$40,800 were outstanding. The company was indebted to Pacific Mutual Life Insurance Company for the total sum of \$350,000 evidenced by three notes, the payment of which is secured by a mortgage covering all property -- real, personal and leased -- except cash and motor vehicles. Of the total sum due Pacific Mutual, \$150,000 bears an interest rate of 4% per annum and \$200,000 bears an interest rate of 4½% per annum.

7. Applicant's Alleged Needs for Establishment of Proposed Rates

In its application, applicant alleged that in order to carry out its planned plant expansion and operating service improvement program as outlined above, its earnings position as reflected by the recorded figures for the year 1950 as shown hereinafter must be improved in order to attract the necessary outside capital for the financing of the proposed construction program, and that in order to improve its earnings position, the rate increases as proposed in the application were necessary, particularly in view of the recently enacted federal income tax rates of combined normal and surtax of 52% for the year 1952, and in view of an over-all 11% wage increase which was granted by the company to its employees to be retroactive to August 1, 1951, if approved by the Wage Stabilization Board.

The record shows that held orders have decreased since 1948 when the monthly average was 395, to a monthly average of 165 for 1950 and a monthly average of 146 for the first eight months of 1951. On September 27, 1951, there were 206 unfilled applications for service, segregated as follows:

HELD ORDERS

Applications for primary service	107
Applications for regrades	31
Advance applications for primary service	38
Applications for supplemental equipment	30
	<u>206</u>

Of the applications for primary service, 89 are less than three months old, and only six are over one year old. Applicant's witness, Newman, testified that applicant's planned construction program included consideration of the further reduction in the average number of held orders as the necessary equipment becomes procurable.

6. Present and Proposed Business, Residence, and Suburban Rates

Samples of applicant's present and proposed business, residence, and suburban rates showing the number of services as of May 31, 1951, are included in the following tabulation.

Item	No. of Services : 5-31-51	Present Rate	Company Proposed Rate
<u>Business Flat Rate Service</u>			
1-party Hand or Desk Set Indio, Coachella, Mecca, Palm Village Thousand Palms	540 5	\$4.00 5.25	\$6.50 6.50
1-party Hand Set Thermal	48	3.50	6.50
1-party Wall Set Indio, Coachella, Mecca, Palm Village	11	3.75	6.50
1-party Wall or Desk Set Thermal	4	3.25	6.50
2-party Hand Set Thermal, Indio, Coachella, Mecca, Palm Village Thousand Palms	- 4	- 4.25	5.25 ^a 5.25
4-party Hand or Desk Set Indio, Coachella, Mecca, Palm Village	81	3.50	4.75
4-party Hand Set Thermal	12	3.00	4.75
4-party Wall Set Indio, Coachella, Mecca, Palm Village	3	3.25	4.75
4-party Wall or Desk Set Thermal	-	2.75	4.75
<u>Residence Flat Rate Service</u>			
1-party Hand or Desk Set Indio, Coachella, Mecca, Palm Village Thousand Palms	300 4	3.25 3.75	4.00 4.00
1-party Hand Set Thermal	31	3.00	4.00
1-party Wall or Desk Set Thermal	1	2.75	4.00
1-party Wall Set Indio, Coachella, Mecca, Palm Village	2	3.00	4.00
2-party Hand Set All exchanges	-	-	3.50 ^a
4-party Hand or Desk Set Indio, Coachella, Mecca, Palm Village Thousand Palms	853 12	2.75 2.75	3.00 3.00
4-party Hand Set Thermal	33	2.50	3.00
4-party Wall Set Indio, Coachella, Mecca, Palm Village	10	2.50	3.00
4-party Wall or Desk Set Thermal	3	2.25	3.00
<u>Suburban Service (10-party)</u>			
Business, Hand Sets	130	3.00	4.50
Business, Wall or Desk Subscribers	6	2.75	4.50
Residence, Hand Sets	786	2.50	3.25
Residence, Wall or Desk Subscribers	14	2.25	3.25

a. New service not previously offered.

9. Other Proposed Rates

Other increases are requested in rates for mileage, PBX service, other types of telephone and equipment service, and connection and installation charges. Applicant modified its application at the hearing to request that suburban mileage rates for Palm Springs foreign exchange service be kept at a parity with such rates of California Water & Telephone Company. Applicant also requested the elimination of its present 25-cent monthly discount for prompt payment of bills.

10. Recorded Earnings for the Year 1950 and Estimated Earnings for the Years 1951 and 1952 at Present and Proposed Rates

The application contains, as Exhibits E and F, data as to telephone plant, revenues and expenses for the year 1950 actual, and for the years 1951 and 1952 estimated at both the present and proposed rates. A report on the results of applicant's operations for the year 1950 recorded and for the years 1951 and 1952 estimated was submitted at the hearing as Exhibit No. 5 by Commission staff engineering witnesses. The information contained in Exhibits E and F of the application and Exhibit No. 5 is summarized in the following tabulation:

SUMMARY OF EARNINGS
YEAR 1950 RECORDED, YEARS 1951 AND 1952 ESTIMATED

Item	Present Rates			Proposed Rates		
	:Year 1950 : Recorded : Per PUC :Exh. No. 5:	:Year 1951 : Estimated : Per PUC :Exh. No. 5:	:Year 1952 : Estimated : Per Co. :Exh. E	:Year 1952 : Estimated : Per PUC :Exh. No. 5:	:Year 1952 : Estimated : Per Co. :Exh. F	:Year 1952 : Estimated : Per PUC :Exh. No. 5:
Operating Revenue (Incl. Uncoll.)	\$207,066	\$248,958	\$ 291,386	\$289,281	\$ 346,695	\$348,232
Operating Expense	109,595	136,448	159,239	160,046	159,239	160,046
Taxes*	30,064	38,222	56,054	44,417	85,785	76,203
Depreciation**	29,082	37,258	45,222	45,836	45,222	45,836
Total Oper. Exp.	168,741	211,928	260,515	250,299	290,246	282,085
Net Oper. Revenue	38,325	37,030	30,871	38,982	56,449	66,147
Avg. Rate Base (Depreciated)	659,300	793,000	1,016,366	995,000	1,016,366	995,000
Rate of Return	5.8%	4.7%	3.0%	3.9%	5.6%	6.65%

* Includes combined normal and surtax, federal income tax rate of 52% for 1951 and 1952.

** Straight-line composite rate of 4% utilized in company Exhibits E and F; straight-line remaining life computation utilized in PUC Exhibit No. 5.

The company computed depreciation expense on a straight-line basis using a composite rate of 4% applied to the average capital, excluding land. The Commission staff estimated depreciation expense using the straight-line remaining life method of computation. Witness for the company offered no objection to this method. The straight-line remaining life method of computing depreciation expense should be adopted and the order herein will so provide.

It is evident from the above tabulation that as alleged by applicant, its rate of return under the present rates is on the decline due principally to the increases in federal income tax rates, operating wages, and rate base. However, it is apparent upon analysis, that in computing federal income tax estimates for the year 1952 at the present and proposed rates, applicant failed to deduct interest on its long-term debt which produced a discrepancy in the amounts of estimated federal income tax included by applicant in its Exhibits E and F, and accounts in large measure for the differences in total taxes, as indicated in the above tabulation, between Exhibits E and F and Exhibit No. 5. Also, it is apparent that applicant included in its tax expense estimate for the calendar year 1952, the total ad valorem taxes applicable to the fiscal tax year 1952-1953, whereas it accrues such ad valorem taxes on its books on a fiscal year basis. The staff estimate includes one-half of the taxes applicable to the fiscal tax year 1951-1952 and one-half of the taxes applicable to the fiscal tax year 1952-1953 in its estimate of total ad valorem tax expense for the year 1952. We believe the staff treatment to be the proper one for rate-making purposes in this instance, and it is hereby adopted for the purpose of this proceeding. Otherwise, there is no significant difference between either the applicant's or the staff's estimates of operating revenues or

expenses, taxes, depreciation expense and resultant net operating revenue. The allowance for working cash in the rate base as computed by the staff engineer is one-half the computed working cash requirement inasmuch as income taxes are accrued ahead of payment. This is considered to be a reasonable treatment of this item and the amount of \$6,700 for working cash shown in Exhibit No. 5 for the estimated year 1952 is adopted for the purpose of this proceeding.

11. Conclusions with Respect to Rate of Return and Rates Authorized to be Filed

We conclude that the estimated rate of return for the year 1952 of 6.65%, as shown in Exhibit No. 5, is excessive. However, when consideration is given to estimated losses in revenue and estimated increases in plant, effected and necessitated by the establishment of the new base rate area boundaries as discussed under paragraph 3 of this opinion, it is estimated that the schedule of rates authorized in the following order will increase gross annual revenues by approximately \$57,000, resulting in approximate total operating revenues of \$346,300 which with allowable total operating expenses and taxes of \$281,000 produces a net revenue of \$65,300. Utilizing a rate base of \$1,008,000, these rates will result in a rate of return of 6.5% for the estimated year 1952. This is concluded to be a fair rate of return for applicant in this proceeding.

12. Other Conclusions

A series of 11 recommendations for improving applicant's service was incorporated in Chapter X of Exhibit No. 5, the Commission staff engineering report. Among the items recommended but not previously discussed in this opinion were introduction of traffic peg counts, analysis of trouble report tickets, improved plant records, warehouse operation and accounting practices, and suggested new rate and service features. After carefully considering such

recommendations, the Commission concludes that it is imperative that, except where otherwise covered by the provisions of this order, they be carried out expeditiously. The order herein, therefore, will provide that applicant shall file with the Commission a bimonthly report, in writing, of its progress in carrying out the staff recommendations; such bimonthly report to continue to be filed until those recommendations have been put into effect.

O R D E R

Application having been filed by Coachella Valley Home Telephone & Telegraph Company, a corporation, for authority to increase rates for exchange telephone service in and about the cities and towns of Coachella, Indio, La Quinta, Mecca, Oasis, Palm Desert, Thermal, and Thousand Palms in Riverside County, California, a public hearing having been held, the matter having been submitted and now being ready for decision,

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

IT IS HEREBY ORDERED as follows:

1. That applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order in conformity with the Commission's General Order No. 96, those tariff schedules filed and amended and corrected at the hearing as Exhibit No. 1, except that the rates shown under (1), Primary Service, on Page 1 of Schedule No. A-4, Mileage Rates, shall be 50 cents for individual line service, private branch exchange trunk lines, battery supply circuits, and ringing supply circuits, 35 cents for two-party line service, and 25 cents for four-party line service; and the rates shown under (4), Suburban Mileage Rates, on Page 2 of Schedule No. A-20, Foreign Exchange Service, shall be 50 cents for individual line primary stations and 25 cents for four-party line primary stations; and the base rate area maps filed at

the hearing as Exhibit No. 6, the base rate area boundaries to be those recommended by the Commission staff; and on not less than five (5) days' notice to the Commission and the public to make said rates effective for service rendered on and after March 1, 1952.

2. That applicant within ninety (90) days from the effective date of this order shall file with this Commission four sets of rules and regulations covering customer relations, revised to reflect present day operation practices.
3. That applicant shall review annually the accruals to depreciation reserve which shall be based upon spreading the original cost of the plant, less estimated net salvage, and less depreciation reserve, over the estimated remaining life of the property; and the results of these reviews shall be submitted annually to the Commission.

IT IS HEREBY FURTHER FOUND to be in the public interest that applicant be authorized to change the designation of its Thermal exchange area to Coachella Valley exchange area; therefore,

IT IS HEREBY ORDERED that applicant be and it is authorized to change the designation of its "Thermal Exchange" to "Coachella Valley Exchange".

IT IS HEREBY FURTHER FOUND AS A FACT that there have been general and serious deficiencies in telephone service throughout applicant's service area as outlined in the opinion of this order; therefore,

IT IS HEREBY FURTHER ORDERED:

1. That Coachella Valley Home Telephone & Telegraph Company shall immediately make line and station checks at the residences and places of business of the persons listed in the appearances of this order who complained of service at the hearing, and submit the results of such checks to the Commission in writing within twenty-one (21) days of the effective date of this order.
2. That Coachella Valley Home Telephone & Telegraph Company shall immediately request The Pacific Telephone and Telegraph Company to conduct a toll line load survey of its San Bernardino-Thermal toll line to determine the quality and quantity of traffic being transmitted thereover and submit the results of such survey to the Commission

within forty-five (45) days of the effective date of this order.

- 3. That Coachella Valley Home Telephone & Telegraph Company shall immediately conduct a study of the cost and economics of the establishment of extended service between subscribers in its Coachella Valley exchange and the Palm Springs exchange of the California Water & Telephone Company and submit the results of such study to the Commission, in writing, as soon as possible but not later than one hundred and twenty (120) days after the effective date of this order.
- 4. That Coachella Valley Home Telephone & Telegraph Company shall submit a bimonthly report in writing to the Commission of its progress in carrying out the recommendations of the Commission staff engineers as contained in Exhibit No. 5, except where such recommendations are otherwise covered by this order; such bimonthly report to continue to be filed until the staff recommendations have been put into effect, at which time said report shall so indicate.

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

Dated at San Francisco California, this 22nd day of January, 1952.

[Signature]
 President.
Justus F. Casner
[Signature]

 Commissioners.

Commissioner Kenneth Patten, being necessarily absent, did not participate in the disposition of this proceeding.