

ORIGINAL

Decision No. 47427

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)

of)

WEST COAST TELEPHONE COMPANY OF)
CALIFORNIA)

Application No. 33119.

to increase rates.)

Appearance for Applicant: Claude N. Rosenberg.

Interested Party: California Farm Bureau Federation
by J. J. Deuel.

Other Appearances: W. W. Dunlop and H. F. Wiggins
for the Commission's staff.

O P I N I O N

West Coast Telephone Company of California, engaged in the business of rendering telephone and telegraph service in Humboldt and Del Norte Counties, California, filed the above-entitled application of February 13, 1952, for authority to increase telephone rates to yield additional annual revenue of approximately \$32,000 from exchange and toll service at the level of business estimated for the year 1952. Applicant's proposed increased rates are set forth in Exhibits "C" and "D" of the application. After due notice a public hearing was held on this application before Commissioner Harold P. Huls and Examiner M. W. Edwards on May 28, 1952, at Crescent City, California.

Applicant's Facilities

The West Coast Telephone Company of California is a corporation organized and existing under the laws of the State of California and is the wholly owned subsidiary of West Coast Telephone

Company with headquarters at Everett, Washington. Its facilities for furnishing telephone and telegraph service consist of land, buildings, rights of way, central office equipment, pole lines, wire and cable, telephone instruments and other necessary pertinent equipment. The main business office of the California company is located at Crescent City, California. Applicant operates four exchanges in California, three of which are unattended dial installations at Klamath, Orick, and Smith River, and the fourth a manual, common battery installation at Crescent City. All operator functions are performed at the Crescent City switchboard; except that at Orick such functions are performed by the Eureka operators of The Pacific Telephone and Telegraph Company. There were 1,392 stations served and approximately 481 applications held for new service as of December 31, 1951.

The applicant reported as of December 31, 1951, total telephone plant in service of \$452,386. For the year 1951, reported revenues were \$160,563, of which 33% was derived from exchange service, 60% from toll service, and 7% from miscellaneous service.

Position of Applicant

In general, the applicant seeks an approximate 16% increase in revenues in order to yield a reasonable return upon the properties and equipment devoted to the public use. Without such a reasonable rate of return it maintains it is and in the future will be unable properly to finance additions to its properties and equipment that are needed to render efficient service.

The current level of rates was set by the Commission in Decisions Nos. 40456 and 40490, Application No. 27925, under dates of June 28, and July 3, 1947, and was predicated on the fixed capital in properties and the operating expense and tax relationships as

they existed in the year 1946. In every year since 1946, as a result of union collective bargaining agreements, the wages paid to employees in the commercial, plant and traffic departments have been increased.

Exhibit No. 13 shows that during the period June 24, 1946 to November 1, 1951 wage rates increased for plant switchboard men between 22% and 29% and for traffic operations between 30% and 34%.

The average investment per station since 1946 has increased from \$258 to an estimated \$381 in 1952. The cost per station gained in 1952 is estimated at \$562 compared with \$85 in 1947.

During this same period of time tax rates also have increased sharply. In 1947 the operating taxes were \$8.26 per station compared with \$12.15 in 1951. In addition, federal excise taxes on telephone service charged directly to the subscriber in 1951 amounted to \$25.41 per station. The excise tax in 1951, totaling \$33,114, is in excess of the total increase requested by the applicant at this time.

Subscriber Interest

Subscribers and their representatives were present at the public hearing but none offered any objection to the proposed increase in rates. One person stated that this utility operates in a mountainous and wooded area in which it is difficult to maintain uninterrupted service and because of high current-day costs for additional telephone facilities, the company should have every rate advantage that would make improved service possible. One representative was concerned over the growing backlog of held orders for new service and the company's plans for providing service facilities to the potential subscribers. The question as to the adequacy of the company's plans to meet reasonable future growth also was raised.

The company's witness testified that because of the rapid growth in the area it is difficult to estimate requirements for service more than one year in advance. Furthermore, he pointed to the fact that the economic situation in the lumber business is of vital importance to the utility and it is not sound to overexpand telephone development during a boom period in the lumber business such as exists at present. During a slump in the lumber market toll revenues fall off. During lean years the area would not support a very large telephone plant investment, in his opinion. ✓

This witness also told of project completions in the past few weeks that provided 13 new toll circuits out of the area to handle long distance calls to other points in California or to other states, and a new central office in Crescent City with two additional switchboard positions to give faster service on toll or local calls. Some of the held orders are from persons so far removed from the company's lines that it would cost \$1,000 or more per station to make line extensions. This witness could not give many details as to plans to handle the held orders but said that the company's service now is adequate to handle the telephone requirements of the area for the year 1952.

Over-all Cost to Serve

For the purpose of determining whether or not the applicant is entitled to a rate increase the Commission considers, among other things, the relationship of the revenues to the over-all cost of rendering the utility service. Such costs include the expense of maintenance of plant and equipment, traffic expense, general office and management expenses, depreciation expense, city, county, state and federal taxes, and interest or return paid for the use of capital necessary to provide plant facilities for the public service.

The applicant's Exhibits Nos. 14 and 15 show that its rate of return after payment of the other expenses above enumerated have declined from 8.17% in 1949 to 4.46% in 1951 as follows:

Year 1949	8.17%
Year 1950	5.60
Year 1951	4.46

Exhibit No. 15 also shows that in 1951 the adjusted rate of return was 3.43% after reflecting increases in wages and current operating conditions. The staff's analysis for 1951 showed 4.52% return and an adjusted figure of 3.42% by Exhibit No. 19.

Evidence of Future Earnings

Both the applicant and the Commission's staff presented estimates of the earnings of the West Coast Telephone Company of California for the year 1952. The estimates, which are summarized below, were prepared on the basis of present rates and proposed rates shown by the applicant in its Exhibits "C" and "D" attached to the application.

Estimated Earnings in 1952

Item	Company		Staff	
	Exhibit No. 16	Exhibit No. 16	Exhibit No. 19	Exhibit No. 19
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenue	\$198,924	\$231,350	\$204,500	\$236,400
Operating Expenses				
Operation and Maintenance	150,226	150,226	159,200	159,200
Operating Taxes	15,090	26,854	13,600	22,400
Depreciation	23,804	23,804	19,800	19,800
Subtotal, Expense	189,120	200,884	192,600	201,400
Net Revenue	9,804	30,466	11,900	35,000
Rate Base (Depreciated)	582,563	582,563	581,000	581,000
Rate of Return	1.68%	5.23%	2.05%	6.02%

The company took no particular exception to the staff's estimate but did not concur in the over-all results of the staff's study. The engineer who presented the staff's study used the

"remaining life" method of computing depreciation expense and recommended that the company should spread the original cost of plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property. The company used the "total life" method of computing depreciation expense but did not agree at the hearing to adopt the remaining life method for the future stating that this was a matter for further consideration by management. Such change will be required by the order herein.

Conclusion on Earnings

After giving consideration to both estimates of operating results for 1952, it is our conclusion that the staff's estimates of revenue, expenses and rate base are reasonable amounts that the utility can attain with efficient operation. For the year 1952 we adopt a rate base of \$581,000 and find that applicant's proposed rates will yield a net revenue of \$35,000 at the current level of business, resulting in a rate of return of 6.02%. In our opinion, a rate of return of 6.02% for this utility is not unreasonable; therefore, applicant's requested rates will be authorized.

Authorized Rates

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

Grade of Service	Rate per Month					
	Residence Service			Business Service		
	Present	Authorized	Increase	Present	Authorized	Increase
<u>Crescent City Exchange</u>						
1-Party	\$3.50	\$4.75	\$1.25	\$5.00	\$7.75	\$2.75
2-Party	-	-	-	4.50	6.50	2.00
4-Party	2.50	3.25	.75	4.00	5.50	1.50
Suburban	2.50	3.50	1.00	4.00	5.75	1.75
Farmer Line	-	1.50	-	-	2.50	-
Extension	1.00	1.25	.25	1.50	1.75	.25
<u>Klamath and Orick Exchanges</u>						
1-Party	3.25	4.75	1.50	4.75	7.75	3.00
2-Party	-	-	-	4.50	6.50	2.00
4-Party	2.50	3.25	.75	-	-	-
Suburban	2.25	3.50	1.25	3.75	5.75	2.00
Farmer Line	1.00*	1.50	.50*	1.50*	2.50	1.00*
Extension	1.00	1.25	.25	1.50	1.75	.25
<u>Smith River Exchange</u>						
1-Party	3.25	4.75	1.50	4.75	7.75	3.00
4-Party	2.25	3.25	1.00	4.25	6.50	2.25
Suburban	2.25	3.50	1.25	3.75	5.75	2.00
Farmer Line	-	1.50	-	-	2.50	-
Extension	1.00	1.25	.25	1.50	1.75	.25

* Applicable in Klamath Exchange only.

In addition to the increases in the basic exchange rates, the applicant requests increases in monthly rates for miscellaneous services, including rates for PBX switchboards, trunks, and stations, joint user service, directory listings, local private line service, and in charges for moves and changes, service connections, and line extensions. The rates requested for these services appear reasonable and will be authorized.

Applicant has also requested that the rate for pay station service be increased from 5 cents to 10 cents per exchange message. This appears to be a necessary step since this class of service should bear a portion of the increase and will be authorized.

An increase in intrastate message toll telephone rates applicable to toll service between points on applicant's own lines has also been requested. The proposed toll rates are the same as those generally effective in California and will be authorized.

A representative of certain rural customers pointed out that held orders amounted to one third in number of the total stations served by applicant in California. A witness for the applicant stated that to provide service to 54 applicants for service in Klarath and 35 in the Klamath Glenn area would cost \$30,000, that it was not economically good business for applicant to serve them at this time, that the existing line extension rules would not apply to such applicants for service and that it would not be fair to shoulder the expense for such installations in rugged mountainous territory upon subscribers in densely populated areas. The witness further stated that applicant company had not had time to find out how such service could be supplied. The order herein will require the applicant to make and file with the Commission a definite program for the supplying of service to all held order applicants within a reasonable period of time. Said program shall state the proposed date of service installation, shall enumerate the number of such applications for service that come within the presently filed line extension rule and shall propose possible variants of said rule to cover applications of those in mountainous areas such as the Klamath and Klamath Glenn areas, to the end that such service be afforded at a cost fair to both applicant company and such applicants for service.

Conclusion

After reviewing all of the evidence of record, the statement by subscribers' representatives and the public, and giving full weight to the service, operating and financial problems

of this utility, it is our conclusion that an order should be issued increasing the rates in accordance with the findings herein and ordering a change in operating practices in accordance with the recommendations made by the Commission's staff engineer.

O R D E R

West Coast Telephone Company of California having applied to this Commission for an order authorizing an increase in rates and charges, 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 herein authorized are justified and that present rates in so far as they differ from those herein prescribed for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that:

1. 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, revised rates, charges and conditions as set forth in Exhibits "C" and "D" attached to Application No. 33119, and, on not less than five (5) days' notice to the Commission and to the public, to make said rates effective for service furnished on and after August 10, 1952, excepting that rates, rules and conditions applicable to message toll telephone service shall be made effective on July 26, 1952.
2. Coincident with establishment of the new rates hereinabove authorized, applicant shall expand the base rate areas of the Crescent City, Orick, Klamath, and Smith River exchanges, the boundaries of which shall be as set forth on maps included in Exhibit No. 19 in this proceeding, and shall file with this Commission four (4) copies of a map of each said base rate area, delineating thereon the precise boundaries thereof.
3. On or before November 30, 1952 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 current forms that are normally used in connection with customer service.

- 4. 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.
- 5. On or before November 1, 1952 applicant shall file with the Commission a program for furnishing service to all held order applicants within a reasonable period of time as outlined in the foregoing opinion.

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

Dated at San Francisco, California, this 30th day of June, 1952.

[Signature]
President.

[Signature]

[Signature]

[Signature]

Commissioners.

Justus E. Craemer
Commissioner....., being necessarily absent, did not participate in the disposition of this proceeding.