

ORIGINAL

Decision No. 47506

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA WATER & TELEPHONE COMPANY)
to increase its rates and charges for)
telephone service.)

Application No. 33010
(Amended)

Appearances for Applicant: Claude S. Rosenberg of
Bacigalupi, Elkus & Salinger and McIntyre Faries.
Protestant: City of San Fernando by Neville E. Lewis.
Interested Parties: City of Los Angeles by Roger
Arnebergh, T. M. Chubb, T. V. Tarbet and H. M. Kauffman;
California Farm Bureau Federation by J. J. Deuel.
Other Appearances: Harold J. McCarthy, John Donovan
and C. G. Ferguson for the Commission's staff; Reche
Canyon Improvement Association by Judge Charles Haas.

INTERIM OPINION

California Water & Telephone Company, operating water and telephone systems at various locations in California, on December 21, 1951 filed its original application under the above number seeking to increase rates for coin-box service in its telephone division. On March 21, 1952 it filed the above-entitled application seeking increases in other classes of telephone service, in addition to the coin-box increase, to yield approximately \$278,000 total increase on an annual basis.

Public Hearings

Two days of public hearing were held on this application at Los Angeles before Commissioner Justus F. Craemer and Examiner M. W. Edwards on May 7 and 8, 1952, at which time the applicant presented 35 exhibits in support of its claim for increased rates. On June 23, 1952, a further hearing was held before Examiner Edwards at which time the company presented an additional exhibit and the

Commission's staff presented a summary of earnings for the recorded and pro forma 12-month periods ending April 30, 1951 and April 30, 1952. Near the close of the hearing on May 8, 1952 applicant's counsel moved that interim relief be granted pending the final determination of the matter. On June 23, 1952 counsel renewed the motion asking that the additional evidence presented on June 23, 1952 be considered in connection with its interim request.

Applicant's Position

Applicant's requested increase of \$278,000 is equivalent to an approximate increase of 7.4% on its 1951 revenues. It avers that this amount is necessary to offset increases in operating expenses in its telephone division which have resulted from wage, salary and tax increases that have occurred since February 11, 1951, when the existing rates became effective. The existing level of rates was set by this Commission in Decision No. 45257 dated January 16, 1951 under Application No. 28693. Increased wages and salaries were placed into effect on November 1, 1951 and June 1, 1952.

Between the time applicant filed its original application herein and the amendment thereto, further negotiations with the union representing the wage-earning employees were held. In consequence of these negotiations, an agreement was reached providing for additional wage increases to the telephone employees. The basis of settlement and wage increases were authorized by the Federal Wage Stabilization Board. The result of these wage increases which have occurred since our former decision, together with resultant increases in workmen's compensation insurance, public liability insurance, pension accruals, old age pensions, and unemployment insurance, aggregate a sum of approximately \$175,000 per year chargeable to operating expenses.

Because of these wage increases, together with an increase in the federal income tax rate from 47% to 52%, applicant maintains that there will be a serious decline in net income which will impair its credit standing and its ability to attract, on any favorable basis, the capital needed to finance new construction unless offset by increased revenues. The gross plant additions during the year 1952 for telephone plant expansion are estimated to be \$5,500,000.

Subscriber Representation

Subscribers or their representatives were present during each day of public hearing and statements in opposition to the proposed rate increase were presented. Counsel for the City of San Fernando opposed the company's proposed percentage increase in rates as not equitable and proper for San Fernando because the San Fernando division already has the highest rates of any division. He suggested that the San Fernando area may be carrying an unfair burden compared to other districts like Temecula and Twenty Nine Palms. Counsel also opposed an interim increase on the grounds that the company is earning at a rate in excess of 5% in the telephone division, and therefore there is no catastrophe being faced by the company, or no urgency.

A representative for the City of Los Angeles took the position that an interim increase should not be granted except in cases of immediate and imminent emergency. He also stated the position of the city on area versus state-wide as the basis of rate making and believes that relative earnings as between various dis-associated areas should be given consideration when establishing relative levels of rates.

On the third day of hearing a group of prospective subscribers living in Reche Canyon, 7 miles south of San Bernardino, appeared and described the difficulty and high cost of obtaining service from the applicant. The applicant's manager indicated the

company's willingness to relinquish this territory to The Pacific Telephone and Telegraph Company. The representative of the California Farm Bureau Federation offered to assist this group in obtaining service from the Pacific Company.

A business subscriber living near Banning objected to the service being received on a rural line and to the delay in obtaining new service.

The company's response to these objections was to introduce Exhibit No. 36 which showed that for the 12 months ending April 30, 1952 the rate of return in San Fernando was 0.29% less than for the total telephone division, and to reiterate the vital need for urgent relief in order to attract capital to build necessary plant to keep up with the rapid growth in San Fernando and other areas. The company's answer to the business subscriber living near Banning and receiving service on a 10-party suburban line was that he could secure a better service by subscribing to an individual or two-party line for which mileage charges apply in accordance with the regular tariff. ^{deletion} The manager testified that, while the company still has some 7,000 unfilled applications, it is fairly current in supplying new requests.

Evidence of Earnings ^{deletion}

The company's showing as to need for a rate increase was summarized in Exhibits Nos. 17 and 24. Exhibit No. 17 shows that after paying all expenses in 1951 it earned a rate of return of 6.12% on a depreciated rate base, but that with adjustments for current levels of prices, wages and taxes it could have earned only 5.28%. Exhibit No. 24 shows that for 1952 the estimated earnings at present rates and wage levels are equivalent to a 5.17% rate of return and that if the proposed rates were in effect for the entire year 1952 a 6.15% rate of return would be realized.

The study by the Commission's staff was based on two 12-month periods ending April 30, 1951 and April 30, 1952 and yielded rates of return after expenses and adjustment to current conditions slightly higher than shown by the company for the calendar year periods. The staff results as shown by Exhibit No. 37 are:

Summary of Earning Position - Telephone Department

Item	For 12 Months		For 12 Months	
	Ended April 30, 1951	Ended April 30, 1952	Ended April 30, 1951	Ended April 30, 1952
	Recorded	Pro Forma	Recorded	Pro Forma
Operating Revenues	\$3,189,645	\$3,414,645	\$3,990,351	\$4,024,851
Operating Expenses				
Maintenance & Operating	1,806,315	2,020,815	2,099,906	2,270,306
Taxes	501,905	564,700	768,862	723,400
Depreciation	315,427	340,719	401,095	419,595
Total Expenses	2,623,647	2,926,234	3,269,863	3,413,301
Net Revenue	565,998	488,411	720,488	611,550
Rate Base (Depreciated)	9,010,198	9,105,000	11,505,914	11,505,302
Rate of Return	6.28%	5.36%	6.26%	5.32%

In the above tabulation the pro forma results for both periods reflect: (1) a full year's operation at present rate levels, (2) wage levels as of June 1, 1952, (3) the present 52% rate for federal income tax, (4) full year effect of the full dial and automatic ticketing operation at Monrovia, (5) indirect labor expense items related to the wage adjustments, and (6) taxes which are based on gross revenue or net income revised to reflect preceding adjustments.

Conclusion on Earning Position of Applicant

Having given consideration to the evidence regarding revenues, expenses, and rate base put in evidence by the applicant and the Commission staff, it is our conclusion that the telephone operations of this utility are not currently earning a rate of return as great as the 6% authorized on January 16, 1951 by Decision No. 45257. For the purpose of determining the

increase in gross revenues necessary to permit applicant to earn a 6% rate of return on its telephone operations we will adopt and use the staff's pro forma showing for the 12 months ended April, 1952; a net revenue of \$611,550, a depreciated rate base of \$11,505,302, and a rate of return of 5.32%. After allowing for the effect of income taxes and other expenses which vary with revenue, a gross increase in annual revenue of approximately \$172,000 appears warranted at this time on an interim basis.

Authorized Rates

The applicant has proposed to increase the present low level rate of 5 cents for local calls placed from coin boxes to 10 cents. In all but the Palm Springs exchange the rate can be made effective on or before August 15, 1952, as indicated in Exhibit No. 16. The effective date for Palm Springs is shown as December 15, 1952. This increase in coin-box rate, which has been authorized to be made effective on other telephone systems in California, appears reasonable and will be authorized by the order herein.

In addition, the applicant seeks increases in all basic residence and business rates ranging from \$0.30 to \$1 per month. The basic exchange rates authorized herein include increases ranging from \$0.20 to \$0.60 as follows:

	Increase in Rate per Month	
	<u>All Exchanges except Mt. Wilson</u>	
	<u>Residence</u>	<u>Business</u>
Individual line flat rate	\$0.30	\$0.60
2-party line flat rate	.25	.45
4-party line flat rate	.20	.30
Suburban line flat rate	.20	.30

Increases also will be authorized in rates for PBX trunks and in the monthly rates and the daily guarantee for semipublic service.

The over-all increase of \$172,000 annually is equivalent to an increase percentagewise of 6.8% of the exchange revenues of the applicant for the 12 months ended April 30, 1952.

Conclusion

After reviewing all of the evidence of record, including the statements by subscribers and their representatives, and giving full weight to the service, operating and financial problems of this utility, it is our conclusion that an order should be issued authorizing increases in rates as set forth in Exhibit A herein. In light of the fact that the telephone operations of this utility need a rate of return of approximately 6% to meet its obligations, add new plant and facilities, attract capital, and provide reasonable amount for surplus and that such level of return is not at variance with the rate which the Commission has heretofore held as reasonable for this utility, and that the staff's showing herein demonstrates that this utility is earning only 5.32% under current conditions and that such decreased earnings necessarily will have an effect upon the utility's ability to finance new telephone construction, we find that there now exists a condition of emergency which should be redressed by the grant of interim relief to the extent of \$172,000 on an annual basis. This interim allowance is less than the \$175,000 increase in wages and related items since our last decision.

All motions inconsistent with this order are denied without prejudice. The next hearing in this matter is set upon the Commission's calendar for September 3, 1952 at 2 p.m. in the Commission's Courtroom, Mirror Building, Second and Spring Streets, Los Angeles, California.

INTERIM ORDER

California Water & Telephone Company having applied to this Commission for an order authorizing an increase in rates and charges for telephone service, and for a grant of interim relief pending final determination of the proceeding, public hearing having been held and

EXHIBIT A
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RATES

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

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

Each Primary Station:	Residence Service			Business Service		
	Individual Line	Two-Party Line	Four-Party Line	Individual Line	Two-Party Line	Four-Party Line
Local Service						
Banning-Beaumont	\$4.05	\$ -	\$2.95	\$6.35	\$5.20	\$4.80
Desert Hot Springs	4.30	-	3.20	6.85	5.45	-
Elsinore	4.05	-	2.95	6.35	5.20	4.80
Hemet-San Jacinto	4.05	-	2.95	6.35	5.20	4.80
Idyllwild	4.30	-	3.20	6.85	5.45	-
Joshua Tree	4.30	-	3.20	6.85	5.45	-
Moreno	3.80	-	2.70	5.85	4.70	-
Murrieta	3.80	-	2.70	5.85	4.70	4.30
Palm Springs	4.55	3.75	3.20	8.10	6.45	6.05
Perris	4.05	-	2.95	6.35	5.20	4.80
Redlands	4.30	3.50*	2.95	7.60	6.20	5.80*
Temecula	3.80	-	2.70	5.85	4.70	4.30
Twenty Nine Palms	4.30	-	3.20	6.85	5.45	5.05
Extended Service						
Monrovia	4.55	3.75	3.20	9.85	7.45	-
Mount Wilson	8.00	-	-	15.00	-	-
San Fernando	4.55	3.75	3.20	9.85	7.45	-
Sierra Madre	4.55	3.75	3.20	9.85	7.45	-

* Two-party residence and four-party business service not offered in Loma Linda base rate area.

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

Each Primary Station:	Rate per Month	Min. Charge per Day
Local Service		
Banning-Beaumont	\$1.35	\$0.21
Desert Hot Springs	1.35	.20
Elsinore	1.35	.21
Hemet-San Jacinto	1.35	.21
Idyllwild	1.35	.20
Joshua Tree	1.35	.20
Moreno	1.35	.20
Murrieta	1.35	.20
Palm Springs	1.35	.24
Perris	1.35	.21
Redlands	1.35	.24
Temecula	1.35	.20
Twenty Nine Palms	1.35	.20
Extended Service		
Monrovia	1.85	.24
Mount Wilson	1.85	.24
San Fernando	1.85	.24
Sierra Madre	1.85	.24

Message rate:

Each exchange message 10 cents.

EXHIBIT A
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RATES (Continued)

Schedule No. A-5, Suburban Service

Each Primary Station:	Rate per Month	
	<u>Residence Service</u>	<u>Business Service</u>
Local Service		
Banning-Beaumont	\$3.45	\$4.55
Desert Hot Springs	3.45	4.80
Elsinore	3.45	4.55
Hemet-San Jacinto	3.45	4.55
Idyllwild	3.45	4.80
Joshua Tree	3.45	4.80
Moreno	3.20	4.30
Murrieta	3.20	4.30
Palm Springs	3.70	5.05
Perris	3.45	4.55
Redlands	3.45	4.80
Temecula	3.20	4.30
Twenty Nine Palms	3.45	4.80
Extended Service		
Monrovia	3.70	5.55
San Fernando	3.70	5.55

Schedule No. A-7, Private Branch Exchange ServiceTrunk Rate Service:

Each flat rate trunk line: 150% of the business individual line primary station flat rate rounded to the lower 25-cent multiple.

Schedule No. A-8, Dial Private Branch Exchange ServiceTrunk Rate Service:

Each residence flat rate trunk line: 150% of the residence individual line primary station flat rate rounded to the lower 25-cent multiple.

Each business flat rate trunk line: 150% of the business individual line primary station flat rate rounded to the lower 25-cent multiple.

Schedule No. A-13, Public Pay Station Service

Each exchange message \$0.10.

Schedule No. A-17, Foreign Exchange Service

Primary rates for foreign exchange services are adjusted to the extent required by the changes in the basic individual line, party line, and PBX trunk rates.

argument having been heard on the motion for interim increase, 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 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 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 tariffs containing changes in rates as set forth 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 August 21, 1952, or on such subsequent dates as proposed by applicant in its Exhibit No. 16.

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

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

[Signature]
Resident
Justice J. Casper
Harold Hale
[Signature]

Commissioners.

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