

ORIGINAL

Decision No. 47831

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA WATER & TELEPHONE COMPANY) Application No. 33010
to increase its rates and charges) (Amended)
for telephone service.)

Appearances and list of witnesses
are set forth in Attachment 1.

O P I N I O N

California Water & Telephone Company, operating water and telephone systems at various locations in California and with principal executive offices in San Francisco, filed the above-entitled amendment to application on March 21, 1952, for authority to increase its telephone rates. The Commission staff estimates that the proposed rates would yield additional revenue of approximately \$286,000 on an annual basis. Applicant's proposed rates are set forth in Exhibit "A-S" attached to the amendment to the application.

Original Application

Applicant's original application was filed December 21, 1951, requesting authority to increase only coin-box rates from 5 cents to 10 cents. It estimated that the proposed coin-box rates would yield an increase in gross revenue of \$33,845 on an annual basis. However, before public hearings were scheduled on the original application as the result of an increase in wage rates paid employees and an increase in federal income tax rates, the applicant, in addition, found it necessary to request increases in rates for other classes of service.

Interim Order

On June 23, 1952, following the first three days of public hearing on this application, a motion by applicant's counsel requesting interim relief was taken under submission. On July 22, 1952, pending completion of the proceeding, the Commission issued Decision No. 47506 in this proceeding which authorized telephone rate increases in the amount of \$172,000 on an annual basis when related to the level of business for the 12 months ending April 30, 1952.

This opinion and order will make final disposition of the application. It is not deemed necessary to review all of the evidence covered in the interim order. Copies thereof were served on all parties of record in this proceeding.

Public Hearings

A total of five days of public hearings were held on this application at Los Angeles before Commissioner Justus F. Craemer and Examiner M. W. Edwards during the period May 7, 1952, to September 4, 1952. During the first part of this period the Commission staff and other parties analyzed the company's applications and other evidence and cross-examined the company's witnesses. Statements by public witnesses and their representatives covering the positions of interested parties and protestants were introduced into the record prior to the interim increase. Since the order granting that increase was issued, the staff's study and analysis of applicant's operations was received in evidence as Exhibits Nos. 38, 38-A, 39, and 39-A. The record encompasses 41 exhibits and over 500 pages of transcript.

Applicant's Operations

California Water & Telephone Company is engaged in the business of furnishing public utility water service in three widely separated geographical service divisions in California; namely,

Monterey Peninsula Division, San Gabriel Valley Division, and San Diego Bay Division, and in furnishing telephone service in portions of Los Angeles, Riverside, San Bernardino and San Diego Counties.

Due to the widespread geographical locations of the various service areas the company maintains a general office in San Francisco. Each division operates as a separate entity under local managership. As a matter of operating economy and expediency the company's metering and billing operations are centralized in each division. The local office for the telephone division is ✓ located in the City of Monrovia, California.

Certain general management and control functions for each division are performed by the personnel in the San Francisco office. The San Francisco office is also the general office for several affiliated corporations or corporations which are controlled, or substantially controlled, through stock ownership by the same interests. The expenses incurred at the main office are charged to divisions in part on the basis of work directly performed for any one division, and on the basis of relative gross revenue from each division for company work not assignable specifically to any one division.

Brief History

The California Water & Telephone Company originally was known as The Sweetwater Water Corporation until 1935, The Sweetwater Water Corporation having been incorporated under the laws of the State of California on December 27, 1926. Following the change in name in 1935 additional water systems and the telephone system were added. Presently the original water properties are known as the Sweetwater District of the San Diego Bay Division. Property additions since 1935 to a large extent merely modify the service areas of the basic divisions.

At the time of the acquisition of the telephone properties in southern California in 1935 a total of approximately 10,000 stations were acquired. Growth in the area has been rapid since the time of acquisition. By May 31, 1952, the number of stations served had grown to 57,413.

Growth has been particularly rapid since the end of World War II in 1945. The applicant has experienced difficulty in obtaining equipment in order to keep up with the demand for new telephone service. On May 31, 1952, the company had 6,845 applications awaiting new service.

The telephone properties now provide service to an area of approximately 2,400 square miles. The population of this area is estimated to be approximately 175,000. Telephone service is presently rendered through 17 exchanges. The San Fernando exchange is the largest in number of stations in the system. There are presently employed in the telephone system 700 employees, with a 1951 pay roll of \$1,923,000.

Postwar Increases

During the postwar period of inflation in prices and wages since the end of World War II in 1945, applicant has been granted three increases in telephone rates. The first increase was an interim increase of \$105,000 authorized by Decision No. 40971 in Application No. 28693, dated November 25, 1947. A final increase of \$247,000 was authorized in that proceeding by Decision No. 45257, dated January 16, 1951. In the latter decision the Commission found a rate of return of 6.0% as fair and reasonable under 1951 conditions. The third postwar increase was the interim increase of \$172,000 authorized by Decision No. 47506, dated July 22, 1952, under the instant application.

Position of Applicant

The applicant seeks an approximate 7.4% increase in its telephone operating revenue, based on the year 1951. It proposes rates which it estimates would result in a rate of return of approximately 6½% after all expenses in its telephone division based on the level of business for 1951. Such a rate of return is 1/2% greater than allowed early in 1951 by the Commission in Decision No. 45257. Applicant contends this increase in rate of return is necessary under present-day economic conditions in order to attract capital investment and to finance an extensive program of construction.

Applicant alleges that because of the current inflationary trend in wages and prices of common materials it would have failed to earn a rate of return of 6.0% in 1951 if the present levels of wages and taxes were reflected for the full year.

Nature of Evidence

Evidence was offered by applicant, members of the Commission staff, and certain protestants. In addition, representatives of certain of the protestants and interested parties as set forth in the list of appearances made oral statements and cross-examined the witnesses.

The exhibits as presented by the company and the staff covered subjects such as balance sheets, operating statements, construction program, deferred applications, increases in operating expenses, depreciation, taxes, net revenue, cost of new capital, and results of operations.

The protests made by certain subscribers and prospective subscribers were given consideration in the interim order. A further protest was again heard on September 3, 1952, for a request for extension of service to a group of customers located some 17 miles south of Hemet. The applicant had

✓ ✓ delayed construction of this project because it would cost approximately \$1,000 per subscriber to provide the facilities and, based on the prospective revenue this business would, in the applicant's opinion, burden the other ratepayers unless a substantial contribution toward the capital cost was advanced by the prospective subscribers. The applicant's general manager promised to investigate this matter further and try to develop a satisfactory plan for providing service to this group of customers.

For the purpose of determining whether or not the applicant is entitled to a permanent increase in rates, the Commission, among other things, considers the relationship of the revenues over some reasonable future period, such as the next 12 to 18 months, to the probable over-all cost of rendering the utility service. The costs considered 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 a reasonable return for use of capital necessary to provide plant facilities for the public service.

The applicant's Exhibit No. 11 shows that its rate of return after payment of the expenses above enumerated was 5.89% in 1950 and 6.12% in 1951. Its Exhibit No. 17 shows that after adjustment for current wage and tax levels the 1951 return would have been 5.28%. The Commission staff, in Exhibit No. 39, made similar computations for the years 1950, 1951, and 1951 adjusted and showed rates of return of 6.09%, 6.25% and 5.76%, respectively.

Evidence of Future Earnings

Both the applicant and the Commission staff presented estimates of earnings of applicant's telephone division for the entire year 1952. The estimates which are summarized below, were

prepared on the basis of present permanent rates (pre-interim) and proposed rates as set forth in Exhibit "A-S" of the application.

Estimated Earnings in 1952

Item	: Applicant Exhibit No. 24 :		: Staff Exhibit No. 39 :	
	: Pres. Rates :	: Prop. Rates :	: Pres. Rates :	: Prop. Rates :
Operating Revenue	\$ 4,400,120	\$ 4,690,740	\$ 4,474,900	\$ 4,760,900
Operating Exp.				
Oper. & Maint.	2,447,160	2,447,160	2,410,300	2,412,600
Taxes	766,860	923,560	841,800	995,500
Depreciation	477,650	477,650	479,300	481,800
Subtotal Exp.	3,691,670	3,848,370	3,731,400	3,889,900
Net Revenue	708,450	842,370	743,500	871,000
Rate Base (Depr.)	13,698,700	13,698,700	13,380,000	13,434,000
Rate of Return	5.17%	6.15%	5.56%	6.48%

The applicant took particular exception to two items in the staff's study: (1) the allowance for regulatory Commission expenses, and (2) the level of materials and supplies included in the rate base. The staff witness proceeded on the assumption that there would be about two rate cases every five years and estimated that an amount of \$5,000 per year would amortize this irregular expense item. In addition he estimated the regular annual expense under this account of \$5,000; thus a total of \$10,000 was assumed by the staff. Applicant's counsel pointed out that in the past five years the telephone division has been engaged in three rate cases and that the cost is higher than estimated by the staff. Cross-examination of the staff witness brought out that the total regulatory Commission expense was about \$26,000 for a 5-year period after adjustments for reclassification of certain charges. The company counsel contended that the staff rounded this amount to \$25,000 and contended it would be more realistic if rounded out to \$30,000 resulting in a 5-year average of \$6,000. Based on recent trends the staff's estimate appears to be low for this account; an additional \$1,000 will be allowed for this item.

With regard to materials and supplies, the staff estimated that this item would be \$646,000 for the year 1952 on a weighted average basis, reflecting the book amounts for the first six months and an estimate for the remainder of the year. The applicant had estimated the materials and supplies account at \$798,940, claiming that due to strikes there was delay in obtaining materials during the first six months of 1952 which caused unusually heavy withdrawal of certain materials and supplies from its normal stock on hand. The use of recorded monthly figures for the first six months of 1952 would result in a below normal estimate for this item in counsel's opinion. Counsel's position appears to have merit and for the purposes of this order equal weight will be given to the staff's and applicant's estimates. A revised figure for materials and supplies of \$722,500 will be allowed which will increase the staff's rate base to \$13,510,500 for the year 1952. The staff's rate base after adjustment is 1.4% below applicant's.

The staff's revenue estimate under the proposed rates is approximately 1.5% higher than the applicant's estimate, mainly due to the assumption of a slightly greater new station growth rate. Applicant's counsel stated that the staff's estimate of new station growth appeared to be high and that the company's estimate was very close to the actual number of stations up to June, 1952. The differences between the revenue and rate base estimates are not excessive and are within acceptable accuracy limits for engineering estimates.

General Expense Allocation

Counsel for the City of San Fernando was concerned over the prorata assignment of a portion of the general expense of the San Francisco office to the telephone division and in turn to the San Fernando exchange. The staff witness testified that the company had spread the general expenses not assignable to any specific operation over the various divisions on a gross revenue basis and

after making a test assignment on the basis usually employed by the staff involving several factors such as capital, number of customers, and pay rolls in addition to revenues, he had come to the conclusion that the company's method appears reasonable.

Question as to the reasonableness of the level of the general expenses involving 22 employees in the San Francisco office was placed before the staff and company witnesses. Testimony showed that over one-half of these employees were in the executive class, such as vice presidents and assistants handling important financial and engineering work for the company. In light of the nature of the work being performed by the San Francisco office the general expense assignment to divisions does not appear to be excessive.

As an aid in determining the reasonableness of general, as well as other expenses, the staff prepared Exhibit No. 41 showing the trend of unit expenses per station for the years 1950, 1951 and 1952, which may be summarized as follows:

Trend per Company Station

Item	Yr. 1950 Recorded	Year 1951		Est. Year 1952	
		Recorded	Adjusted	Present Rates	Proposed Rates
Maintenance Expense	\$ 11.41	\$ 12.68	\$ 13.49	\$ 13.93	\$ 13.93
Traffic Expense	13.17	10.87	11.80	11.14	11.14
Commercial Expense	7.63	7.01	7.82	7.18	7.22
Gen. & Other Expense	8.72	8.78	9.29	8.69	8.69
Subtotal	40.94	39.33	42.40	40.94	40.98
Taxes	9.68	14.08	13.96	14.29	16.91
Depreciation Expense	6.76	7.40	7.70	8.14	8.18
Total Expense	57.38	60.81	64.06	63.37	66.07
Depreciated Rate Base	188.60	212.69	210.18	227.25	228.17
Number of Stations	42,850	50,610	50,610	58,900	58,900

A review of the above figures shows that the utility has been able reasonably to control all expenses except depreciation and taxes which are a result of the current period of inflation.

and income tax increases all beyond the utility's control. We find no evidence of unreasonable charges as a result of this study.

As a further aid to the control of expenses the applicant will be required to adopt the "remaining life" method of determining depreciation expenses. The staff used this method and while the staff's allowance for depreciation is slightly higher than the company's allowance, due to certain early retirements, it is expected that as the average age of the property increases a future saving to the ratepayer may be effected by remaining life depreciation.

Conclusion on Earnings

After giving consideration to both estimates of operating results for the year 1952 and to the contentions of applicant, it is concluded that the staff's estimates of revenue, expenses and rate base, adjusted as hereinabove outlined, are reasonable amounts for measuring the earning power of this division of the utility under average conditions.

For the year 1952 we adopt a depreciated rate base of \$13,510,500 and find that applicant's proposed rates would result in a net revenue of \$870,500, if the same were effective for the full year, and would yield a rate of return of 6.4%.

Trend of Rate of Return

The staff's study, Exhibit No. 39, shows that there is a decline of 0.2% in rate of return between the year 1951 and 1952 when wage rates and tax rates are placed on a comparable basis for the two periods. Applicant claims that such declining trend of rate of return is due to adding new stations at unit costs above system average. It contends that the Commission should allow for this declining trend in determining a reasonable rate of return for this division of the utility to enable the division to earn the return found fair for a reasonable period of time in the future.

Interim Rate of Return

The staff's study, Exhibit No. 39-A, shows that the interim level of rates, if effective for the full year 1952, would have resulted in a rate of return of 6.14%. Counsel for the City of Los Angeles did not differ with the staff's conclusion that the interim rates would produce a 6.14% rate of return. He stated that twice in the past two years the Commission has found 6.0% as reasonable for the operations of this utility and opposed rates at a level any higher than the interim rates.

Future Rate of Return

Counsel for applicant requested a rate of return higher than 6.0% for the future because of the fact that the cost of money has increased since the Commission set a 6.0% rate of return in 1951. Counsel asks that the Commission consider a rate of return which will provide a cushion to offset some of the inevitable expanding trends of expenses and thus spare the utility's customers the cost of repeated rate cases. He also stated that a portion of the revenue is derived from desert resort areas where revenues are less stable from year to year.

Counsel for the California Farm Bureau Federation was opposed to a permanent rate of return in excess of 6.0%; however, he wanted to be sure that the rates will produce the 6.0% for one to two years in the future so that the company could attract the capital necessary to give service to the new customers in the rural areas. In his opinion the company has fallen behind in

taking care of the people in the area where it has a franchise to serve. He stated he would not protest the proposed rates if the Commission found them necessary to maintain the company's earnings for the next year or two.

Conclusion on Rate of Return

Upon careful consideration of the evidence of record and statements by the various counsel, we find that a net revenue equivalent to 6.4% on a depreciated rate base of \$13,510,500 predicated on the estimated level of business for 1952 is sufficient to allow applicant's telephone division a rate of return for the future of at least 6.1% on a depreciated rate base, which rate of return we hereby find to be fair and reasonable. Therefore, we find that applicant's proposed rates are fully justified. Such finding requires a relatively smaller increase in addition to that granted by the interim order inasmuch as the interim order provided for over 60% of applicant's requested increase. Consequently an increase of \$100,000 in addition to the interim increase of \$186,000 when expanded to the 1952 level of business is being authorized.

Authorized Rates

Counsel for San Fernando objected to a flat percentage increase in all rates because the San Fernando exchange, being the largest exchange, now has the highest rates on the system. Such a flat percentage increase would result in a higher per station increase in dollars and cents compared to rates in other exchanges. While applicant's proposed rates do result in increases in dollar and cent amounts for San Fernando exchange greater than in smaller exchanges, such spread is justified by Exhibit No. 36 which shows that the rate of return is lower in the San Fernando area than for the telephone division as a whole.

Increases in basic rates for exchange service above the interim levels ranging up to 20 cents per month for residence service and up to 40 cents per month for business service will be authorized by the order herein. Increases also will be authorized in rates for PBX trunks and in the monthly rate and the daily guarantee for semipublic service. A comparison of pre-interim, interim, and authorized basic rates for business individual line service and for residence four-party line service in the several exchanges is as follows:

Exchange	Bus. Individ. Line Service			Res. 4-party Line Serv.		
	Pre-interim	In-terim#	Co. Prop. & Author-ized	Pre-interim	In-terim#	Co. Prop. & Author-ized
Banning-Beaumont	\$5.75	\$6.35	\$6.40	\$2.75	\$2.95	\$3.05
Desert Hot Springs	6.25	6.85	6.95	3.00	3.20	3.35
Elsinore	5.75	6.35	6.40	2.75	2.95	3.05
Hemet-San Jacinto	5.75	6.35	6.40	2.75	2.95	3.05
Idyllwild	6.25	6.85	6.95	3.00	3.20	3.35
Joshua Tree	6.25	6.85	6.95	3.00	3.20	3.35
Moreno	5.25	5.85	5.85	2.50	2.70	2.80
Murrieta	5.25	5.85	5.85	2.50	2.70	2.80
Palm Springs	7.50	8.10	8.35	3.00	3.20	3.35
Perris	5.75	6.35	6.40	2.75	2.95	3.05
Redlands	7.00	7.60	7.80	2.75	2.95	3.05
Temecula	5.25	5.85	5.85	2.50	2.70	2.80
Twentynine Palms	6.25	6.85	6.95	3.00	3.20	3.35

Extended Service

Monrovia	9.25	9.85	10.25	3.00	3.20	3.35
Mount Wilson	15.00	15.00	15.00	*	*	*
San Fernando	9.25	9.85	10.25	3.00	3.20	3.35
Sierra Madre	9.25	9.85	10.25	3.00	3.20	3.35

Authorized by Decision No. 47506 dated July 22, 1952.
 * Service not offered.

Conclusion

Based on a careful consideration of the record in this proceeding, it is our conclusion that an order should be issued authorizing final increases in rates as proposed in Exhibit "A-S" attached to amendment to the application. The total annual revenue

increase authorized in this proceeding, including the interim increase, is estimated at \$286,000 based on the level of business for the year 1952.

All motions inconsistent with the findings and order herein are denied.

O R D E R

California Water & Telephone Company having applied to this Commission for an order authorizing an increase in rates and charges for telephone service, 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 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 and charges as set forth in Exhibit "A-S" attached to the amendment to the application 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 November 11, 1952, or on such subsequent date as proposed by applicant in its Exhibit No. 16.

IT IS HEREBY FURTHER ORDERED 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 the reviews shall be submitted annually to the Commission.

IT IS HEREBY FURTHER ORDERED that applicant shall prepare a report within one hundred twenty (120) days after the effective date of this order with regard to furnishing service to the complainants in Reche Canyon and south of Hemet and submit ten (10) copies to the Commission.

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

Dated at San Francisco, California, this
14th day of October, 1952.

R. J. [Signature]
President
Justin J. [Signature]
Harold A. [Signature]
[Signature]
[Signature]
Commissioners.

ATTACHMENT 1

LIST OF APPEARANCES

For Applicant: Claude S. Rosenberg of Bacigalupi, Elkus & Salinger and McIntyre Faries.

Protestants: City of San Fernando, by Neville E. Lewis; Phillip B. Cross
✓ (prospective customer) by Joseph H. Cummins.

Interested Parties: City of Los Angeles, by Roger Arnebergh, T. M. Chubb,
A. G. Campbell, T. V. Tarbot 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 staff; Recho Canyon Improvement Association, by
✓ Judge Charles Haas, Mrs. Gladys Nehr, Mrs. Marie A. Manton and
✓ Mr. C. A. Cannaro.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by: P. E. Nenzel (balance sheets, income statements, construction program, deferred applications, plant additions, fixed capital, results of operation), A. L. Burke (earnings per share, capitalization ratios, margin of safety, cost of new capital).

Evidence was presented on behalf of the Commission staff by: J. J. Doran (summary of earnings), Stewart Weber (taxes, summary of earnings, working cash capital), D. B. Stoger (history, present operations and general expenses), J. B. Balcomb (operating revenues, maintenance expenses, traffic expenses, commercial expenses, station classification and rates), G. B. Weck (fixed capital and rate base, depreciation reserve and expenses), C. W. Drake fixed capital and rate base), J. F. Donovan (balance sheet, income statements and clearing accounts).

Evidence was presented on behalf of other parties by: Judge Charles E. Haas, Marie A. Manton, C. A. Cannaro, Gladys Nehr, and J. H. Cummins.