

ORIGINAL

Decision No. 46230

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
INTERSTATE TELEGRAPH COMPANY, a) Application No. 33229
corporation, for authority to increase) (Amended)
certain rates and charges for service.)

A list of appearances and witnesses is appended hereto as Attachment 1.

O P I N I O N

Interstate Telegraph Company, operating a public utility telephone and telegraph system in the counties of Alpine, Mono, Inyo, Kern and San Bernardino, State of California, and in the counties of Douglas, Lyon and Esmeralda, State of Nevada, filed the above-entitled application on March 19, 1952, requesting an increase in telephone rates of \$161,100 annually based on the 1952 level of business. An amended application requesting a greater increase was filed August 6, 1952.

Amended Application

The amended application requests an increase in telephone and teletypewriter service rates of \$193,900 annually based on the 1952 level of business. Applicant's proposed rate schedules are set forth in Exhibit E attached to the amended application; however toll service rates were further amended by Exhibit No. 6. Public hearings were held on the amended application on August 27, 1952 at Barstow, on August 28, 1952 at Bishop and on December 17, 1952 at Los Angeles before Commissioner Peter E. Mitchell and Examiner M. W. Edwards. The matter was submitted for decision

at the close of the hearing on December 17, 1952, subject to late filing of an exhibit regarding a revision in the proposed toll rates.

Applicant's Operations

Applicant, a wholly owned subsidiary of California Electric Power Company with its primary executive office in Riverside, serves in a mountain and desert area in California extending from the southeastern side of Lake Tahoe in a southerly direction to the Big Bear Lake area, a distance of over 300 miles. The operating headquarters are located in Bishop, California, near the center of the service area. As of June 30, 1952 applicant had 17 exchanges in California and was serving a total of 8,498 stations in California. As of December 31, 1951, approximately 93% of applicant's telephone plant was located in California and approximately 94% of its total operating revenues during the year 1951 was obtained from California operations.

Position of Applicant

Applicant's position is that the rates and charges now effective on its California system did not for the year ended December 31, 1951, and will not for the year 1952 or in the immediate or foreseeable future, yield sufficient revenue to provide a fair return on the original cost, less depreciation of its properties used and useful in the public service. Applicant states that such rates did not and will not yield sufficient earnings to cover the full cost of operation and maintenance, depreciation, taxes and a return on its investment sufficient to maintain its financial credit and to attract the capital necessary for extensions, additions and betterments required by the public service. The present level of rates was

authorized by Decision No. 44678, Application No. 31247, dated August 22, 1950, of this Commission and were estimated to produce a rate of return of approximately 6.0%. Applicant claims that such rates were in effect for the entire year 1951 and that its gross revenues materially increased during said year, yet by reason of increased wages, taxes, cost of materials and other increased expenses, and increased investment in its total California plant, its return was only 5.06%.

Applicant has been confronted with a greatly increased and abnormal demand for additional and improved telephone service since the end of World War II. In its service area several large military establishments, most of which were constructed during World War II, have been reactivated and increased in size and importance. A new special military establishment has been located in its service area. During 1951 applicant increased its total California telephone plant investment by \$1,222,655 to provide additional and improved service. During 1952 applicant planned to expend \$874,600. The public demand for additional and improved telephone service is expected to continue and applicant states that it must be met and provided for by additional telephone plant and betterments at the increased labor and material costs now prevailing. Currently, applicant is faced with a union request for a wage increase of 32½ cents per hour for all employees, none of which is reflected in its estimates of expenses and rate of return proceeding.

Nature of Evidence

Evidence was offered by applicant, by members of the Commission's staff, and by certain customers or prospective customers. In addition, statements were made by representatives of certain of the interested parties and the protestant.

On August 27, 1952 two prospective customers from the Newberry area, 20 miles east of Barstow, requested that telephone service be made available by the applicant. By December 17, 1952 a plan had been worked out as a result of the Commission's previous order under Decision No. 44678 and the cooperation of the California Farm Bureau, our staff and the applicant's general manager, to obtain service by means of the establishment of a new exchange and base rate area at Newberry, subject to an application to be filed in 90 to 120 days with the Commission.

One customer protested applicant's proposal to raise the rate on a suburban line serving 10 parties and another protested any rate increase on a toll line. Both of these protests involve the economics and problems of rendering telephone service in sparsely settled territory and were carefully considered before authorizing revised rate levels for these classes of service.

As to the nature of the evidence on earnings, by Exhibit No. 1 in this proceeding the applicant showed rates of return after expenses, depreciation and taxes for the year 1951 of 5.06%, and for the year 1952 (estimated) at present rate levels of 4.71% and at its proposed rate levels of 6.21%. The earnings study presented by the staff, Exhibit No. 7, showed a slightly higher rate of return for 1951 of 5.08%. The staff did not estimate the 1952 earnings but instead analyzed the earnings for the 12-month period ended June 30, 1952, and after certain adjustments found a return of 4.71% under present rates and 6.18% under proposed rates.

Earnings Summary

More detailed comparisons of the earnings as determined by the applicant and the staff are summarized below:

Item	Applicant's Exhibit No. 1		Staff Exhibit No. 7	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues				
Local Service	\$ 475,300	\$ 559,200	\$ 449,500	\$ 529,200
Toll Service	1,187,400	1,298,800	1,125,600	1,223,200
Miscellaneous	40,600	40,600	37,800	37,800
Uncollectible-Debit	(12,500)	(13,900)	(9,700)	(10,700)
Total Revenues	1,690,800	1,884,700	1,603,200	1,779,500
Operating Expenses				
Maintenance	349,300	349,300	317,500	317,500
Traffic	228,900	228,900	228,100	228,100
Commercial	129,800	129,800	121,800	121,800
General and Other				
Operating Expenses	177,900	177,900	168,900	168,900
Taxes	325,600	430,200	316,600	411,600
Depreciation	196,300	196,300	180,700	180,700
Adj. to 9-30-52 Wage Levels	-	-	10,300	10,300
Total Expenses	1,407,800	1,512,400	1,343,900	1,438,900
Net Revenue	283,000	372,300	259,300	340,600
Depreciated Rate Base	6,000,000	6,000,000	5,508,000	5,508,000
Rate of Return	4.71%	6.21%	4.71%	6.18%

(Red Figure)

The staff study, Exhibit No. 7, showed a declining trend in rate of return between the year ended June 30, 1951 and June 30, 1952 of 0.18% under comparable levels of rates, wages, taxes, and expenses for the two periods. Assuming that such decline in rate of return will continue in the future, it appears reasonable to conclude that the full year earnings for 1953 at the proposed rates will fall to a rate of return slightly below 6%. In view of the fact that the rate of return for the immediate future probably will be at a lower level than the 6.0% previously authorized

by Decision No. 44678 for the applicant's operations, it is apparent that applicant's requested rate increase is fully justified at this time from an earnings standpoint.

Authorized Rates

The increases in rates which the applicant proposes are set forth in detail in Exhibit E, attached to the amended application, as amended by Exhibit No. 6. Increases are proposed in basic rates for business and residence individual line and party line service, as well as in rates for other exchange services, private line services and toll telephone services.

The rates requested by the applicant for the principal classes and grades of exchange service are authorized in the following order. In addition to a uniform percentage increase of 17.5% in all exchange service rates rounded to the nearest 5 cents the applicant requests an additional increase of 50 cents in multi-office business individual line rates and 25 cents in multi-office business two- and four-party line rates. The following

tabulation shows a comparison of present and authorized rates for the basic exchange service classifications:

Item	Rate per Month - Each Primary Station:			
	Residence Service		Business Service	
	Present	Authorized	Present	Authorized
<u>Group A</u>				
One-party	\$3.75	\$4.40	\$5.75	\$6.75
Two-party	3.25	3.80	4.75	5.60
Four-party	2.50	2.95	4.00	4.70
Suburban (Zone 1)	2.50	2.95	4.00	4.70
Semipublic:				
Daily Guarantee			.21	.25
<u>Group B</u>				
One-party	4.75	5.60	7.00	8.25
Two-party	4.25	5.00	6.00	7.05
Four-party	3.50	4.10	5.25	6.15
Suburban (Zone 1)	3.50	4.10	5.00	5.85
Semipublic:				
Daily Guarantee			.24	.28
<u>Group C</u>				
One-party	4.75	5.60	7.00	8.75
Two-party	4.25	5.00	6.00	7.30
Four-party	3.50	4.10	5.25	6.40
Suburban (Zone 1)	3.50	4.10	5.00	6.10
Semipublic:				
Daily Guarantee			.24	.28

Group A - Alpine, Big Pine, Boron, Bridgeport, Coleville, Independence, Leevining, Lone Pine, Pine Creek, Randsburg, and Running Springs exchanges.

Group B - Barstow, Big Bear Lake, Bishop, and Trona exchanges.

Group C - Inyokern and Victorville exchanges.

The order herein will require the applicant to enlarge the base rate areas at Barstow, Ridgecrest, and at Victorville to include therein the more developed territory and to submit a recommendation for realignment of the Big Bear Lake base rate area. These base rate area enlargements will result in estimated annual reductions in applicant's revenues of \$1,200.

The rates authorized in the following order for exchange and private line services are estimated to produce approximately \$80,500 and \$26,300, respectively, of additional annual revenue at the 1952 level of business.

A new toll schedule, (Exhibit No. 6), applicable to calls from any point in applicant's territory to any other point in California, is authorized in the following order. This schedule will replace applicant's present rates applicable to toll service, including the terminal charge, and is estimated to produce approximately \$87,000 of additional revenue per year, based on the 1952 level of business.

The new schedule is higher than the present Pacific Company intrastate toll schedule, by 5 cents to 20 cents on station messages and 5 cents to 30 cents on person messages, but is lower than the present intracompany toll schedule of the Interstate Company. The new schedule will result in lower annual charges of approximately \$15,000 to Interstate Company customers and \$9,000 to other California telephone customers than would have been experienced under the terminal charge plan proposed by applicant, as amended to offset higher costs of collection claimed by The Pacific Telephone and Telegraph Company.

The total effect on gross annual revenues of the applicant resulting from the changes in base rate areas and rates authorized herein is estimated to be an increase of \$192,600, at the 1952 level of business.

Conclusion

A field inspection of applicant's facilities was made by the staff and under cross-examination the staff witnesses testified that the facilities and service were good considering the characteristics of the service area and the economics involved. After reviewing the record in this matter it is concluded that an order should be issued authorizing the rate increases requested by the applicant. Applicant's rates as set forth in Exhibit E of the

amended application, with toll rates as amended by Exhibit No. 6, appear reasonable and will be authorized.

O R D E R

Interstate Telegraph Company having applied to this Commission for an order authorizing increases in rates, 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:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, rates for exchange and private line service as set forth in Exhibit E attached to the amended application, and rates for toll service between any point in applicant's territory and other California points as set forth in Exhibit No. 6; 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 March 1, 1953.
2. Applicant is authorized and ordered to enlarge the Barstow, Ridgecrest, and Victorville base rate areas as testified to by witness for applicant at the hearing on December 17, 1952, and make necessary tariff filings to accomplish such change within ninety (90) days after the effective date of this order.
3. Applicant shall prepare and submit, within one hundred and twenty (120) days after the effective date of this order, a recommendation for realignment of the Big Bear Lake base rate area boundary along geographic lines which can readily be located in the field, said area to include the portion of the exchange where the development warrants base rate area treatment.
4. The Pacific Telephone and Telegraph Company is authorized to file and make effective appropriate revisions in its tariff schedules to reflect the toll rates authorized herein coincident with the filing by the Interstate Telegraph Company.

5. Applicant shall proceed with due diligence in making the necessary engineering studies and filing an application with the Commission for establishment of an exchange at Newberry.

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

Dated at Los Angeles, California, this 2nd day of February, 1953.

A. J. [Signature]
President.

Justin F. [Signature]
Harold K. [Signature]

[Signature]
[Signature]
Commissioners.

ATTACHMENT 1

LIST OF APPEARANCES

For Applicant: H. M. Hammack and W. G. Wade by H. M. Hammack.

Protestant: Mono County Chamber of Commerce by Hugh J. O'Connell.

Interested Parties: The Pacific Telephone and Telegraph Company by Arthur T. George and Dudley A. Zinke; California Farm Bureau Federation by J. J. Deuel and Eldon Dye; 11th Naval District by C. L. Alliman, C. W. Cyphert and Lt. Comdr. J. M. Beauchamp; California Independent Telephone Association by Frank V. Rhodes; City of Los Angeles by H. M. Kauffman.

Other Appearances: J. T. Phelps, H. McCarthy, W. W. Dunlop and T. Stein of the Commission's staff.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by: W. G. Wade (Introduction, Need for Added Revenue and Results of Operation), E. L. Sheppard (Balance Sheet, Income Statement, Depreciation, Rate Base), R. R. Drake (Taxes), H. E. Throp (Proposed Rate Changes, Increased Revenue), J. A. Talley (Rate of Return Needed, Cost of Money).

Evidence was presented on behalf of the protestants and interested parties by: George B. Devenish, William Smith, Henry L. Mickerson and Hugh J. O'Connell.

Evidence was presented on behalf of the Commission's staff by: D. B. Steger (Introduction, History, Present Operation, General and Other Operating Expenses, Taxes, Summary of Earnings, Working Cash), E. Green (Balance Sheet, Income Statement, Clearing Accounts), M. E. Mezek (Operating Revenues), J. B. Balcomb (Maintenance Expenses, Traffic Expenses, Commercial Expenses, Customer Distribution, Usage and Rates), C. W. Drake (Fixed Capital, Depreciation Reserve and Expense, Rate Base).