

**ORIGINAL**Decision No. 48741

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of  
 EVANS TELEPHONE COMPANY, a corporation,  
 for an order authorizing increases and  
 changes in its rates for exchange  
 telephone service and miscellaneous  
 supplemental services. )

Application No. 33967

William Logan, F. V. Rhodes and John H.  
 Evans, for applicant.  
 California Independent Telephone Associa-  
 tion, by Frank V. Rhodes, interested  
 part; California Farm Bureau Federation  
 and Patterson Farm Bureau, by Eldon N.  
 Dye, interested parties.  
J. S. Balcomb and L. L. Thorne, for the  
 Commission staff.

O P I N I O N

Evans Telephone Company, a California corporation, by the above-entitled application filed December 22, 1952, seeks an order of this Commission authorizing increases in rates and charges for exchange telephone service rendered in the Patterson exchange in Stanislaus and Santa Clara Counties.

A public hearing in the matter was held before Examiner Emerson on May 21, 1953 at Patterson.

Applicant's Position and Request

Applicant alleges that expenses of operation during the last few years have increased to such an extent that present and estimated future revenues are insufficient to meet such expenses and produce a net revenue which will yield a fair return on its investment in telephone plant.

Applicant completed its conversion to dial operation on March 21, 1953. Its presentation, as well as the Commission staff's,

in this proceeding assumes that full dial operation is available throughout the year 1953.

The rates which applicant proposes would increase gross local service revenues by approximately 50 per cent. A comparison of presently effective basic exchange service rates, together with certain supplemental and mileage charges, with those which applicant has proposed is shown in the following tabulation:

Item	Rate per Month			
	Present Rate		Requested Rate	
	Patterson	Westley	Patterson	Westley
<u>Residence</u>				
1-Party	\$2.75	\$8.75	\$4.75	\$8.75
4-Party	2.25	5.25	3.50	5.25
8-Party		3.50		4.50
10-Party	2.60		3.85	
Extension	1.00	1.00	1.25	1.25
<u>Business</u>				
1-Party	4.25	13.25	7.25	13.25
2-Party	3.75	7.75	6.00	7.75
8-Party		4.50		5.25
10-Party	3.50		4.75	
Extension	1.25	1.25	1.50	1.50
<u>Mileage Charges</u>				
1-Party, 1/4-mile	.50	.50	.75	.75
2-Party, 1/4-mile	.35	.35	.60	.60
4-Party, 1/4-mile	.25	.25	.40	.40
<u>Farmer Line Service</u>				
Residence	.75	.75	1.25	1.25
Business	1.25	1.25	1.75	1.75
Minimum	3.75	3.75	6.25	6.25

The rates shown above are for service with a handset. Present wall-set rates are 10 cents per month less. The requested rates would eliminate the wall-set differential now applicable.

Applicant's Operations

Telephone service in the Patterson exchange was first offered in 1913 by John H. Evans. In 1932 the ownership and management of the system was assumed by his heirs under a copartnership. Evans Telephone Company was incorporated December 17, 1951

and by Decision No. 46622 in Application No. 32994, issued January 8, 1952, this Commission authorized transfer of the telephone properties to the corporation.

The Patterson exchange comprises two suburban areas with a base rate area at Patterson and a special rate area at Westley, service having been established to the latter as an unattended dial office in August 1950. Patterson was placed in service as a dial office on March 21, 1953. Coincident with conversion to full dial operations, toll functions on weekdays between 8 p.m. and 7 a.m.; and all day on Sundays and holidays, were assumed by The Pacific Telephone and Telegraph Company at Modesto. Applicant anticipates that all operator functions will be undertaken by the Pacific company early in 1954 when Pacific's facilities may be ready for such service.

As of December 31, 1952 applicant served 1,377 stations consisting of 1,163 primary stations, 201 extension stations and 13 service stations. As of the same date applicant owned 107 miles of pole line, 13 miles of cable containing 719 miles of wire, and 613 miles of aerial wire.

#### Summary of Presentations

Except as indicated by a balance sheet as of June 30, 1952 and an income statement covering the period January 1 to June 30, 1952, applicant made no presentation respecting the results of its operations during the year 1952. Applicant's showing was confined to the estimated year 1953 in which it assumed that full dial operations were effective throughout the entire year.

The Commission staff presented detailed results of operations as recorded by applicant for the years 1951 and 1952 and related them to staff-determined rate bases for the respective

periods. The staff also presented the results of operations for the year 1952 adjusted so as to reflect during that year the full effect of dial operations. The adjusted year 1952, therefore, may be considered a "pro forma" showing. In addition, the staff presented a detailed estimate of 1953 operations, assuming full year dial operation, under various toll operating arrangements.

The respective showings are summarized as follows:

Years 1951 and 1952  
CPUC Staff

Item	Year 1951:		Year 1952	
	Recorded	Recorded	Recorded	Pro Forma
Operating Revenues	\$79,172.13	\$86,132.27	\$83,600	
Operating Expenses				
Before Taxes and Depr.	55,610.73	63,495.75	57,800	
Taxes	8,326.14	9,496.44	8,480	
Depreciation	6,462.84	7,332.95	11,070	
Total Oper. Exps.	70,399.71	80,325.14	78,350	
Net Revenue	8,772.42	5,807.13	5,250	
Rate Base (Depr.)	87,800	131,900	247,800	
Rate of Return	9.99%	4.40%	2.12%	

Estimated Year 1953

Item	Applicant		CPUC Staff	
	Present Rates	Requested Rates	Present Rates	Requested Rates
Operating Revenues	\$86,443.57	\$112,412.11	\$ 88,600	\$113,850
Operating Expenses				
Before Taxes and Depr.	70,904.19	70,904.19	61,000	61,000
Taxes	8,204.10	13,330.13	11,090	19,360
Depreciation	12,925.50	12,925.50	11,700	11,700
Total Oper. Exps.	92,033.79	97,159.82	83,790	92,060
Net Revenue	(5,590.22)	15,252.29	4,810	21,790
Rate Base (Depr.)	235,677.23	235,677.23	258,200	254,500
Rate of Return	loss	6.47%	1.86%	8.56%

(Red Figure)

Revenues

Applicant's gross revenues under present rates are greatly influenced by toll service revenues and particularly by the toll settlement arrangement between applicant and The Pacific Telephone and Telegraph Company. During the years 1951, 1952 and 1953 toll revenues exceed 40 per cent of gross revenues under applicant's present method of operation.

As above-mentioned, applicant's operations may not become a full Community Dial, whereby the Pacific Company will perform all operator functions, for perhaps another 12-month period. However, when that situation does occur applicant's operations will become somewhat stabilized and the ensuing period may be considered normal.

In this proceeding the Commission staff presented evidence reflecting various toll operating arrangements and the effect of such arrangements on earnings and urged acceptance of the results of operations based upon the toll settlement offered by the Pacific Company under full CDO operation. Applicant indicated its full intention to proceed with such CDO operation. In view of such evidence respecting full CDO operations we adopt, as reasonable estimates of gross revenues for the normalized year 1953, the sums of \$78,000 under present rates and \$103,000 under the rates which applicant proposes.

#### Expenses

The major difference in operating expense estimates arises from the treatment accorded land and building usage by the company. Applicant rents space under a lease arrangement with its own officers whereby the rental price is a percentage of revenues. Applicant has included such rent as an operating expense. The Commission staff, on the other hand, considered rentals based upon revenues as improper and therefore included the cost of the land and the depreciated historical cost of the building and furnishings in its rate base estimate. By so doing, the rentals are removed from operating expenses and applicant obtains reasonable earnings on the value of the facilities used.

In view of the evidence we adopt the sums of \$72,000 and \$81,000 as reasonable estimates of normal operating expenses during the year 1953 under present rates and under proposed rates respectively.

Rate Base

As in estimates of operating expenses the principal difference between applicant's and the staff's presentations arises from the treatment accorded rented facilities. Other differences occur in the derivation of the average depreciation reserve and in the calculation of an allowance for working cash. Both applicant and staff gave full recognition to the recent dial conversion and to the plant rehabilitation and reinforcement program.

In view of the entire record, we adopt as a reasonable average rate base for the year 1953 the sums of \$254,000 under present rates and \$251,000 under applicant's proposed rates.

Customer Participation

Four of applicant's subscribers testified as to service conditions. In the main they spoke of improved service during recent years but had specific complaints regarding inability to obtain an operator, delays in making toll calls and noisy and poor reception. Applicant attributed the majority of such complaints to the normal uncertainties and troubles attending its dial cutover. It promised an investigation of each instance and a correction of any deficiency found. The day before the hearing applicant had discovered that certain switching equipment at times was malfunctioning and applicant was then in the process of correcting such trouble. Such defect would account for many of the delays complained of. In addition, however, a greater number of trunks are needed between Patterson and Modesto. Applicant and the connecting company should take immediate steps to provide the needed facilities.

Conclusions

Relating the above-adopted revenues, expenses and rate bases indicates net revenues and rates of return as follows:

Estimated Average Year of 1953

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 78,000	\$ 103,000
Operating Expenses	72,000	81,000
Net Revenue	6,000	22,000
Rate Base (Depr.)	254,000	251,000
Rate of Return	2.36%	8.76%

It is clear that applicant is not now earning a reasonable return, nor will it if present rates are continued. Applicant is entitled to a betterment of its earning position. The rates which applicant requests, however, would produce an excessive rate of return. We shall authorize rates which should produce gross revenues of approximately \$94,600 which, after deduction of \$79,400 for reasonable total operating expenses, will yield a net revenue of \$15,200. Such net revenue, when related to an average 1953 depreciated rate base of \$252,500, will yield a rate of return of 6.02 per cent. We find such rate base and rate of return to be reasonable.

Authorized Rates

Basic exchange service rates, authorized hereinafter, are as follows:

Classification	Rate per Month	
	Patterson Base Rate Area	Westley Special Rate Area
<u>Residence</u>		
1-Party	\$4.10	\$6.00
4-Party	3.20	5.00
8-Party Suburban	-	3.50
10-Party Suburban	3.50	-
<u>Business</u>		
1-Party	6.50	9.00
2-Party	5.25	7.00
8-Party Suburban	-	4.50
10-Party Suburban	4.50	-

Applicant will be required to file a revised and modernized set of rules together with current forms used in connection with service to its subscribers.

Applicant will be required to develop a program for up-grading Patterson 10-party service to 8-party service. Upon receipt of such program the Commission, by supplemental order herein, may direct applicant to undertake the implementing of said program. } ✓

O R D E R

Evans Telephone Company having applied to this Commission for an order authorizing an increase in rates and charges for telephone service, public hearing thereon 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 and in conformity with General Order No. 96, the schedules of rates contained in Exhibit No. 1 in this proceeding as specifically approved or modified by Exhibit A attached to this order and, after not less than five days' notice to the public and to this Commission, to make said rates effective for service rendered on and after August 1, 1953, except that increases in installation charges shall be made effective on applications received by the utility on and after August 1, 1953.



IT IS HEREBY FURTHER ORDERED as follows:

1. Within ninety days from and after the effective date of this order applicant shall file in quadruplicate with this Commission, in conformity with General Order No. 96, rules governing subscriber relations revised to reflect present-day operating practices, together with the current forms that are normally used in connection with customer service.
2. On or before January 1, 1954, applicant shall submit to this Commission a program for the upgrading of all 10-party suburban service to 8-party suburban service. Said program shall set forth in detail the plant facilities, costs and periods of time required for completion of said program.

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

Dated at San Francisco, California, this 23rd day of June, 1953.

R. T. [Signature]  
President

Justice F. [Signature]

[Signature]

[Signature]

Commissioners

Commissioner Harold P. Huls, being necessarily absent, did not participate in the disposition of this proceeding.

EXHIBIT A  
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RATES

The rates, charges and conditions set forth in Exhibit No. 1 in this proceeding are authorized as specifically approved or modified hereinafter.

Preliminary Statement

Approved without change.

Schedule No. A-1, Flat Rate Exchange Service

Rates and conditions as shown in Exhibit No. 1 are approved except that the following rates are authorized.

	<u>Wall, Desk or Handset Station</u>			
	<u>Rate per Month</u>			
	<u>Base Rate Area</u>		<u>Westley Special Rate Area</u>	
	<u>Business Service</u>	<u>Residence Service</u>	<u>Business Service</u>	<u>Residence Service</u>
Each individual line primary station	\$6.50	\$4.10	\$9.00	\$6.00
Each 2-party line primary station	5.25	-	7.00	-
Each 4-party line primary station	-	3.20	-	5.00
Each extension station	1.50	1.10	1.50	1.10

Schedule No. A-2, Mileage Rates

Rates and conditions as shown in Exhibit No. 1 are approved except that the following rates are authorized.

	<u>Rate for Each One-Quarter Mile or Fraction Thereof</u>
	<u>Airline Measurement</u>
	<u>Rate per Month</u>
Each individual line primary station .....	\$0.60
Each 2-party line primary station .....	.40
Each 4-party line primary station .....	.30
Each extension station line:	
Where the terminals are in different buildings on the same continuous property:	
Each one-quarter mile or fraction thereof	1.00
Where the terminals are on noncontinuous property:	
First one-quarter mile or fraction thereof	2.00
Each additional one-quarter mile or fraction thereof .....	1.00

EXHIBIT A  
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RATES

Schedule No. A-3. Suburban Service

Rates and conditions as shown in Exhibit No. 1 are approved except that the following rates are authorized.

	<u>Wall, Desk or Handset Station</u>			
	<u>Rate per Month</u>			
	<u>Patterson</u>		<u>Westley</u>	
	<u>10-Party Service</u>	<u>8-Party Service</u>	<u>Business Residence Service</u>	<u>Residence Service</u>
Each primary station .....	\$4.50	\$3.50	\$4.50	\$3.50
Each extension station .....	1.50	1.10	1.50	1.10

Schedule No. A-4. Farmer Line Service

Rates and conditions as shown in Exhibit No. 1 are approved except that the following rates are authorized.

	<u>Rate per Month</u>	
	<u>Business</u>	<u>Residence</u>
Each farmer line station including extension stations	\$1.50	\$0.85

Schedule No. A-5. Supplemental Equipment

Rates, charges and conditions as shown in Exhibit No. 1 are approved except that the following rates and charges are authorized.

	<u>Installation Charge</u>	<u>Rate Per Month</u>
	Extension bell, gong .....	\$2.25
Each buzzer circuit, including push button, buzzer, battery, and 50 feet of wiring .....	3.00	.40
Each additional push button .....	1.00	.20
Each additional buzzer .....	1.00	.20

Schedule No. A-6. Joint User Service

Rates and conditions as shown in Exhibit No. 1 are approved except that the following rate is authorized.

Each joint user service in connection with flat rate business service, per month .....	\$1.50
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RATES

Schedule No. A-7, Private Branch Exchange Service

Rates, charges and conditions as shown in Exhibit No. 1 are approved except that the following rates are authorized.

	Rate per Month
Cord type switchboard, nonmultiple: Maximum capacity, 40 lines or less .....	\$15.00
Each central office trunk line .....	9.75
Each desk or handset station located in hotel guest room .....	1.10

Schedule No. A-8, Key System Service

Rates, charges and conditions presently on file to continue in effect except that the following rate is authorized.

	Rate per Month
Each central office trunk line .....	\$9.75

Schedule No. A-10, Semipublic Service

Rates, charges and conditions as shown in Exhibit No. 1 are approved except that the following rates and charges are authorized.

	Rate per Month	Minimum Charge per Day
Each individual line coin-box station:		
Base rate area .....	\$0.75	\$0.21
Westley special rate area .....	.75	.45
Each 2-party line coin-box station:		
Westley special rate area .....	.75	.30

Schedule No. A-11, Interexchange Receiving Service

Rates and conditions presently on file to continue in effect.

Schedule No. A-14, Directory Listings

Approved without change.

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RATES

Schedule No. A-15, Move and Change Charges

Charges and conditions as shown in Exhibit No. 1 are approved except that the following charges are authorized and Paragraph No. 3, Private Branch Exchange Systems, is not approved.

Moving from one location to another on the same premises, each set	\$3.00
Change in type or style not required by change in class, type or grade of service or type of operation .....	3.00

Schedule No. A-16, Service Connection Charges

Charges and conditions as shown in Exhibit No. 1 are approved except that the following charges are authorized.

	<u>Charge</u>	
	<u>Business</u>	<u>Residence</u>
Instrumentalities not in place:		
Each individual, party or auxiliary line primary station .....	\$7.00	\$5.00
Each intercommunicating system basic equipment ..	7.00	5.00
Each intercommunicating system station, except operators' sets .....	3.50	3.50
Instrumentalities in place and no change of location or type of facilities involved:		
Each service including all stations and supple- mental equipment connected thereto .....	3.00	3.00
Each intercommunicating system, complete with trunks .....	3.00	3.00