

ORIGINALDecision No. 48745

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 KERN MUTUAL TELEPHONE COMPANY, a)
 California corporation, for an order) Application No. 33668
 authorizing it to increase rates for)
 message toll telephone service.)

Appearances for applicant: Orrick, Dahlquist,
 Herrington & Sutcliffe, by Warren A. Palmer.

Interested party: California Farm Bureau
 Federation, by Eldon N. Dye and J. J. Deuel.

Other appearances: H. C. McCarthy, John Donovan
 and Carol T. Coffey, for the Commission staff.

OPINION AND ORDER

Kern Mutual Telephone Company, operating a public utility exchange and toll telephone business in the western portion of Kern County and small portions of San Luis Obispo and Santa Barbara Counties, California, by the above-entitled application filed August 18, 1952, requests an order of this Commission authorizing increases in rates for message toll telephone service. Applicant's proposed rates are set forth in Exhibit F attached to the application. After due notice public hearings were held on this application before Commissioner Peter E. Mitchell and Examiner M. W. Edwards on April 8 and 9, 1953, at Taft, and on May 20, 1953, at San Francisco.

Applicant's Request

Applicant requests a schedule of toll telephone rates comparable with those now effective in adjacent territory served by The Pacific Telephone and Telegraph Company which will enable applicant to improve its earnings position. Under existing rates,

applicant claims it is failing to earn a fair and reasonable rate of return on its telephone properties. The principal rate increase proposals of applicant are:

1. Decrease the initial period allowed on paid toll messages from 5 minutes to 3 minutes; decrease the overtime allowed for 5 cents from 3 and 2 minutes to 1 minute.
2. Increase the charge on collect toll messages presently below 30 cents to a minimum of 30 cents for the first 3 minutes; increase the overtime charge from 5 cents to 10 cents for each additional minute of the next 3 minutes.
3. Increase the charge on person service by 10 cents to 20 cents per message for the first 3 minutes; increase the overtime charge from 5 cents to 10 cents for each additional minute of the next 3 minutes.

Under the present rates no differentiation is made between day, night and Sunday service charges. Under the proposed rates applicant suggests that the day rates apply from 4:30 a.m. to but not including 6:00 p.m. on all days except Sunday; the night rates apply from 6:00 p.m. to but not including 4:30 a.m.; and the Sunday rates apply from 4:30 a.m. to but not including 6:00 p.m. The record shows that this is the first request for an increase in telephone rates since 1919 and during this 34-year interval several reductions were made.

Applicant's Operations

Applicant is a California corporation with principal control and management being exercised by the Maguire family. The principal communities served are Taft, Maricopa, Buttonwillow, Fellows, McKittrick, Belridge, Cuyama Valley, Lost Hills, Tupman, Valley Acres, Duston Acres, Derby Acres and Ventucopa. Most of the applicant's territory is semidesert in character and is devoted

primarily to the production and processing of oil and petroleum products. Exchange telephone service is furnished in the Taft, Buttonwillow and McKittrick exchanges through five dial central offices. Toll service is furnished over the applicant's own lines and through connection with the facilities of The Pacific Telephone and Telegraph Company at Bakersfield.

All intracompany toll messages and all toll messages between Kern Mutual points and Bakersfield, Los Angeles, Wasco, Shafter and Delano are timed and ticketed by Kern Mutual operators at the Taft switchboard. Toll messages from Kern Mutual points to other than the above destinations are timed and ticketed by Pacific Company operators at Bakersfield. On January 1, 1953 there were 30 toll circuits between the Taft and Bakersfield toll switchboards, all owned by the applicant. To provide an additional 24 toll circuits between Taft and Bakersfield applicant is installing a micro-wave system due for completion late in 1953.

In addition to these toll lines applicant owns rights of way, land, buildings, exchanges, station installations and equipment, pole lines, cables and other equipment used in furnishing its telephone services. As of December 31, 1952 applicant was serving 6,672 stations of which 6,093 were company owned, 537 subscriber owned and 42 owned by farmer lines. The population in the service area is estimated at 25,000 persons which is concentrated mostly in the City of Taft and the various communities adjacent thereto.

Summary of Results of Operations

Applicant and the Commission staff presented analyses of results of operation of this system which are summarized with regard

to rate of return on the plant devoted to the public service in the following tabulation:

| Rate of Return | Applicant Exhibit No. 3 | Staff Exhibit No. 10 |
|--|----------------------------|-------------------------|
| Year 1951 Recorded | 4.52% | 4.88% |
| Year 1952 Recorded | 3.82 | 3.79 |
| Year 1952 Adjusted | - | 3.69 |
| Year 1953 Estimated Present Rates | 3.23 | 3.50 |
| Year 1953 Estimated Proposed Rates | 6.47 | 6.50 |
| Year 1953 Estimated Proposed Rates with Diminution Factor | 5.11 | - |

In the above comparison it will be noted that the applicant did not present a rate of return for the year 1952 adjusted to the levels of wages and conditions as of the end of the year as did the staff. Also it will be noted that the staff did not compute a rate of return for the year 1953 with a diminution factor based on lesser toll usage at the higher rates.

The staff took the position that the only decreased usage that should be taken into account was the declining trend of toll revenue per customer shown over the past two years. Applicant, by Exhibit No. 6, submitted copies of several letters from toll subscribers in Taft indicating that if the rates were increased the volume of toll calls in the future would be held to a minimum. The diminution factor used by the applicant was based upon experience of The Pacific Telephone and Telegraph Company for rate increases prior to the year 1941. It is the Commission's opinion that any diminution in revenue will be confined to the first month or two after the increased rates are effective and should not materially affect the annual results thereafter.

Earnings Estimates for 1953

The validity of applicant's request for a rate increase will be predicated upon the estimates of operation for the year 1953. In the next tabulation there is shown a comparative summary

of the applicant's and the staff's studies of revenues, expenses, depreciation, taxes, rate base and rate of return for the year 1953.

Results of Operation - Estimated Year 1953

| Item | Applicant Exh. No. 3 | | Staff Exhibit No. 8 | |
|--|----------------------|----------------|---------------------|----------------|
| | Present Rates | Proposed Rates | Present Rates | Proposed Rates |
| <u>Operating Revenues</u> | | | | |
| Local Service | \$ 211,056 | \$ 211,056 | \$ 214,100 | \$ 211,700 |
| Toll Service | 288,660 | 373,229 | 285,300 | 368,600 |
| Miscellaneous | 9,035 | 9,035 | 9,200 | 9,200 |
| Uncollectibles | (3,021) | (3,524) | (3,000) | (3,500) |
| Total Revenues | 505,730 | 589,796 | 505,600 | 586,000 |
| <u>Operating Expenses</u> | | | | |
| Maintenance | 142,559 | 142,559 | 143,000 | 143,000 |
| Traffic | 52,310 | 52,310 | 46,800 | 46,800 |
| Commercial | 43,104 | 43,104 | 83,500 | 83,500 |
| Gen. Office & Other | 120,444 | 120,444 | 81,600 | 81,600 |
| Allocation of Costs to Other Telephone Companies | - | - | (4,100) | (4,100) |
| Subtotal | 358,417 | 358,417 | 350,800 | 350,800 |
| Taxes | 48,174 | 89,150 | 50,100 | 90,600 |
| Depreciation | 56,071 | 56,071 | 56,800 | 56,800 |
| Total Expenses | 462,662 | 503,638 | 457,700 | 498,200 |
| Net Revenue | 43,068 | 86,158 | 47,900 | 87,800 |
| Depr. Rate Base | 1,331,745 | 1,331,745 | 1,368,000 | 1,351,000 |
| Rate of Return | 3.23% | 6.47% | 3.50% | 6.50% |

Applicant did not cross-examine the staff witnesses at the conclusion of their direct presentation nor did it offer any objection to the estimates prepared by the staff. At the conclusion of the hearing counsel stated that the applicant appreciated the suggestions and recommendations made by the staff respecting certain operating and accounting practices, the adoption of which should benefit both the applicant and subscribers. Accordingly the Commission, in the main, will base its conclusions on the staff's study after pointing out the major differences in the applicant's and the staff's estimates.

Rate Base

The staff's rate base estimate is some \$20,000 higher than the applicant's. This is in part accounted for by considering an office building owned by J. P. and J. T. Maguire and now leased to the utility, as utility property in the amount of \$29,200 and making appropriate adjustments under depreciation and rental expenses. It appears to the Commission that the rental charge of \$535 per month on this building is somewhat high and the staff's treatment reduces the annual cost of this facility to the ratepayer.

The rate base estimated by the staff is composed of the following items:

| | |
|----------------------------------|------------------|
| Weighted Average Fixed Capital | \$1,665,900 |
| Materials and Supplies | 33,400 |
| Working Cash Allowance | 28,000 |
| Adjustment for Office Building | 29,200 |
| Subtotal | <u>1,756,500</u> |
| Deductions | |
| Contribution of Telephone Plant | 14,300 |
| Nonoperative Property | 22,300 |
| Depreciation | 368,800 |
| Total Deductions | <u>405,400</u> |
| Weighted Average Depr. Rate Base | 1,351,100 |

For the purpose of this decision the Commission will adopt as a fair and reasonable depreciated rate base for the year 1953 for the Kern Mutual Telephone an amount of \$1,351,100.

Revenues and Expenses

The revenue estimates vary somewhat between the staff and the applicant with the primary difference being due to the fact that the staff allowed for the downward trend in toll revenue per station, while the applicant did not allow for this trend in the computation shown. Applicant introduced another computation with a diminution factor but it is not considered.

The expense estimates in total vary about \$5,000 with the staff showing the lower amount. The primary reason for this

difference is in the deduction of \$4,100 made by the staff to account for expenses properly chargeable to the former Corcoran Telephone Company for services rendered to that utility.^{1/} In examining the books of the applicant the staff noted that certain of the amounts charged to operating expenses during the year 1952 were unsupported and that certain of the company's accounting procedures resulted in an inequitable distribution between operating expenses and construction. As a result of this examination the applicant is revising its accounting procedures, which in part accounts for the variation in charges as between Commercial and General Office shown by the two estimates.

Net Revenue and Rate of Return

Net revenue of \$47,900, some \$4,800 above the applicant's estimate, will be adopted by the Commission as the net revenue for the year 1953 under present rate levels. When related to the depreciated rate base, hereinabove found to be reasonable, a rate of return of 3.50 per cent results.

Applicant's witness expressed the opinion that the utility should earn a rate of return in the neighborhood of 7 per cent and considered that a rate of return around 6 per cent to be below a fair and reasonable rate of return. He claimed a cost of money of 7.91 per cent but was seeking toll rates that would yield less than this amount because temporary financing for the 1953 construction program has been arranged and because of the possibility of later raising local exchange rates so as to keep the toll and exchange revenues in balance.

^{1/} Central California Telephone Company, formerly Corcoran Telephone Exchange and now including operations formerly conducted by Exeter Telephone Company, Ltd., is affiliated with Kern Mutual Telephone Company by reason of the fact that a substantial portion of the outstanding capital stock of both companies is owned by the same interests.

Participation by Interested Parties and Customers

No particular objection to applicant's proposed increase was voiced; however two prospective customers from Valley Acres complained as to the service from a public pay station and requested more lines and telephones be made available in that area. Before the hearings were concluded, applicant's witness indicated that when the microwave system is completed some of the toll lines to Bakersfield could be converted to render 10-party suburban service in Valley Acres and Duston Acres and temporarily relieve this condition.

The representative of the California Farm Bureau Federation contacted certain merchants and subscribers and reported incidents of inadequate service. The staff checked these reports and steps were taken to correct the difficulties where found. Two customers testified that of recent years the service had been good.

Conclusions

The record shows that applicant has been faced with a substantial and continuing construction program, that its investment in plant has more than doubled since the close of the war, that it has provided a modern dial telephone system for most of its service area, although its toll business provides the bulk of its revenues, and that it has been experiencing a decline in the rate of return. Upon reviewing the record the Commission is of the opinion that applicant must have additional revenues if it is to enjoy a fair return on its investment in its plant, that recognition must be given to the declining tendency in its return, and that rates should be authorized designed to produce net revenues equivalent to approximately 6.5 per cent applied to a depreciated rate base of \$1,351,100, which revenues should produce a return in the future of approximately 6.25 per cent, which return we find to be fair and reasonable for the purposes of this decision.

. O R D E R

Kern Mutual Telephone Company 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 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 the Commission's General Order No. 96, revised rates, charges and conditions as set forth in Exhibit F attached to the application, and on not less than one day's notice to the Commission and to the public to make said rates effective for service furnished on and after July 15, 1953.

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.

[Signature]
President
Justin F. Adams
[Signature]
[Signature]

Commissioners

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