

Decision No. 49047**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of)
 ROSEVILLE TELEPHONE COMPANY, a cor-)
 poration, for an order authorizing) Application No. 34025
 increases and changes in its rates)
 for exchange telephone service and)
 miscellaneous supplemental services.)

Walter Hanisch and F. V. Rhodes, for
 applicant.

California Farm Bureau Federation, by
Eldon N. Dye; California Independent
 Telephone Association, by Frank
 V. Rhodes; City of Roseville, by
L. DeWitt Spark, City Attorney;
 Sylvan-Roseville Rural Telephone
 Company, by T. Kenneth McBride,
 interested parties.

J. T. Phelps and J. F. Donovan, for the
 Commission staff.

O P I N I O N

Roseville Telephone Company, a California corporation,
 by the above-entitled application filed January 16, 1953 and as
 amended May 13, 1953, seeks an order of this Commission authorizing
 increases in rates and charges for exchange telephone service
 rendered in Roseville and vicinity in Placer and Sacramento
 Counties.

A public hearing in the matter was held before Commissioner
 Peter E. Mitchell and Examiner F. Everett Emerson on June 11 and
 12, 1953 at Roseville. Ten witnesses were heard and thirteen
 exhibits were received in this proceeding. The matter was sub-
 mitted upon receipt of two late-filed exhibits on June 26, 1953.

Applicant's Position and Request

Applicant alleges that expenses of operation have increased,
 through the years since applicant's present rates were made effec-
 tive, to such an extent that present and future revenues are in-
 sufficient to meet such expenses and produce a net revenue which

will yield a fair return on its investment in telephone plant.

Applicant is now in the process of converting its system from one of manual common-battery operation to one of full dial operation. The actual cutover is scheduled for November 1, 1953. In its presentation in this proceeding applicant assumed the availability of full dial operation for the entire year 1953.

The rates which applicant seeks to place in effect would increase gross local service revenues by approximately 58 per cent. A comparison of presently effective basic exchange service rates and charges with those which applicant has proposed is shown in the following tabulation:

Item	Rate per Month	
	Present Rate	Requested Rate
<u>Residence</u>		
1-Party	\$2.60	\$4.00
2-Party	2.35	3.50
4-Party	2.10	3.00
Suburban	2.35	3.50
Extension	.60	1.25
<u>Business</u>		
1-Party	3.10	6.50
2-Party	2.60	5.25
4-Party	2.35	4.75
Suburban	2.60	4.75
Extension	.85	1.50
<u>Farmer Line Service</u>		
Residence	.35	1.00
Business	.70	1.50
Minimum per Line	1.75	5.00
<u>Service Connection Charges</u>		
Initial Installation		
Residence, Primary	2.50	5.00
Business, Primary	2.50	6.00
Extension	1.50	3.00
Instruments in Place		
New Service	1.50	3.00

The rates shown above are for service with a desk or 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 and about Roseville has been rendered by applicant since 1914 when it purchased the system from the Roseville Home Telephone Company. Applicant's exchange area comprises approximately 72 square miles of territory lying mainly in the southern portion of Placer County and extending into Sacramento County.

The system, as of May 5, 1953, served 3,221 company-owned stations and 350 subscriber-owned stations through an 11-position switchboard. After cutover to dial operations five positions will be retained for toll, dial service assistance and information.

As of March 31, 1953, applicant reported that it was holding 536 applications for primary service. The majority of such held orders are in a suburban area known as Citrus Heights, an area which applicant originally undertook to serve only on a farmer line basis. In recent years, however, the character of Citrus Heights has changed from one of small farms to one of suburban residential development. Farmer lines in the area have become inadequate and considerable demand has been made upon applicant to supply regular suburban service throughout the area. The company now plans to extend a 200-pair cable into the area and to extend radiating aerial wire plant therefrom in order to serve all waiting applicants during the early part of 1954.

Summary of Presentations

Applicant and the Commission staff presented evidence respecting the results of operations for the years 1951 and 1952 with estimates for the year 1953, the latter being based upon the assumption that full dial operations were available throughout the year. The following summarizes such presentations.

Years 1951 and 1952

Item	Year 1951	Year 1952	
	Recorded	Recorded	Adjusted ^a
Operating Revenues	\$159,692.97	\$175,539.20	\$174,700
Operating Expenses			
Before Taxes and Depr.	98,505.61	115,837.75	120,800
Taxes	26,377.18	23,660.60	19,600
Depreciation	10,921.00	13,610.62	18,400
Total Oper. Exps.	135,803.79	153,108.97	158,800
Net Revenue	23,889.18	22,430.23	15,900
Rate Base (Depr.)	264,000 ^b	326,200 ^b	551,300
Rate of Return	9.06%	6.88%	2.88%

- a. Adjusted by CPUC staff to show full year 1952 reflection of 1953 dial conversion.
b. Developed by CPUC staff.

Estimated Year 1953

Item	Applicant		CPUC Staff	
	Present Rates	Requested Rates	Present Rates	Requested Rates
Operating Revenues	\$194,487	\$248,884	\$196,900	\$254,400
Operating Expenses				
Maintenance	25,573	25,573	32,700	32,700
Traffic	54,060	54,060	53,800	53,800
Commercial	19,848	19,848	21,000	21,000
General Office	17,596	17,596	15,800	15,800
Other	7,735	7,735	8,400	8,400
Taxes	25,572	52,258	25,300	54,300
Depreciation	26,202	26,202	20,200	20,200
Total	176,586	203,272	177,200	206,200
Net Revenue	17,901	45,612	19,700	48,200
Rate Base (Depr.)	596,676 ^c	596,676 ^c	598,900 ^d	596,200 ^d
Rate of Return	3.00%	7.64%	3.29%	8.08%

- c. End of year 1953
d. Average year 1953

It is apparent, from the above tabulation and the evidence, that applicant will not earn a reasonable return if present rates are continued beyond the date when cutover to dial operations is accomplished. Applicant is entitled to relief in the form of increased revenues.

Subscriber Participation

In the main, the participation of interested parties and other subscribers of applicant had to do with two phases of service

matters. The first concerns past and present inadequacies and deficiencies of telephone plant and service. The second concerns applicant's held order situation and the establishing of service in areas not presently served.

A number of witnesses complained about their inability to obtain an operator, delays in completing both local and toll calls and the general inattention of applicant's personnel to the daily and routine service needs of subscribers. In most instances applicant's manager claimed he had no knowledge of such deficiencies. In others, the conditions of poor service were admitted. Applicant alleges that all such service deficiencies will be overcome upon completion of the dial cutover.

As previously indicated, applicant recorded 536 held orders for primary service as of March 31, 1953. By June 12, 1953 its records indicated that the number of held orders had been reduced to 414. Of this latter number, 51 are recorded as having been awaiting service since 1950. None are recorded as having been received prior to that year. However, one witness testified to having repeatedly applied for service since July 1946. He still remains unserved. Such a situation is neither normal nor reasonable. Applicant's latest available commercial survey is now more than two years old. Applicant has taken no later view of population growth nor has it made any more recent estimate of its potential market. The needs and desires of the public, except for the desire of present subscribers for dial service, seem to be unknown to it. As an example, applicant's manager was under the impression that telephone facilities were some two miles distant from certain applicants for foreign exchange service, whereas the actual distance may be as short as 50 feet. Repeated requests for such service have been ignored. We see no reason why these people were not served as soon as the needed foreign facilities were available.

In our opinion, applicant's lack of awareness in these respects indicates palpable inefficiency of management and clearly indicates failure fully to meet applicant's utility obligations.

Applicant presently serves 25 lines, containing 271 primary stations, of the Sylvan-Roseville Rural Telephone Company, a farmer line organization operating in the Citrus Heights area. The facilities of the Sylvan group are in need of extensive rehabilitation and repair and because of the cost thereof Sylvan does not find it practicable to prepare its facilities for conversion to dial. It has offered to donate its entire plant to applicant and intends to withdraw from servicing the area. Applicant finds the proffered plant completely unsuitable and has declined to accept it. Instead, applicant intends to extend its own facilities into the area and provide its own suburban service to all those farmer line members who may file applications for service with applicant. Because such absorption of farmer line members into the Roseville utility system can not be accomplished by the time of dial cutover, applicant has offered to continue farmer line service, on the present manual basis of operation but through its toll board, until such time as the absorption may be completed. Such a proposal appears to be reasonable. However, the added costs of operation during such period must, in all fairness, be borne by those receiving such special service. Other farmer line organizations are preparing their facilities for dial cutover coincident with that of applicant and will not require such special service.

Test Year

The 1953 estimates hereinabove tabulated are based upon normalized full year dial operations reflected through rate base, revenues and all operating expenses. Such estimates may readily be made applicable to a future 12-month period ending October 31, 1954, the initial 12-month period in which any increased rates may

be effective. Therefore, such period, and the estimates hereinafter adopted as pertaining thereto, will be used as the basis upon which the reasonableness of applicant's rate request will be tested.

Rate Base

The principal differences between applicant's and the staff's rate bases lie in the determination of the properly applicable depreciation reserve and the average amount of materials and supplies. With respect to depreciation we shall adopt the staff method which is based upon straight-line remaining life and recognizes retirement of the manual facilities to be replaced by dial equipment. Such procedure will properly recognize applicant's book reserve and be consistent with the expenses of depreciation hereinafter adopted. With respect to materials and supplies we shall accept the staff's estimate as representing those items normally to be carried in stock following the completion of the dial conversion. The estimated average rate base thus derived totals \$596,200. To this amount, however, must be added the capital costs of plant expansion required to provide adequate service to waiting applicants and to absorb the Sylvan and other Citrus Heights subscribers previously discussed. The fixed capital additions required are set forth in Exhibit No. 2 in this proceeding and total \$124,222. We thus arrive at an estimated average rate base for the test year of \$720,422. We find such rate base to be reasonable.

Revenues

Differences in revenue estimates occur in those revenues to be received from local service and toll service and as influenced by uncollectibles.

With respect to local service revenues, it seems that applicant's estimate is based upon the number of stations served in 1952 with no allowance for station growth. The Commission staff, however, repriced services as of May 5, 1953 and made an appropriate allowance for station growth. For the test period, therefore, we will adopt the staff-determined revenue and add thereto the average

revenue to be received from the presently waiting applicants to be served during the test year. Such addition may readily be calculated from the record in this proceeding and produces a total of local service revenues of approximately \$175,700 at proposed rates on an annual basis.

The summary tabulation includes toll service revenues based upon a toll settlement arrangement between applicant and The Pacific Telephone and Telegraph Company as it existed on May 15, 1953. A revised contract offered by Pacific was accepted by applicant on June 20, 1953 as shown by late-filed Exhibit No. 12 in this proceeding. Under such contract, toll service revenues will approximate \$106,300 during the test year.

Applicant's witness was uncertain concerning the basis of his estimate respecting uncollectibles. The staff estimate appears to be reasonable and will be adopted.

In view of the evidence we adopt, as a reasonable estimate of gross operating revenues for the test year, the sum of \$284,000 under the rates proposed by applicant.

Expenses

As will be noted from the summary tabulation, the staff estimate of 1953 expenses exceeds that of applicant in a number of classifications. The staff-determined amounts are predicated upon the need for additional management, supervisory and maintenance personnel if present unsatisfactory operations are to be corrected and a more reasonable and adequate service rendered to the public. Exhibit No. 13 in this proceeding shows that applicant's Board of Directors has authorized the employment of the additional personnel thought to be required to meet the staff's recommendations. In view of the evidence we adopt the sum of \$239,000 as a reasonable estimate of total operating expenses under applicant's proposed rates for the test year.

Net Revenue and Rate of Return

Relating the above adopted revenues, expenses, and the rate base hereinabove found to be reasonable, indicates a net revenue of \$45,000 which in turn indicates a rate of return of 6.25%. We find such rate of return to be reasonable.

Conclusions

Applicant is in need of and entitled to an improved earning position. The rates which applicant requests be made effective will provide applicant with increased revenues sufficient to enable it to earn no more than a reasonable return. Such rates will be authorized and supplemented by a special rate for farmer line service in the Citrus Heights area during the period of absorption of those subscribers by applicant.

We take official notice that applicant has filed, to become effective on August 31, 1953, a tariff applicable to Fair Oaks residence suburban foreign exchange service. By such filing applicant has anticipated this Commission's action by which applicant would have been ordered to establish such service.

The results of operations for the test year, as hereinabove adopted, are predicated on the future faithful performance of applicant's utility obligations in providing and maintaining adequate service to the public throughout its exchange area. Applicant will be required to provide primary service to all waiting applicants and to complete its now known construction program, as set forth in Exhibit No. 2 in this proceeding, within a 1-year period. We place applicant on notice that no less than satisfactory service is acceptable and that this proceeding may be reopened for the purpose of rescinding all or a part of the rate increase authorized herein if reasonably adequate performance is not obtained.

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 make accruals to the depreciation reserve based upon spreading of the original cost of plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property.

O R D E R

Roseville Telephone Company, having applied to this Commission for an order authorizing increases in rates and charges for telephone service, public hearing thereon having been held, the matter having been submitted and now being ready 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 authorized, are for the future unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the provisions of General Order No. 96, the schedules of rates set forth in Exhibit No. 4 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 this Commission, to make said rates effective for service rendered on and after November 1, 1953, excepting that increases in installation charges shall be made effective on applications received by the utility on and after November 1, 1953.
2. Applicant shall, coincidentally with its filing of the new rates hereinabove authorized, enlarge its base rate area to not less than that shown on Chart 1-B of Exhibit No. 10 in this proceeding and appropriate tariff filings of maps in connection therewith shall be made on not less than five days' notice to the public and this Commission.
3. On or before January 1, 1954 applicant shall file in quadruplicate with this Commission rules and regulations reflecting present-day operations and relations with its subscribers together with currently used forms pertaining thereto.
4. Effective January 1, 1954, applicant shall base future accruals to the reserve for depreciation upon a spreading of the original cost of the plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property; further, applicant shall review such

accruals when major changes occur in plant composition and for each plant account at intervals of not more than three years. Results of these reviews shall be submitted to this Commission.

- 5. Applicant shall immediately undertake to provide facilities for the rendering of service to all waiting applicants and shall so arrange its plant construction program as to have completed by not later than September 30, 1954 the construction of plant itemized in Exhibit No. 2 in this proceeding; further, applicant, throughout its entire telephone system, shall so arrange its construction program as to serve all applicants for service on a current basis by January 1, 1955. Applicant shall submit quarterly reports of progress thereon to this Commission.
- 6. Applicant is authorized to continue to serve the Sylvan-Roseville Rural Telephone Company on a manual basis until but not beyond September 30, 1954; applicant is further authorized to file in quadruplicate with this Commission, after the effective date of this order, the rate schedule marked Exhibit B attached to this order and, after not less than five days' notice to the public and this Commission, to make said schedule effective for service rendered on and after November 1, 1953. In accordance with the terms of said schedule, applicant is authorized to terminate service thereunder and withdraw said schedule on October 31, 1954.
- 7. Applicant is authorized to withdraw and cancel, effective November 1, 1953, all present rate schedules in conflict with those herein authorized.

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

Dated at San Francisco, California, this 1st day of September, 1953.

R. F. [Signature]
President

Justus F. Callen

[Signature]

[Signature]

Commissioners

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

EXHIBIT A

RATES

The schedules of rates and charges set forth in Exhibit No. 4 in this proceeding are authorized as specifically approved or modified hereinafter.

PRELIMINARY STATEMENT

Approved, except that the statement shall indicate dial operation instead of manual operation.

MAPS

Revise base rate area and exchange area maps in accordance with decision.

SCHEDULE NO. A-1

Approved with insertion of date "October 31, 1953" in Special Condition 3.

SCHEDULES NOS. A-2, A-3, A-4, A-5, A-7, A-8

Approved without change.

SCHEDULE NO. A-12

Approved, except for Special Condition 8 which shall be revised to read: "Service under this schedule will be furnished only to farmer lines equipped for dial operation."

SCHEDULES NOS. A-13, A-14, A-15, A-16, A-17, A-19, A-21, A-23

Approved without change.

EXHIBIT B

Schedule No. A-12, Temporary

SPECIAL FARMER LINE SERVICE

APPLICABILITY

Applicable to farmer line service rendered Sylvan-Roseville Telephone Company during the period November 1, 1953 to October 31, 1954, both inclusive.

TERRITORY

Within the suburban area of the exchange as said area is defined on maps filed as part of the tariff schedules.

RATES

	Rate per Month		
	<u>Residence Service</u>	<u>Business Service</u>	<u>Minimum Charge per Line</u>
Each station	\$1.75	\$2.50	\$8.75

SPECIAL CONDITIONS

1. In accordance with Decision No. _____ in Application No. A-34025 issued by the California Public Utilities Commission on _____, 1953, service under this schedule will be rendered only during the period November 1, 1953 to October 31, 1954, both inclusive. During such period, no new or additional instrumentalities may be attached to these farmer lines. Members desiring continued telephone service will be transferred from manual service and receive dial service from the Roseville Telephone Company and will be permanently disconnected from the farmer line as rapidly as the availability of facilities of the Roseville Telephone Company will permit. No service will be rendered the Sylvan-Roseville Rural Telephone Company under this schedule on or after November 1, 1954.

2. The special conditions, numbered 1 through 7 attached to Schedule No. A-12, Farmer Line Service, are equally applicable to service under this temporary schedule and by this reference are made a part hereof.