

ORIGINALDecision No. 49630

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 LOS GATOS TELEPHONE COMPANY, a)
 California corporation, for authority) Application No. 34471
 to increase rates and charges for)
 exchange telephone service at Novato,)
 California.)

For Applicant: Orrick, Dahlquist, Herrington and
 Sutcliffe, by Warren A. Palmer.
 For Interested Parties: California Farm Bureau
 Federation, by Eldon N. Dye; T. D. Hardcastle,
 in propria persona.
 For Commission Staff: J. T. Phelps.

O P I N I O N

By the above-entitled application, filed June 25 and as amended December 22, 1953, Los Gatos Telephone Company, a California corporation, seeks an order of this Commission authorizing increases in rates and charges for exchange telephone service rendered in its Novato exchange in Marin County.

A public hearing in the matter was held before Commissioner Craemer and Examiner Emerson on December 30, 1953 and was submitted for decision upon receipt of Exhibit No. 3 on January 8, 1954. No person appeared in opposition to applicant's rate increase proposal.

Applicant's Position and Request

Applicant seeks an increase in gross revenues of approximately \$23,200 annually based upon the level of business for the 12-month period ended August 31, 1953. Its present exchange telephone service rates have remained unchanged since 1925.

Applicant alleges that sharp increases in construction costs, operating expenses and property and income taxes since the end of World War II have combined to create a marked and continuing attrition of applicant's earnings and rate of return. As examples,

applicant points to increased plant construction costs of 36 per cent, on a customer basis, since 1945; an operating expense increase per telephone station of 56 per cent in the same period; an increase in federal income taxes from a 38 per cent rate in 1945 to the present 52 per cent rate; and an increase in local and ad valorem taxes of more than 962 per cent. During this period the average revenue per station has increased somewhat less than 18 per cent. Increased revenues resulting from growth have not kept pace with costs, according to applicant, hence applicant finds that it requires prompt and substantial rate relief in order for it to continue to meet its public obligations and attract capital funds sufficient to permit expansion of its plant to meet the service demands of the public.

Applicant's rate proposal is summarized, for basic rates, in the following tabulation in which comparison is made with present rates:

Item	Rate per Month	
	Present Rate	Proposed Rate
<u>Residence</u>		
1-Party	\$2.75	\$4.05
2-Party	2.50	3.50
4-Party	2.25	2.75
10-Party	2.50	3.20
Extension	1.00	1.25
<u>Business</u>		
1-Party	\$3.25	\$6.50
2-Party	2.75	5.25
4-Party	2.50	4.75
10-Party	2.75	4.75
Extension	1.00	1.50

Applicant's Operations

In the past few years applicant has been faced with meeting public demands for greatly expanded and increased service. In 1946 this system served 412 stations and had a plant investment of approximately \$36,500. Since July 1, 1951 applicant has installed

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plant improvement at a cost of more than \$100,000. During the same period primary station service has increased from 1,262 to 2,046 stations as of the end of August 1953. Such plant improvements have meant installing two additional switchboard positions, line multiples, electronic ringing, pay stations, aerial plant and added toll trunks. To meet public demand for dial service, applicant has budgeted in excess of \$150,000 for the purchase of equipment necessary for conversion to dial in the spring of 1955. At the present time applicant has no held orders for primary service. At the time of dial conversion applicant will be in a position to undertake general upgrading of service and the offering of one-party and two-party business service as desired by many subscribers.

Nature of Evidence

In the interest of expeditious processing of this rate matter, so that needed relief might be obtained promptly on a basis compatible with that employed by the Commission in the last rate case pertaining to applicant's operations in its other exchanges, applicant reduced its original requested gross revenue increase from \$28,400 to \$23,200 per annum based upon operating results adjusted to normalized conditions^{1/} applied to a test period of 12 months ended August 31, 1953. In addition, the company, following conferences with the Commission staff and interested parties held prior to the hearing in this matter, attempted to follow methods used by the Commission staff in presenting evidence in proceedings of this nature.

In the main, applicant's showing consisted of testimony supporting or explaining the exhibits attached to its application, as amended, through three witnesses. Applicant also placed in evidence six supplementary exhibits. Interested parties and the Commission staff participated in the cross-examination of witnesses; the staff, by its counsel, indicating that it had carefully checked

^{1/} "Normalized conditions" included adjustments to present wage rates and depreciation rates, as well as a number of miscellaneous adjustments to place the two past test periods on as nearly as possible the current level.

applicant's underlying records and exhibits and had found them to be substantially correct.

Calculations developing net for return were made by applicant for the two 12-month periods ended August 31, 1952 and August 31, 1953. Depreciated rate bases were developed for the same periods. With the deduction of \$9,935 representing contributed plant improperly included in applicant's development of rate bases, the results of these calculations respecting results of operations are summarized as follows:

12 Months Ended August 31, 1952
Present Rates

Item	Recorded	Normalized
Operating Revenues	\$ 97,691	\$ 94,355
Operating Expenses		
Before Taxes and Depreciation	60,161	72,663
Taxes	11,937	6,373
Depreciation	7,237	13,237
Total Operating Expenses	79,335	92,273
Net Revenue	18,356	2,082
Rate Base (Depreciated)	189,768	193,297
Rate of Return	9.67%	1.08%

12 Months Ended August 31, 1953
Present and Proposed Rates

Item	Present Rates Recorded	Normalized	Proposed Rates Normalized
Operating Revenues	\$114,984	\$117,252	\$140,299
Operating Expenses			
Before Taxes and Depr.	80,406	88,798	88,798
Taxes	13,408	9,741	21,823
Depreciation	11,953	14,353	14,353
Total Operating Exps.	105,767	112,892	124,974
Net Revenue	9,217	4,360	15,325
Rate Base (Depr.)	238,120	248,326	245,299
Rate of Return	3.87%	1.76%	6.25%

With respect to operations in applicant's other exchanges this Commission has heretofore found^{1/} that rates of return of 6.5 per cent in the Los Gatos exchange and 6.41 per cent in the Morgan

^{1/} Decision No. 46982 in Application No. 31765 (First Supplemental) issued April 8, 1952.

Hill exchange were fair and reasonable and authorized rates for telephone service in said exchanges, effective May 1, 1952, designed to produce such rates of return based upon operations during 1952. In the instant proceeding applicant presented evidence respecting its over-all operations which shows that, during the test period ended August 31, 1953, total company operations were producing a rate of return of only 4.28 per cent on a depreciated rate base of over \$1,955,000. If applicant's requested rate increase in Novato had been fully effective for the same period, the rate of return on total operations, on a normalized basis, would have been approximately 4.8 per cent on an equivalent rate base of \$1,953,000.

Conclusions

We find that applicant has clearly demonstrated its need for and entitlement to the increased revenues which it has requested for its Novato exchange. The rate of return which applicant's proposed rates would produce for the 1953 test year (6.25 per cent on a depreciated rate base of \$245,299) is fair and reasonable. We shall authorize the rates requested by applicant.

Applicant's presentation has been predicated on an aggregate federal income tax of 52 per cent. Such rate, under present law, will be reduced to 47 per cent on April 1, 1954. In order to insure that applicant's Novato subscribers will not be required to provide more than the amount of taxes properly chargeable to operating expenses, applicant has entered into a written understanding (Exhibit No. 2 in this proceeding) by which it agrees to adjust its rate schedules to reflect the effect of any change in income taxes. Such written understanding is reasonable and will be approved.

Applicant will be expected to continue its plant expansion program and complete the proposed dial conversion as scheduled for

the spring of 1955. As of the date of dial cutover applicant shall review its accruals to the reserve for depreciation and base future accruals upon the 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

Los Gatos Telephone Company having applied to the Commission for an order authorizing increases in rates and charges for telephone service rendered in its Novato exchange, public hearing 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 the present rates and charges, in so far as they differ from those herein authorized, 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 conformance with the provisions of General Order No. 96, the tariffs set forth in Exhibit No. 4 in this proceeding and, after not less than five days' notice to the public and to this Commission, to make said tariffs effective for service rendered in the Novato exchange on and after March 1, 1954.

IT IS HEREBY FURTHER ORDERED that the memorandum of understanding regarding federal income taxes contained in Exhibit

No. 2 in this proceeding is approved and applicant is directed to govern itself in accordance with the terms thereof.

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

Dated at San Francisco, California, this 2nd day of February, 1954.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners