

ORIGINAL

Decision No. 50430

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of SANGER TELEPHONE COMPANY, a)	
corporation, for an order author-)	
izing increases and changes in)	Application No. 35006
its rates for telephone service)	(As Amended)
and miscellaneous supplemental)	
services.)	

Alden C. Knapp and Frank V. Rhodes, for applicant.
Ray Crow and F. W. Shepherd, for Round Mountain Rural Telephone Company, protestant.
J. J. Deuel and Eldon N. Dye, for California Farm Bureau Federation;
F. V. Rhodes, for California Independent Telephone Association, interested parties.
Neal C. Hasbrook, for the Commission staff.

O P I N I O N

By the above-entitled application, filed December 30, 1953 and as amended April 24, 1954, Sanger Telephone Company, a California corporation, seeks an order of this Commission authorizing increases in rates and charges for exchange telephone service rendered in Sanger and vicinity, Fresno County.

A public hearing in the matter was held before Examiner Emerson on June 16, 1954, in Sanger. The matter was submitted subject to the filing of a late-filed exhibit (No. 5) received July 15, 1954.

Applicant's Position and Request

Applicant's present rates were established by this Commission's Decision No. 43627, issued December 20, 1949 and became effective January 16, 1950. By such decision applicant was accorded a rate of return of 6.1 per cent on a depreciated rate base of

approximately \$461,000. Since the prior rate proceeding applicant's plant investment has increased substantially, primarily due to conversion from manual to dial operation during the year 1950. Such conversion coupled with rehabilitation and expansion of plant in succeeding years has increased its investment in total plant in service by approximately \$387,000 in the past four years.

According to applicant, the effects of the increased plant investment, a leveling off of station growth and an abrupt decline in toll revenues, the latter resulting from completion of the Pine Flat Dam construction project, have occasioned a decline in rate of return to a point where rate relief has become necessary. Basically applicant seeks to be restored to an adequate earning position, which in its opinion should be that which would earn a rate of return of 7 per cent.

Applicant seeks to increase monthly charges for most of the exchange telephone services it offers. Under the rates which it proposes applicant estimates that annual gross revenues would be increased by about \$26,000.

The present basic rates and those proposed by applicant, segregated to principal classes and grades of service, are compared in the following tabulation:

	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>Increase</u>
Residence Service, per Month			
1-party	\$3.25	\$4.40	\$1.15
2-party	2.75	3.65	.90
4-party	2.25	2.90	.65
Suburban	2.75	3.25	.50
Business Service, per Month			
1-party	5.25	6.75	1.50
2-party	4.25	5.50	1.25
Suburban	4.00	4.50	.50
Public Telephone			
Each Exchange Message	.05	.10	.05
Farmer Line, per Month			
Residence	.60	1.00	.40
Business	1.00	1.50	.50
Minimum, per Line	1.80	3.00	1.20

Nature of Evidence

Applicant's showing consisted of detailed testimony supporting the exhibits attached to its application and amendment thereto. As an end result, such showing demonstrated that applicant earned a rate of return of 5.89 per cent in 1953 on a rate base of approximately \$595,000; whereas in the year 1954 on a rate base approximating \$613,000 the rate of return would decline to about ~~4.81~~ per cent.

The Commission staff presented the results of its investigation of applicant's operations by means of two exhibits and oral testimony. On rate bases almost identical to those developed by applicant, the staff analysis indicated rates of return of 5.77 per cent for 1953 and 5.15 per cent for the estimated year 1954.

In addition to the above, an agreed-upon late-filed exhibit was received for the purpose of showing the revenue and rate of return effects which would follow an increased toll revenue settlement resulting from the intrastate toll rates effective August 1, 1954.^{1/} On the assumption that the new toll rates were in effect for the full year 1954, such exhibit shows that the above-mentioned rate of return of 5.15 per cent would increase to 5.93 per cent.

Differences between the respective showings of applicant and staff are readily reconciled. The greatest revenue difference occurs from the estimates of station growth, applicant and staff alike having first assumed an increase of 100 stations but applicant having revised its estimate downward to 40 stations in order to more

^{1/} Decision No. 50258 in Application No. 33935.

nearly reflect actual growth as revealed by a more recent study which indicated a definite decrease in rate of growth.

With respect to operating expenses the only major difference between the two presentations occurs in the treatment accorded federal taxes on income. Applicant used the 1953 tax rate of 52 per cent throughout, while the staff showed the 47 per cent rate as well as the prior tax rate of 52 per cent, thus emphasizing the effect of federal taxes on applicant's earnings and on the telephone subscriber.

Conclusions

In view of the evidence we find that applicant is in need of and entitled to increased revenues although not to the extent sought by applicant. Increased rates will be authorized in order to improve applicant's earning position.

We find the following to represent a reasonable estimate of results of operations for a normalized 12-month period in the immediate future, with federal taxes on income based upon the composite rate of 52 per cent, and under authorized rates to indicate a reasonable return on a fair and reasonable rate base:

	<u>Present Rates</u>	<u>Authorized Rates</u>
Gross Revenues	\$204,300	\$213,700
Total Operating Expenses	168,500	173,600
Net Revenue	35,800	40,100
Rate Base (depreciated)	613,300	613,300
Rate of Return	5.84%	6.54%

While applicant's operators time and ticket toll messages to 27 points in California they dial directly only numbers of subscribers of Fresno and its tributaries. The Commission takes official notice of the extensive toll dialing network now in service in California and elsewhere throughout the nation as well as additions that are programmed for the future. In order for applicant more fully to realize the economies of operator toll dialing applicant immediately should enter into negotiations with The Pacific

Telephone and Telegraph Company to take full advantage of all present operator toll dialing possibilities and future extensions thereof.

Witness for the Commission staff made six recommendations respecting applicant's operations, rate schedules and accounting procedures including a recommendation that the applicant make accruals to the depreciation reserve on a straight-line remaining life basis. Applicant stated it was in accord with all of the recommendations and already has placed certain of them into effect. It is expected that applicant will proceed promptly to place such recommendations into effect.

Participation of Others

No persons other than representatives of the Farm Bureau and the Round Mountain Rural Telephone Company came forward to offer any comments respecting applicant's rate request during this proceeding. The Farm Bureau participated in cross-examination of witnesses. The Rural Telephone Company representatives made statements of position in which they indicated that applicant's rate request was just in all respects except as to farmer-line residential rates.

Authorized Rates

The rates hereinafter authorized, segregated to principal classes of service, are as follows:

	<u>Authorized Rate</u>
Residence Service, per Month	
1-party	\$3.50
2-party	3.00
4-party	2.40
Suburban	3.00
Extension Station	1.00
Business Service, per Month	
1-party	5.75
2-party	4.50
Suburban	4.25
Extension Station	1.25
Public Telephone	
Each Exchange Message	.10
Semipublic Coin Box	
Minimum Charge per Day	.21
Additional Monthly Charge	.75
Each Exchange Message	.10
Farmer Line, per Month	
Residence	.85
Business	1.50
Minimum per Line	3.00

O R D E R

Sanger Telephone Company having applied to this Commission for an order authorizing increases in rates and charges, a 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, in so far as they differ from those prescribed herein, 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 the provisions of General Order No. 96, the changes in rates and charges set forth in Appendix A attached to this order and, on not less than three days' notice to this Commission and the public, to make such rates effective for service furnished on and after September 15, 1954.

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

Dated at San Francisco, California, this 17th day of August, 1954.

John E. Mitchell
 President

Justin Z. Casseus

Walter Potter

Gene Higgins

 Commissioners

APPENDIX A
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RATES

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

Schedule No. A-1

Approved, except the rates for business and residence service shall be as follows:

	Wall, Desk or Hand Set Station Rate per Month	
	<u>Business Service</u>	<u>Residence Service</u>
Each individual line primary station	\$5.75	\$3.50
Each two-party line primary station	4.50	3.00
Each four-party line primary station	-	2.40
Each extension station	1.25	1.00

Schedule No. A-2

Approved, except the rate for each 10-party line primary station shall be \$4.25 per month for business service and \$3.00 per month for residence service.

Schedule No. A-3

Approved without change.

Schedule No. A-6

Approved, except the rate for each residence farmer line station shall be \$0.85 per month and Special Condition 4 shall be revised to read as follows:

"4. Service will be rendered to less than three subscribers provided that the total minimum exchange revenue of each circuit is not less than \$3.00 per month."

Schedule No. A-7

Approved, except the rate for each central office trunk line shall be \$8.50 per month.

Schedule No. A-8

Approved, except the rate for each joint user service furnished in connection with individual or party line business service shall be \$1.50 per month.

Schedules Nos. A-12, A-13, A-14, A-15, A-20, and A-21

Approved without change.

Schedule No. A-29

The present schedule shall be continued in effect without change.

APPENDIX A
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RATES

Schedules Nos. A-31 and A-32

Approved without change.

Base Rate Area Map

Approved without change.