

**ORIGINAL**Decision No. 50820

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of the )  
 SAN JOAQUIN TELEPHONE COMPANY, a corpora- )  
 tion, for an order authorizing increases ) Application No. 35527  
 and changes in its rates for telephone )  
 services and miscellaneous supplemental )  
 services. )

Talbot Kendall, Leland Dowden and John Rosson,  
 for applicant.  
Lanier S. Brady, for the mayor and city council  
 of Ripon and the Ripon Chamber of Commerce;  
Edson Abel, for California Farm Bureau  
 Federation, interested parties.  
H. F. Wiggins and John F. Donovan, for the  
 Commission staff.

O P I N I O N

San Joaquin Telephone Company, a California corporation, by the above-entitled application, filed June 21, 1954, seeks an order of this Commission authorizing increased rates and charges for telephone service rendered in its Manteca and Ripon exchanges in San Joaquin County.

Public Hearing

After due notice a public hearing in the matter was held before Examiner F. Everett Emerson on October 13, 1954 at Manteca.

Applicant's Position and Request

Applicant seeks an increase of \$84,229 in annual gross revenues, based upon the level of business as of April 30, 1954. The specific rates which it proposes are purported to produce such an increase.

The telephone rates now in effect were established by this Commission's Decision No. 48147 in Application No. 34494 issued January 13, 1953. Such rates were designed to produce net revenues

sufficient to yield a rate of return of 6.25 per cent on a depreciated rate base of \$535,000 for the then estimated average year 1953. By said decision applicant was ordered to substantially expand its plant and better its service. It has done so. In addition, of applicant's own volition, it undertook an inventory and appraisal of its properties and, under this Commission's authority, has corrected and restated its books of account. The end result, according to applicant, has been one which has reduced its earnings below that which it considers reasonable and thus has made the seeking of further rate relief necessary. It now seeks a rate of return of 7.93 per cent on a rate base which it computed to be \$722,427.

A comparison of presently effective basic exchange service rates with those which applicant now proposes, is as follows:

Item	Rate per Month	
	Present Rate	Requested Rate
<u>Residence Service</u>		
1-Party	\$3.50	\$5.50
4-Party	2.50	4.00
Suburban 10-Party	2.50	4.50
Extension	1.00	1.25
<u>Business Service</u>		
1-Party	5.35	8.50
2-Party	4.00	6.75
4-Party	3.00	6.00
Suburban 10-Party	3.00	6.00
Extension	1.25	1.50

#### Applicant's Operations

Applicant provides common battery manual service in its Manteca exchange and dial service in its Ripon exchange to a total of over 4,000 stations. Continuous service is provided at both exchanges for local and toll traffic.

The business office and manual central office are located in Manteca. One block removed, the company maintains its corporation yard which provides warehouse and shop space, vehicle parking areas,

and pole yard facilities. At Ripon, the unattended dial central office is housed in a one-story, concrete building having provision for vertical expansion.

As of June 30, 1954, there were 59 full-time and 12 part-time employees on the company's payroll in addition to the officers of the company. The traffic force consisted of 32 full-time and 12 part-time operators. The plant force consisted of 18 personnel, forming a well-rounded force capable of performing all ordinary maintenance and construction functions. There were five commercial and four general office employees.

As of the date of hearing, applicant had no held orders and was meeting all of the public's demands for service on a current basis. Such situation is normal and was that ordered by this Commission's above-mentioned decision.

#### Results of Operations

Applicant and the Commission staff presented exhibits and testimony in support thereof respecting the results of operations of this utility for the years 1953 and 1954. Except for the common starting point of fixed capital the presentations differ markedly as to the amounts, weightings and items included. They are not directly comparable.

Certain deficiencies in applicant's presentation are readily apparent. In addition, applicant's witnesses admitted to certain errors in methods and calculations. In view of the evidence we shall adopt the staff-developed results of operations as being appropriate

for the purpose of analyzing applicant's earning position in this proceeding. A summary of such presentation is as follows:

Results of Operations

Item	:Year 1953 Adjusted: : Present Rates	Year 1954 Estimated :Present Rates:Proposed Rates:	:
<b>Operating Revenues</b>			
Local Service	\$127,800	\$139,600	\$224,800
Toll Service	151,200	157,100	157,100
Miscellaneous	4,400	11,900	11,900
Uncollectibles	(1,200)	(1,300)	(1,700)
Total	282,200	307,300	392,100
<b>Operating Expenses</b>			
Maintenance	40,000	51,500	51,500
Traffic	92,300	97,300	97,300
Commercial	18,600	27,800	27,800
General Office	24,800	39,600	39,600
Other	21,800	10,200	10,200
Taxes	29,800	25,000	68,300
Depreciation	23,500	28,100	28,100
Total	250,800	279,500	322,800
Net Revenue	31,400	27,800	69,300
<b>Rate Base</b>			
Net Plant and Working Capital	815,700	947,100	939,100
Depreciation Reserve	(107,400)	(131,400)	(131,400)
Total	708,300	815,700	807,700
Rate of Return	4.43%	3.41%	8.58%
(Inverse Item)			

Applicant undertook cross-examination of the staff only on the subject of ad valorem taxes. The staff witness was in agreement with applicant that the latest available tax information would indicate a net revenue approximately \$1,600 less than that shown in the above tabulation. With such reduction the rate of return becomes 3.14 per cent under present rates and 8.38 per cent at proposed rates for the estimated year 1954.

The company has financed itself in part through the issue of 5 and 6 per cent notes and 7 per cent preferred stock, as well as with current obligations, and it now is contemplating the issue of

6 per cent income debentures. Its capital structure at the present time, exclusive of short-term borrowings, is as follows:

Item	Amount	Per Cent of Total
Long-Term Debt	\$195,162	34%
Preferred Stock	250,000	44
Equity Capital		
Common Stock	\$100,000	
Earned Surplus	<u>28,261</u>	
Total Equity Capital	128,261	22
Total	<u>573,423</u>	100

In Exhibit 8 a staff witness estimated the annual interest and dividend requirements of the outstanding preferred stock and the long-term debt, including \$280,000 of income debentures not yet issued, at \$44,470. In addition, the presently outstanding issues call for sinking fund payments during the next year of \$6,250, which payments, of course, do not constitute charges against the net income but may be provided with moneys in the treasury, including depreciation moneys.

In the past, applicant's management has elected to provide the greater part of its capital requirements with borrowed moneys and with funds obtained through the issue of shares of preferred stock. The Commission has authorized such issues because of poor service conditions on applicant's system and the necessity for the company to obtain construction funds without delay. At the same time it commented on the high level of interest associated with applicant's issues and the lack of balance in its capital ratios, and it placed

the company on notice that it would not regard interest and dividends in fixing rates for service.<sup>1</sup>

Applicant has obtained a relatively small part of its construction funds through the issue of common stock. It appears from the testimony in this proceeding that the holders of applicant's shares of common stock have invested funds in real property and improvements in Manteca and Ripon which they have leased to applicant corporation and that they are obtaining a return in the form of rent. It is likely that had applicant obtained a greater proportion of its capital requirements through the issue of common stock it would have been in a position to engage in senior financing at more favorable terms. Applicant should undertake to improve its capital structure at once, either through the sale of additional shares of common stock or through the issue of such shares in exchange for properties it now operates.

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<sup>1</sup> In Decision No. 48274, dated February 17, 1953, the Commission said:

"At the same time, however, we wish to point out to those who intend to invest in any public utility stocks or bonds that they must take the risk of success in the venture and that the Public Utilities Commission cannot insure any utility against lack of success. The most that the investor may expect from the Commission is that the utility will be authorized to charge rates designed to yield a fair return on the money invested in operative plant, as it is not the Commission's practice to fix rates measured by interest and dividends on outstanding securities. In this connection Section 828 of the Public Utilities Code, referring to stocks and security transactions, reads as follows:

'No provision of this part, and no act done or performed under or in connection therewith, shall obligate the State to pay or guarantee, in any manner whatsoever, any stock or stock certificate or other evidence of interest or ownership, or bond, note, or other evidence of indebtedness, authorized, issued, or executed under the provisions of this part.'"

Conclusion

It is apparent that applicant is not now earning a reasonable rate of return and is entitled to relief in the form of increased revenues. The return which applicant seeks, however, in this instance is unreasonable. In view of the evidence we shall authorize telephone rates which should yield gross revenues of \$354,600. After deduction of total reasonable operating expenses of \$304,100 a net revenue of \$50,500 will result, thereby producing a rate of return of 6.25 per cent on a depreciated rate base of \$807,700. For the purposes of this proceeding we find such rate base and rate of return to be reasonable.

The Commission takes official notice of the fact that under the Internal Revenue Code of 1954, the federal normal income tax rate will decrease five percentage points, effective April 1, 1955. The order herein will be based upon the present federal income tax rate but will require a showing by applicant, not later than March 1, 1955, of its results of operation for the most recent 12-month period. Upon receipt of such showing the Commission will determine whether or not the rates authorized herein should be reduced in an amount equivalent to said decrease in income taxes.

Authorized Rates

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

<u>Classification</u>	<u>Rate per Month</u>
Residence	
1-Party	\$4.70
4-Party	3.15
Suburban	3.65
Extension	1.00
Business	
1-Party	7.50
2-Party	6.00
4-Party	5.00
Suburban	5.50
Extension	1.50

On an annual basis the authorized rates will produce an increase of \$47,500 in gross revenues.

O R D E R

San Joaquin 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, 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 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 the provisions of General Order No. 96, revised tariffs containing changes in rates and charges as set forth in Appendix A attached hereto and, after not less than five days' notice to the public and to this Commission, to make said tariffs effective for service rendered on and after January 1, 1955.



IT IS HEREBY FURTHER ORDERED that, unless the Internal Revenue Code shall have theretofore been revised to continue the present federal income tax rate through the year 1955, applicant shall, on or before March 1, 1955, file with this Commission a verified rate of return statement for the most recent available 12-month period showing its revenues, expenses, net revenue, and rate base adjusted to the basis of the findings herein, but reflecting the authorized rates for telephone service on a full-year basis and the reduced federal income tax rate.

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

Dated at San Francisco, California, this 30th day of November, 1954.

John E. Mitchell  
President

William H. Patton

James J. Higgins

Paul L. Lusk

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Commissioners

Commissioner Justus F. Craomer, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A  
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RATES

The presently effective rates and charges are changed only as set forth in this appendix.

Schedule No. A-1  
Individual and Party Line Service

The following rates for residence and business individual and party line service are authorized to be made effective.

	<u>Wall, Desk or Handset Station</u>	
	<u>Rate per Month</u>	
	<u>Residence</u>	<u>Business</u>
	<u>Service</u>	<u>Service</u>
Each Individual Line Primary Station ..	\$4.70	\$7.50
Each 2-Party Line Primary Station .....	-	6.00
Each 4-Party Line Primary Station .....	3.15	5.00
Each Extension Station .....	1.00	1.50

Schedule No. A-5  
Suburban Service

The following rates for residence and business 10-party line suburban service are authorized to be made effective.

	<u>Wall, Desk or Handset Station</u>	
	<u>Rate per Month</u>	
	<u>Residence</u>	<u>Business</u>
	<u>Service</u>	<u>Service</u>
Each 10-Party Line Primary Station ...	\$3.65	\$5.50
Each Extension Station .....	1.00	1.50

APPENDIX A  
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RATES

Schedule No. A-7

Private Branch Exchange Service

The following rates for private branch exchange service are authorized to be made effective.

Manual Switchboard Rate:	<u>Rate per Month</u>
Each switchboard position with battery and ringing supply circuits and switchboard telephone:	
Maximum capacity 3 trunks and 12 station lines	\$10.00
Maximum capacity 4 trunks and 16 station lines	12.00
Maximum capacity 5 trunks and 12 station lines	13.00
Trunk Rate, each line .....	11.25
Station Rate:	
Each wall, desk or handset station not located in hotel guest room .....	1.50
Each wall, desk or handset station located in hotel guest room .....	1.25

Schedule No. A-10

Key System Service

The following rates for key system service are authorized to be made effective.

Equipment and Station Rate:	<u>Rate per Month</u>
First handset station and associated relay equipment, arranged for a system with a capacity of:	
6 trunks, 20 stations and 4 keyless extension stations .....	\$20.00
Each additional key handset station .....	2.25
Trunk Line Rate:	
Each central office trunk line .....	11.25

RATES

Schedule No. A-12  
Joint User Service

The following rates for joint user service are authorized to be made effective.

	<u>Rate per Month</u>
Each joint user service in connection with flat rate business service .....	\$2.00

Schedule No. A-15  
Supplemental Equipment

The following rates for supplemental equipment are authorized to be made effective.

	<u>Installation Charge</u>	<u>Rate per Month</u>
Bells :		
Industrial Signal ....	\$3.00	\$1.50

Installation charges applicable to applications received by utility before February 1, 1953 are authorized to be canceled.

Schedule No. A-19  
Move and Change Charges

The following charges for moves and changes are authorized to be made effective.

Private Branch Exchange Switchboards:	<u>Charge</u>
Moving from one location to another in same or other room .....	Actual Cost