

ORIGINAL

Decision No. 509S7

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application)
of DELTA TELEPHONE and TELEGRAPH)
COMPANY, a corporation, for an)
order authorizing certain in-)
creases and changes in its rates)
for exchange telephone service.)

Application No. 35579
(Amended)

B. E. Hart, T. E. Marchand and F. V. Rhodes,
for applicant.
Edson Abel, for California Farm Bureau
Federation; Frank V. Rhodes, for California
Independent Telephone Association, interested
parties.
Neal C. Hasbrook, for the Commission staff.

O P I N I O N

Delta Telephone and Telegraph Company, by the above-entitled application filed July 2, 1954 and as amended September 25, 1954, seeks an order of this Commission authorizing increases in rates and charges for exchange telephone service rendered in its Courtland, Isleton and Walnut Grove exchanges.

A public hearing in the matter was held before Examiner F. Everett Emerson on November 17, 1954 at Courtland.

Rates, Present and Proposed

Applicant seeks increases in exchange rates as shown in the following tabulation. The presently effective rates were authorized by this Commission's Decision No. 48063 in Application No. 33463 issued December 16, 1952 and have been charged since February 1, 1953. Applicant estimates that the rates which it now seeks will provide a gross revenue increase of \$14,038 annually. In general the proposed

rates are below the level of rates for similar service on other California telephone utilities.

Monthly Rates for Exchange Service

: Class of Service :	: No. of Services :	: Present Rate :	: Proposed Rate :
<u>Residence</u>			
1-Party	105	\$2.75	\$3.25
2-Party	290	2.25	2.75
4-Party	134	2.00	2.25
10-Party	703	2.50	2.75
<u>Business</u>			
1-Party	150	3.65	5.85
2-Party	163	2.75	4.50
10-Party	168	3.20	4.00
<u>PBX</u>			
Trunks	4	5.40	8.75

Results of Operation

The following tabulation is a summary of the presentations respecting results of operations as made by applicant and the Commission staff. Such summary is taken from the exhibits in this proceeding as modified by oral testimony.

No subscriber appeared at the hearing to express opposition to applicant's proposals or to offer testimony respecting applicant's service. The farm bureau actively participated in the cross-examination of witnesses.

Summary of Presentations

: Item :	: Present Rates :		: Proposed Rates :	
	: Applicant :	: CPUC Staff :	: Applicant :	: CPUC Staff :
<u>Year 1953</u>	(Actual)	(Adjusted)	(Adjusted)	(Adjusted)
Operating Revenues	\$184,698	\$192,300	\$205,900	\$205,900
Operating Expenses	160,263	166,800	174,200	174,200
Net Revenues	24,435	25,500	31,700	31,700
Rate Base (Depr.)	422,903	423,200	423,200	423,200
Rate of Return	5.78%	6.03%	7.49%	7.49%
<u>Year 1954</u>	(Estimated)	(Estimated)	(Estimated)	(Estimated)
Operating Revenues	\$195,719	\$198,700	\$210,072	\$212,600
Operating Expenses	170,908	172,500	178,652	179,900
Net Revenues	24,811	26,200	31,420	32,700
Rate Base (Depr.)	445,497	446,900	445,497	446,900
Rate of Return	5.57%	5.86%	7.05%	7.32%

On the basis of operations during the year 1954 the respective estimates of applicant and staff are in close agreement. No questions respecting differences between the two were left unresolved at the hearing. In view of the evidence we adopt as reasonable the estimates of results of operations for 1954 shown in the following tabulation:

Adopted Results of Operations
Year 1954

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$197,200	\$211,000
Operating Expenses	171,700	179,300
Net Revenues	25,500	31,700
Rate Base (Depreciated)	446,000	446,000
Rate of Return	5.72%	7.11%

Conclusions

It is apparent that applicant is experiencing a less than satisfactory return. By our Decision No. 48063 in 1952 it was intended that applicant be afforded a rate of return of 6½ per cent and it was fully anticipated that the telephone rates then authorized would produce such a return for the year 1953 after a due allowance for a declining trend in rate of return. The evidence clearly shows that the decline in rate of return was half again as great as we anticipated that it would be on the basis of the record in applicant's last rate proceeding and that such decline was due primarily to increases in elements of rate base. In the present situation both the applicant's and our staff's witnesses testified that a downward trend is expected to continue into 1955 due to growth of rate base and the progressive replacement of older low-cost plant facilities with new facilities at the currently higher labor and material costs. Exhibit No. 4 in this proceeding shows that during 1955 applicant will add approximately 21 miles of outside wire plant, new submarine cable crossings and certain additional central office equipment to serve presently

waiting subscribers. In view of such evidence we conclude that the telephone rates which applicant requests will produce a rate of return no greater than 6½ per cent in the future and we find such a rate of return on an average depreciated rate base of \$446,000 to be fair and reasonable.

Applicant is entitled to rate relief in the total amount sought. Its proposed rates are reasonable and will be authorized.

The staff recommended that applicant prepare a study of costs and the programming of conversion of the exchanges to full selective ringing on all stations over an appropriate economic period. Applicant should undertake such study without delay.

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 14, 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.

O R D E R

Delta Telephone and Telegraph Company having applied to the 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 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 tariff sheets containing the rates and charges set forth under the title "Proposed Amended Application" in Amended Exhibit D attached to its application in this proceeding and, on not less than five days' notice to the public and to this Commission, to make said rates and charges effective for service rendered on and after March 1, 1955.

IT IS HEREBY FURTHER ORDERED that, unless the Internal Revenue Code shall have theretofore been revised to continue the federal income tax rate through the year 1955, applicant shall, on or before March 14, 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 18th day of JANUARY, 1955.

[Signature]
President.
[Signature]
[Signature]
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Commissioners.