

ORIGINAL

Decision No. 52178

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 COLFAX TELEPHONE EXCHANGE, a California)
 corporation, for authority to increase) Application No. 36952
 rates and charges for exchange tele-)
 phone service within applicant's Colfax)
 exchange.)

Neal C. Hasbrook, for applicant.
Dos Palos Telephone Company by Richard D. Crowe;
Sierra Telephone Company by Harry H. Baker;
California Independent Telephone Association
 by Neal C. Hasbrook; The Pacific Telephone
and Telegraph Company by Arthur T. George and
 by Dexter C. Tight of Pillsbury, Madison &
Sutro; California Farm Bureau Federation by
Eldon N. Dye, interested parties.
James M. McCraney and John F. Donovan, for the
 Commission staff.

O P I N I O N

By the above-entitled application, filed May 11, 1955,
 Colfax Telephone Exchange, a California corporation, seeks an
 order of this Commission authorizing increases in rates and charges
 for exchange telephone service rendered in the City of Colfax and
 vicinity in Placer and Nevada Counties. Applicant seeks an annual
 gross revenue increase of \$15,400.

A public hearing in the matter was held before Examiner
 F. Everett Emerson in Colfax on September 1, 1955.

Rates, Present and Proposed

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

<u>Item</u>	<u>Rate per Month</u>	
	<u>Present</u>	<u>Requested</u>
Residence		
1-Party	\$3.00	\$6.00
4-Party	2.25	4.25
Suburban	2.75	4.75
Farmer Line	.50	1.00

<u>Item</u>	<u>Rate per Month</u>	
	<u>Present</u>	<u>Requested</u>
Business		
1-Party	\$4.00	\$8.50
2-Party	-	7.00 ^a
4-Party	3.00 ^b	-
Suburban	3.50	6.50
Farmer Line	.75	1.50
Private Branch Exchange		
Trunk	6.00	12.75
Station	1.25	1.50

a. New offering.

b. Discontinued offering, service to be upgraded.

Applicant also proposes to increase other charges, representative items being as follows:

<u>Item</u>	<u>Present Charge</u>	<u>Requested Charge</u>
Public Telephone; each exchange message Service Connection	\$0.05	\$ 0.10
Residence, each primary station	5.00	7.00
Business, each primary station	6.00	10.00
Moves and changes, subscriber's set	2.50	4.00

Applicant's Operations

Applicant is now in the midst of a rebuilding and rehabilitation program which was scheduled to culminate in a cutover from manual to dial operation on September 18, 1955. As of the date of dial cutover, an estimated 635 company stations and 8 subscriber stations would be served by the dial equipment. In addition, one dial private branch exchange would service 105 extension stations. After dial cutover, the number of applicant's employees were expected to be reduced from nine, to five, since traffic operators would then no longer be necessary.

Dial operations, together with a considerable proportion of new outside plant facilities, should greatly improve both quality and continuity of service following a short period of adjustment under the new mode of operations, according to applicant. The number of subscriber complaints regarding service should sharply drop thereafter. A completely adequate and modern service is to be expected.

Summary of Presentations

In view of applicant's dial conversion, both applicant and the engineer of the Commission staff made their primary showing as to results of operations on an estimated 12-month period ending June 30, 1956. These presentations are summarized as follows:

Results of Operations
Test Year Ending June 30, 1956

Item	Present Rates		Requested Rates	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$ 38,300	\$ 37,400	\$ 53,600	\$ 53,800
Operating Expenses				
Before Taxes and Depr.	30,700	23,400	30,700	23,400
Taxes	6,000	5,855	7,200	9,790
Depreciation	8,600	8,180	8,600	8,180
Total Oper. Exps.	<u>45,300</u>	<u>37,435</u>	<u>46,500</u>	<u>41,370</u>
Net Revenue	(7,000)	(35)	7,100	12,430
Rate Base (Depr.)	229,216	219,190	228,666	219,190
Rate of Return	loss	loss	3.10%	5.67%

(Red Figure)

As illustrated by the above, the evidence is clear that applicant would operate at a loss during the test year if existing rates were continued in effect for such year. The evidence also indicates that during the latest recorded full year's operations (1954) applicant operated at a loss of about \$6,000. Applicant is in need of and entitled to increased revenues.

Applicant's Investment

In connection with applicant's financing, we stated in Decision No. 48810, issued July 14, 1953, in Application No. 34274, "In the event we may be called upon to fix rates in the future, we will give consideration at that time to applicant's investment in properties and the terms under which it has financed itself". The present record shows that applicant has outstanding \$42,040 of common stock. It has contracted for a long-term loan of \$228,000 from the United States Rural Electrification Administration and, as of the date of dial cutover, has drawn upon such loan to a total of \$201,000.

The staff's estimated balance of applicant's fixed capital (total plant in service) as of July 1, 1955, is \$218,110 and as of June 30, 1956 is \$225,510. As indicated by the evidence in this proceeding, the equity capital amounts to approximately \$35,000 and the total capitalization, including debt and equity, to \$236,000, a sum in excess of the value of the plant in service.^{1/}

The R.E.A. loan, which represents approximately 90 per cent of applicant's rate base, is payable over a period of 35 years with interest at the rate of 2 per cent per annum. On the basis of the indebtedness presently outstanding, applicant will be called upon to pay \$4,020 for interest annually. These favorable terms, as well as the other elements of applicant's financing discussed above, will be accorded due consideration in the determination of the fair and reasonable rate of return to be allowed on a depreciated rate base representing physical properties.

Conclusions and Authorized Rates

In view of the evidence we conclude that applicant is in need of and entitled to a gross revenue increase of approximately \$8,250 annually. Such increase will produce annual gross revenues approximating \$45,650 which, when related to the operating expenses and rate base shown in the following tabulation, will yield a fair and reasonable rate of return to applicant.

Test Year Ending June 30, 1956

Gross Operating Revenues	\$ 45,650
Operating Expenses	
Before Taxes and Depreciation	23,400
Taxes	7,120
Depreciation	8,180
Total Operating Expenses	<u>38,700</u>
Net Revenue	6,950
Average Depreciated Rate Base	219,190
Rate of Return	3.2%

Results of operations in the above volume should be ample to service applicant's obligations and to yield a reasonable return on the amount of equity capital invested in operative properties.

^{1/} It appears that the excess may be accounted for in part by investments in current assets.

We find the above-tabulated revenues, expenses, rate base and rate of return to be fair and reasonable in the light of the entire record in this proceeding. The rates hereinafter authorized are designed to produce such an indicated result.

Rates authorized for basic exchange telephone service and comparisons with existing rates are shown in the following tabulation.

<u>Item</u>	<u>Rate per Month</u>	
	<u>Present</u>	<u>Authorized</u>
Residence		
1-Party	\$3.00	\$4.30
4-Party	2.25	2.95
Suburban	2.75	3.45
Farmer Line	.50	1.00
Business		
1-Party	4.00	7.25
2-Party	-	5.75
4-Party	3.00	-
Suburban	3.50	5.00
Farmer Line	.75	1.75
Private Branch Exchange		
Trunk	6.00	10.75
Station	1.25	1.50

The evidence is clear that applicant's base rate area should be enlarged and the order herein will require that applicant enlarge such area as recommended by the Commission staff. The evidence also indicates that applicant's rules should be revised so as to reflect modern telephone practices. The order herein will so provide.

ORDER

Colfax Telephone Exchange having applied to this Commission for an order authorizing it to increase rates and charges for exchange 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 increased rates and charges authorized herein are justified and that 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 as follows:

1. Applicant is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the tariff sheets contained in Exhibit No. 2 in this proceeding as specifically approved or modified by Appendix A attached to this order and, after not less than five days' notice to the public and to this Commission to make said tariff sheets applicable to and effective for all service rendered on and after December 1, 1955, excepting that increases in installation charges and move and change charges shall be made effective on applications received by the utility on and after December 1, 1955.

2. Coincidental with establishment of the new rates hereinabove authorized, applicant shall establish a base rate area at Colfax the boundaries of which shall be not less than as set forth in Exhibit No. 3 in this proceeding, and within thirty days thereafter shall file with this Commission four copies of a map of said base rate area delineating thereon the precise boundaries thereof.

3. Within sixty days from the effective date of this order, applicant shall file in quadruplicate with this Commission, rules governing subscriber relations, revised to reflect present-day operating practices acceptable to this Commission and in conformity

with the provisions of General Order No. 96, together with current forms that are normally used in connection with subscriber service.

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

Dated at San Francisco, California, this 1st day of November, 1955.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners

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

APPENDIX A
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RATES

The schedules of rates and charges set forth in Exhibit No. 2 in this proceeding are authorized as specifically approved or modified hereinafter.

Preliminary Statement

Approved without change.

Schedule No. A-1

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

	<u>Wall, Desk or Handset Station Rate per Month</u>	
	<u>Business Service</u>	<u>Residence Service</u>
Each individual line primary station	\$7.25	\$4.30
Each two-party line primary station	5.75	-
Each four-party line primary station	-	2.95
Each extension station	1.50	1.00

Schedule No. A-2

Approved, except the rate for each 10-party line primary station shall be \$5.00 per month for business service and \$3.45 per month for residence service.

Schedule No. A-4

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

	<u>Rate per Month</u>	
	<u>Business Service</u>	<u>Residence Service</u>
Each primary station	\$1.75	\$1.00
Minimum charge per circuit	3.00	3.00

Schedule No. A-5

Approved, except the rate for each central office trunk line shall be \$10.75 per month.

RATES (Contd.)Schedule No. A-6

Approved without change.

Schedule No. A-7

Approved, except the rates shall be as follows:

	<u>Wall Set or Wall Handset</u>		
	<u>Rate per</u> <u>Month</u>	<u>Each Exchange</u> <u>Message</u>	<u>Minimum Charge</u> <u>per Day</u>
Each individual line station with coin box	\$0.75	\$0.10	\$0.22
Each extension station without coin box	1.50	-	-

Schedule No. A-8

Approved without change.

Schedule No. A-9

Approved, except that the rates for each joint user service in connection with business flat rate service shall be \$1.50 per month.

Schedule No. A-10

Approved, except the rate for each central office trunk line shall be \$7.25 per month.

Schedule No. A-16

Approved without change.

Schedule No. A-17

Approved without change.