

ORIGINALDecision No. 52593

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 A. A. HARRINGTON, doing business as
 LIVINGSTON TELEPHONE COMPANY, for
 authority to increase rates and
 charges for exchange telephone serv-
 ice within applicant's Livingston
 exchange.

Application No. 37356

Neal C. Hasbrook, for applicant;
California Farm Bureau Federation by Bert Buzzini
 and Eldon Dye; California Independent Telephone
Association by Neal C. Hasbrook; Dos Palos
Telephone Co., Inc., by Richard D. Crowe;
Sierra Telephone Company by Harry Baker;
Charles Harney Ranch by Jack K. Dooling,
 interested parties;
James M. McCraney, for the Commission staff.

O P I N I O NNature of Proceeding

By this application, filed September 30, 1955, A. A. Harrington (Livingston Telephone Company) seeks an order of this Commission authorizing increases in rates and charges for exchange telephone service rendered in Livingston and vicinity in Merced County. Basically, applicant seeks an annual gross revenue increase of \$12,400.

Public Hearing

After due notice to the public, hearing in the matter was held before Examiner F. Everett Emerson on December 28, 1955, at Livingston. Approximately 16 of applicant's subscribers attended the hearing. Six of them testified respecting service matters.

Submission of the matter was taken on January 9, 1956, after receipt of a late-filed exhibit.

Rates, Present and Proposed

Applicant's basic exchange rates have been in effect since March 1, 1950. Such rates are substantially below rates in other exchanges adjacent to applicant's Livingston exchange. 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>Proposed</u>
Residence		
1-party	\$2.75	\$ 4.05
2-party	2.25	3.50
4-party	1.75	2.95
Suburban	2.75	3.45
Farmer line50	.85
Business		
1-party	3.75	6.50
2-party	3.00	5.25
Suburban	3.25	4.75
Farmer line75	1.50
Foreign Exchange		
Residence, 10-party	2.75	3.45
Service Connection Charges		
Residence, primary station	5.00	7.00
Business, primary station	6.00	10.00
Extension station	2.50	4.00
Instrumentalities in place	2.50	4.00
Move and Change Charges		
Subscribers' telephone sets	2.50	4.00
PBX, per station	2.50	4.00
Intercom, per station, same room ...	5.00	15.00
Intercom, per station, different room	7.50	20.00

Applicant's Operations

Livingston and its surrounding territory has had telephone service since 1910. Applicant has been serving the area since 1921 and as sole owner since 1935. In addition to the full-time services of A. A. Harrington and Blanche Harrington, his wife, the company has three full-time plant employees, seven full-time and one part-time operators, and one full-time and one part-time office employees.

As of September 30, 1955, the utility had 957 company-owned and 37 subscriber-owned stations in service. The company grew very slowly until the end of World War II. In the past 10 years, however, plant growth has increased from about \$31,000 to approximately

\$144,000 and the number of subscribers has risen from about 295 to the 957 before mentioned. At the present time, applicant has no held orders.

Applicant plans to convert the present manual operations to dial operations during the latter part of 1956.

Summary of Presentations

In this proceeding applicant and the Commission staff presented oral testimony and exhibits respecting the results of applicant's operations. These are summarized in the following tabulation:

Summary of Earnings (Year 1955 Estimated)

Item	Present Rates		Proposed Rates	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$63,000	\$ 63,180	\$75,300	\$ 75,820
Operating Expenses				
Before Taxes and Depr.	52,900	44,600	52,900	44,600
Taxes	4,200	6,030	6,500	10,180
Depreciation	9,500	9,900	9,500	9,900
Total Oper. Exps.	66,600	60,530	68,900	64,680
Net Revenue	(3,600)	2,650	6,400	11,140
Rate Base (Depr.)	94,638	105,273	93,538	105,273
Rate of Return	loss	2.52%	6.84%	10.58%

(Red Figure)

As illustrated by the above, the evidence is clear that applicant is not earning a reasonable return under existing telephone rates. Applicant has demonstrated the utility's need for and entitlement to increased revenues.

The differences in expenses and rate base apparent in the above tabulations arise primarily from the respective treatment accorded the accounting for use of a telephone building and secondarily from differences of opinion respecting the reasonableness of salaries for the Harringtons. The building in question was purchased by applicant and his wife in 1928 and originally was used in connection with the electrical and plumbing business of Mr. Harrington. Today the entire building is devoted to the telephone business and is rented by the Harringtons to the telephone company for \$3,000 per year.

The original cost of the land and building is reported as \$6,750 and the cost of improvements is reported as \$8,967. The Commission staff, in this proceeding, excluded the rental from operating expenses, included the depreciated cost of the building and the cost of the land in the rate base and included an allowance for expenses and taxes on this property. Such adjustments by the staff reflect well-established Commission policy.

With respect to the reasonableness of salaries of the owners, we must point out that it is not this Commission's function to establish wage or salary levels within this or any other utility, nor shall we attempt, directly, or indirectly, to do so in this proceeding. However, it is the clear duty of this Commission, in the exercise of its rate-fixing functions, to protect the public from the payment of exorbitant rates for utility service and to authorize rates and charges that are no more than reasonable from the standpoints of both the subscriber and the utility. In determining those reasonable rates which applicant may charge for telephone service, therefore, we will allow a total operating expense which, in the light of all of the evidence, in our opinion will meet the reasonable needs of this utility operation.

Subscriber Participation

As previously mentioned, six of applicant's subscribers testified in this proceeding. In the main, their testimony consisted of complaints respecting service. The majority complained of delays in reaching the operator, operator inattention and poor quality of transmission on long-distance calls.

The prospective dial operations should greatly improve service following a short period of adjustment under the new mode of operations. Complaints regarding service should sharply drop thereafter. A completely adequate and modern service is to be expected.

Conclusions

We find that applicant is in need of and entitled to increased revenues and, in view of the evidence, we conclude that a gross revenue increase of \$9,120 annually is adequate and proper. Such increase will produce annual gross revenues of approximately \$72,300 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.

Year 1955

Gross Operating Revenues	\$ 72,300
Operating Expenses	
Before Taxes and Depreciation	47,500
Taxes	8,050
Depreciation	9,900
Total Operating Expenses	<u>65,450</u>
Net Revenue	6,850
Average Depreciated Rate Base	105,300
Rate of Return	6.5%

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.

Applicant has proposed revision of the Livingston base rate area. In view of the evidence we conclude that such area should be expanded to not less than that recommended by the staff and the order herein will so provide.

Applicant will be required to adopt and follow the straight-line remaining life method of depreciation accounting.

The basic exchange rates hereinafter authorized are as follows:

	<u>Rate per Month</u>
Residence	
1-party	\$3.75
2-party	3.20
4-party	2.65
Suburban	3.15
Farmer line	.75
Business	
1-party	6.00
2-party	4.75
Suburban	4.50
Farmer line	1.25

Applicant has proposed changes in the charges made for line extensions. In view of the fact that applicant is one of the respondents in an investigation on this Commission's own motion (Case No. 5337, initiated November 6, 1951) into the entire matter of line extension practices and charges and, further, that such matter was submitted on November 3, 1955, with decision thereon not yet having been rendered, applicant's request in this regard will not be granted at this time. The matter will be held in abeyance pending decision in said Case No. 5337.

Other charges as requested by applicant are reasonable and will be authorized.

It is 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.

O R D E R

Based upon the record and the conclusions and findings with respect thereto contained in the foregoing opinion,

IT IS HEREBY ORDERED that A. A. Harrington (Livingston Telephone Company) is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformance with the provisions of General Order No. 96, changes in schedules of rates and charges as set forth in Appendix A attached to this order and, on not less than three days' notice to the public and to this Commission, to make said revised rates and charges effective for exchange telephone service rendered on and after March 1, 1956, except that increases in installation, service connection and move and change charges shall be made effective on subscribers' applications received by the utility on and after said date of March 1, 1956.

IT IS HEREBY FURTHER ORDERED as follows:

1. Coincident with the establishment of the rates and charges hereinabove authorized, applicants shall expand its base rate area at Livingston, to boundaries which shall not be less than as set forth on Chart 1-A of Exhibit 2 in this proceeding, except, however, that such boundaries shall not partition any existing single premise, 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.
2. Effective for the year 1955 and continuing thereafter applicants shall determine depreciation accruals by multiplying the dollar amount of depreciable fixed capital by a rate of 6.9 per cent, using such rate until review indicates that it should be revised. Further, applicants shall review said rate, using the straight-line remaining life method of depreciation accounting, whenever major changes in plant composition occur and at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

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

Dated at San Francisco, California, this 7th day of FEBRUARY, 1956.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners

Rox Hardy
Commissioner....., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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RATES

The presently effective rates, charges and conditions are changed as set forth in this appendix:

Schedule No. A-1

	<u>Rate per Month</u>	
	<u>Residence Service</u>	<u>Business Service</u>
Each individual line primary station	\$3.75	\$6.00
Each two-party line primary station	3.20	4.75
Each four-party line primary station	2.65	-
Each extension station	1.00	1.50

Schedule No. A-2

	<u>Rate per Month</u>	
	<u>Residence Service</u>	<u>Business Service</u>
Each ten-party line primary station	\$3.15	\$4.50
Each extension station, with or without ball	1.00	1.50

Schedule No. A-3

	<u>Rate per Month</u>		
	<u>Residence Service</u>	<u>Business Service</u>	<u>Minimum Charge per Line</u>
Each station	\$0.75	\$1.25	\$3.75

Schedule No. A-6

The installation charges and monthly rates set forth in Exhibit No. 1 are authorized without change.

Schedule No. A-7

	<u>Wall-Set or Wall Handset</u>		
	<u>Each Exchange Message</u>	<u>Rate per Month</u>	<u>Minimum Charge per Day</u>
Each individual line coin box station	\$0.10	\$0.75	\$0.20
Each extension station without coin box	-	1.50	-

Schedule No. A-14

The monthly rates set forth in Exhibit No. 1 are authorized without change.

Schedule No. A-15

The installation charges and monthly rates set forth in Exhibit No. 1 are authorized, except that the rate per month for each buzzer circuit is authorized to be \$0.40.

Schedule No. A-16

<u>Station Rate:</u>	<u>Rate per Month</u>
Each wall, desk or handset station	\$1.50

APPENDIX A
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RATES

Schedule No. A-17

The monthly rate set forth in Exhibit No. 1 is authorized without change.

Schedule No. A-28

The service connection charges set forth in Exhibit No. 1 are authorized without change.

Schedule No. A-29

The move and change charges set forth in Exhibit No. 1 are authorized, except that such charges for moving PBX switchboards are authorized as follows:

PBX switchboards, per position:	<u>Same Room</u>	<u>One Room to Another</u>
Cordless	\$10.00	\$20.00
Cord:		
40 lines or less	10.00	20.00
41 to 80 lines	15.00	30.00
81 to 320 lines	35.00	70.00
Over 320 lines	Actual Cost	Actual Cost