AM

Decision No. 53122

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of MARIPOSA COUNTY TELEPHONE COMPANY, INC., a California corporation, for authority to increase rates and charges for exchange and toll telephone service within applicant's Mariposa exchange.

Application No. 37376

Neal C. Hasbrook for applicant.
Eldon N. Dye for California Farm Bureau Federation;
Richard D. Crowe for Dos Palos Telephone Co., Inc.;
Neal C. Hasbrook for California Independent Telephone Association; interested parties.
James M. McCraney for the Commission staff.

O P I N I O N

Nature of Proceeding

By the above-entitled application, filed October 7, 1955, Mariposa County Telephone Company, Inc., seeks an order of this Commission authorizing increases in rates and charges for exchange and toll telephone service rendered to the community of Mariposa and vicinity. Basically, applicant seeks increased revenues of $11,770 annually.

Public Hearing

Public hearing in the matter was held before Examiner F. Everett Emerson on February 29, 1956, at Mariposa and the matter was submitted subject to the receipt of two late-filed exhibits received on March 8, 1956.

Rates, Present and Requested

Applicant requests increases in rates for exchange telephone service, for service connection and move and change charges, and for certain supplemental equipment and miscellaneous services. Applicant proposes to establish rates for intrastate toll service for messages originating or terminating in the Mariposa exchange in lieu of the rates of the connecting toll company which presently apply to toll service. Applicant also proposes to file rates for leased and private lines lower than those now being charged for such service.

Comparisons of certain basic rates and charges as now charged and as proposed by applicant are shown in the following tabulations:

Exchange Service

Classification	Present	Proposed
Residence Service, per month		
1-party	$3.25	$4.25
4-party	2.25	3.00
Suburban	2.75	3.75
Business Service, per month		
1-party	4.75	6.50
2-party	4.00	5.25
Suburban	3.75	5.00
Extension	1.25	1.50
Farmer Line Service, per month		
Residence	.50	1.00
Business	.75	1.50
Service Connections, Instruments Not in Place		
Primary Residence Station	5.00	7.00
Primary Business Station	6.00	10.00
Move and Change Charges	2.50	3.00

Toll Service[(a)]

Typical Terminal Point	Present	Proposed
Yosemite	$0.35	$0.45
Merced	.40	.50
Fresno	.55	.70
Stockton	.70	.90
San Francisco-Oakland	.85	1.10

(a) For initial 3 minutes, station to station.

Applicant estimates that the requested exchange rates would produce an annual increase of $3,850 in exchange revenues. The estimated increased revenue from toll rates is $7,920. The sum of the two equals the gross increase of $11,770 sought by applicant.

Applicant's Operations

Applicant was incorporated on December 3, 1954 for the purpose of acquiring and operating the telephone properties known as the Mariposa Telephone Exchange, which was a proprietorship operation owned by Harry H. Baker, Jr., who had purchased the system as of July 1, 1953. Mr. Baker, Jr., controls the corporation through stock ownership and is its president and a working employee of the utility. Mr. Baker, Jr., also controls the Sierra Telephone Company, Inc., another telephone utility corporation, at Raymond, and performs similar functions for such utility. Employees on the payroll of each utility include Mr. Baker, Jr., his father, his mother, a commercial manager and two plant employees employed on a part-time basis.

Applicant's only regular full-time employee is the Commercial Manager at Mariposa, who also performs some construction and maintenance work. Most construction and maintenance work, all accounting and billing work and a large portion of subscriber service and collections are performed for applicant by the Sierra Telephone Company. All of applicant's records are kept in Raymond.

Applicant serves approximately 312 company-owned stations and 29 farmer-line stations in an exchange area which encompasses about 210 square miles of territory lying in the western foothills of the Sierra Nevada. The dial central office is wired for 200 lines and is equipped for six toll trunks and 120 lines providing common battery dial telephone service. The six toll circuits consist of one physical, one phantom and four carrier circuits and are owned by The Pacific Telephone and Telegraph Company. The connecting company provides applicant with toll ticketing and operator assistance functions, such as information, time of day and trouble reporting, from Merced.

Applicant's Earning Position

Oral testimony and exhibits respecting the financial results of applicant's operations were presented by applicant's president and by an engineer of the Commission staff. A summary of the respective presentations, as applicable to applicant's over-all operations, is as follows:

Results of Operations

Year 1955 Estimated

Item	Present Rates Applicant	Present Rates CPUC Staff	Requested Rates[a] Applicant	Requested Rates[a] CPUC Staff
Operating Revenues[a]	$18,142.	$17,980.	$29,797.	$30,740.
Operating Expenses				
Maintenance	4,803.	4,090.	4,803.	4,090.
Operation	16,658.	13,030.	16,658.	13,030.
Taxes	1,500.	1,180.	2,273.	3,710.
Depreciation	2,491.	2,700.	2,491.	2,700.
Total Op. Exps.	25,452.	21,000.	26,225.	23,530.
Net Revenue	/7,310./	/3,020./	3,572.	7,210.
Rate Base (Depr.)	51,973.	47,200.	51,633.	47,200.
Rate of Return	loss	loss	6.92%	15.28%

/red figure/

(a) Operating revenues reflect the cents-per-message toll settlement in effect in 1955.

As illustrated by the foregoing tabulation, the evidence is clear that during the year 1955 revenues were insufficient to fully offset the total expenses of operation.

The major differences between the showings of applicant and of the staff of the Commission occur in the accounts covering office salaries, pensions, rents, travel expenses, the amortization of the costs of an inventory and appraisal, and in the assignment of materials and supplies to rate base.

With respect to office salaries, applicant included salaries for Mr. and Mrs. Baker, Sr., Mr. Baker, Jr., and Mr. Warren, the local manager. Mr. Baker, Jr., and his father and mother are also on the payroll of the Sierra Telephone Company. The staff included an over-all amount for office salaries which it considered reasonable for the total costs associated with general and local management, revenue and general accounting, and commercial functions.

Applicant's pension costs arise from a newly adopted pension plan which is jointly applicable to the Mariposa and Sierra companies. Applicant's pension cost figure was developed before the plan became effective; the staff's figure represents an allocation of the finally determined actual cost.

With respect to rents, a staff adjustment was made to correct bookkeeping errors and to separate personal rental and utility costs from those properly assignable to utility operations. Staff adjustments to travel expenses consisted of a reassignment of certain amounts from operating expenses to the expenses of financing through a prospective REA loan. Costs of an inventory and appraisal of telephone properties were spread over a three-year period by applicant and over a ten-year period by the staff.

Applicant's amount of materials and supplies included in rate base arose from an inventory of stock made in the year 1954. Inspection of the stock and of the inventory by the staff revealed that telephone sets already charged to plant accounts were included and that much of the inventoried materials were not actually on hand. The staff rate base, therefore, included only an amount for materials and supplies which the staff engineer believed to be appropriate for the normal telephone utility operations of applicant.

The record in this proceeding contains an analysis of applicant's operations for the estimated year 1955 separated into toll and exchange components. Such analysis conclusively shows that applicant's costs of handling toll business in 1955 were substantially undercompensated under the cents-per-message toll settlement agreement then effective and that, therefore, applicant's toll business operated at a substantial loss. The analysis further shows that the exchange business also operated at a loss but of considerably lesser magnitude than that of toll.

At the hearing on February 29, 1956 witness for applicant testified that a verbal agreement had been reached between applicant and The Pacific Telephone and Telegraph Company which would have the effect of substantially increasing applicant's toll revenues effective on and after January 21, 1956. The Commission takes notice of the fact that on April 5, 1956 there was filed with the Commission a written agreement between applicant and The Pacific Telephone and Telegraph Company executed on March 6, 1956 providing for a new cost basis of toll settlement on and after January 21, 1956 which is estimated to increase applicant's toll revenues approximately $4,490 on an annual basis.

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 $8,110 annually is adequate and proper before giving effect to the additional revenues arriving from the new toll settlement agreement. Such increase will produce annual gross revenues of approximately $26,050 based upon the level of business in 1955 which, when related to the reasonable operating expenses and rate base shown in the following tabulation, will yield a fair and reasonable rate of return to applicant.

Gross Operating Revenues	$26,050
Operating Expenses	
Before Taxes and Depreciation	17,500
Taxes	1,870
Depreciation	3,400
Total Operating Expenses	22,770
Net Revenue	3,280
Average Depreciated Rate Base	50,400
Rate of Return	6.5%

We find the above-entitled 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 over-all result after giving effect to applicant's new toll settlement agreement with The Pacific Telephone and Telegraph Company. We further find that such new toll settlement agreement will produce revenues sufficient to defray applicant's costs of handling toll business including a rate of return of not less than 7.0% on its investment devoted to the handling of such toll business. Under the circumstances, the rates for toll service proposed by applicant need not be authorized. The exchange rates hereinafter authorized are estimated to increase applicant's revenues by approximately $3,620 based on 1955 operations.

With respect to service, the record clearly indicates the public need for rehabilitation of certain sections of the toll lead by The Pacific Telephone and Telegraph Company and for additional central office facilities of applicant designed to relieve present inadequacies. In view of the evidence respecting service deficiencies, applicant will be required to add no fewer than 2 links and

10 lines to its central office equipment in the immediate future and The Pacific Telephone and Telegraph Company should expedite completion of projects for rehabilitation of its toll lead to Mariposa. Applicant will also be required to enlarge its present base rate area. The effects of such improvements on applicant's operations are reflected in the foregoing findings as to operating results at the rates hereinafter authorized.

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:

Item	Rate per Month
Residence	
1-party	$4.20
4-party	2.90
Suburban	3.40
Farmer Line	1.00
Business	
1-party	$6.50
2-party	5.25
Suburban	4.75
Farmer Line	1.50

It is found as a fact that the increased rates and charges authorized herein are justified and that present rates and charges, insofar 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 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, changes in schedules of rates and charges as set forth in Appendix A attached to this order and, on not less than five 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 July 1, 1956, <u>except</u> 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 July 1, 1956.

2. Coincident with the establishment of the rates and charges hereinabove authorized, applicant shall expand its base rate area at Mariposa to boundaries which shall not be less than as set forth on Chart 1B of Exhibit No. 3 in this proceeding, <u>except</u>, 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.

3. Within ninety days from and after the effective date of this order applicant shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, rules governing subscriber relations revised to reflect present-day operating practice, together with the current forms that are normally used in connection with customer service.

4. Effective for the year 1955 and continuing thereafter applicant shall determine depreciation accruals by multiplying the dollar amount of depreciable fixed capital by a rate of 5.5 per cent, using such rate until review indicates that it should be revised. Further, applicant 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 the Commission.

5. Within 90 days after the effective date of this order applicant shall have added no fewer than two links and ten lines to its central office equipment compared to its capacity on February 29, 1956, the date of hearing in this matter.

6. Within 60 days after the effective date of this order applicant shall file a report with this Commission setting forth its progress in establishing and maintaining a work order system and a file of subscribers' complaints.

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

Dated at San Francisco, California, this 22nd day of May, 1956.

President

Commissioners

RATES

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

Schedule No. A-1

The following rates are authorized:

	Rate Per Month	
	Residence Service	Business Service
Each individual line primary station	$4.20	$6.50
Each two-party line primary station	-	5.25
Each four-party line primary station	2.90	-
Each extension station	1.00	1.50

Schedule No. A-3

The following rates are authorized:

	Rate Per Month	
	Residence Service	Business Service
Each ten-party line primary station	$3.40	$4.75
Each extension station	1.00	1.50

Schedule No. A-4

The following rates are authorized:

	Rate Per Month	
	Residence Service	Business Service
Each farmer line station	$1.00	$1.50
Minimum charge per line: $3.00		

RATES (Continued)

Schedule No. A-6

The following changes in charges for moves and changes are authorized:

	Charge
Subscribers' Telephone Sets:	
Moving from one location to another on the same premises, each set	$3.00
Change in type or style not required by change in class, type or grade of service or type of operation	3.00

Private Branch Exchange Systems: Moving from one location to another:	Same Room	One Room to Another
(a) Each PBX station	$3.00	$3.00

Schedule No. A-7

The following changes in charges for service connections are authorized:

	Charge: Residence	Charge: Business
(1) New and Additional Service:		
Instrumentalities Not in Place:		
Each individual, party or auxiliary line primary station and PBX trunk	$7.00	$10.00
Each private branch exchange or intercommunicating system station, except operators' sets	3.00	3.00
Each extension station	3.00	3.00
(2) Instrumentalities in Place and No Change of Location or Type of Facilities Involved:		
Each service including all stations and supplemental equipment connected thereto	3.00	3.00
Each private branch exchange or intercommunicating system, complete with trunks	3.00	3.00

RATES (Continued)

Schedule No. A-9

The following changes in rates are authorized:

	Rate Per Month
Each loud ringing extension bell	$1.00
Each two-way key	.35
Each buzzer circuit, including push button, buzzer battery and 50 feet (circuit measurement) or less of wire	.50
Each industrial signal	1.50

Schedule No. A-10

The following changes in rates are authorized:

	Rate Per Month
Cordless Type Switchboard	
Maximum capacity 4 trunks and 16 station lines	$10.00
Each central office trunk line	9.75
Each desk or hand set station not located in hotel guest room	1.50

Schedule No. A-11

The following changes in rates are authorized:

	Rate Per Month
Each joint user service furnished in connection with:	
Private branch exchange or intercommunicating system service	$3.00