

55408
Decision No. _____

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's)
own motion into the Rates, Rules,)
Charges, Classification, Contracts,) Case No. 5766
Practices, Operations and Service)
of SAN JOAQUIN TELEPHONE COMPANY.)

Claude N. Rosenberg and William Fleckles of
Bacigalupi, Elkus & Salinger for Respondent.
Bert Buzzini and Joseph O. Jovnt for California
Farm Bureau Federation; and Neal C. Hasbrook
for California Independent Telephone Asso-
ciation, Interested Parties.
Mary Moran Pajalich and William Bunlop for the
Commission Staff.

O P I N I O N

Purpose of Investigation

The Commission on May 15, 1956, instituted the above-entitled investigation of the San Joaquin Telephone Company for the purpose of determining if a reduction in rates is warranted stating: "It appearing from 1955 operating results that the earnings of San Joaquin Telephone Company may be higher than the return found reasonable in 1954 in Decision No. 50820 in Application No. 35527."

Public Hearing

After due notice to the respondent and civil authorities in the respondent's service area, four days of public hearing were held on this investigation during the period November 28, 1956, to July 8, 1957, before Commissioner Ray E. Untereiner and Examiner Manley W. Edwards. The first day of hearing was held in Manteca and subsequent days of hearing were held in San Francisco.

The Commission staff presented ten exhibits and testimony by a financial examiner and two telephone engineers to show that the respondent's earnings were in excess of 6.25 per cent. The

respondent presented 17 exhibits and testimony by four witnesses to show that its earnings were not as great as computed by the staff. Following the first three days of hearing and study of the staff's exhibits the respondent offered to file schedules which would result in a \$10,000 annual rate reduction, labeled Trial Rate Reduction "A" in the Staff's Exhibit No. 19.

Respondent's Operations

The San Joaquin Telephone Company owns and operates a telephone system furnishing exchange service in Manteca and Ripon and contiguous territory in San Joaquin County. The Manteca exchange is centered about the City of Manteca which is located some 13 miles south of the City of Stockton. The Ripon exchange includes the City of Ripon which lies approximately 6 miles south of Manteca on U. S. Highway 99.

Respondent provided common battery manual service in its Manteca exchange to 3,290 stations and dial service in its Ripon exchange to 1,129 stations as of July 31, 1956. Respondent plans in December, 1957, to replace its manual central office in Manteca with dial equipment to be leased from the Stromberg Carlson Company. The leases had not yet been executed on the last day of hearing.

Earnings Computations

The staff presented Exhibit No. 2 at the first day of hearing which indicated earnings in the range of 8.00 per cent to

8.12 per cent. A summary of the computations is shown on Table 1. On the second day of hearing the respondent presented its earning calculations in Exhibits Nos. 3, 5, 6 and 11 showing earnings in the range of 5.32 per cent to 5.81 per cent. These figures also are summarized on Table 1. At the third day of hearing the staff presented additional computations covering the estimated year 1958 under the assumption that the lease on the Manteca dial central office equipment would be on ten or twenty year bases or included in the rate base. Rates of return in the range of 7.90 per cent to 9.11 per cent were shown and likewise are summarized on Table 1. At the fourth day of hearing the respondent presented Exhibits Nos. 20-24 which contained adjustments to the staff's computations for such items as wage increases, new employees and changes occasioned by delay in installing the automatic toll ticketing system for handling customer dialed toll calls.

TABLE 1
Summaries of Earning Computations

	Operating Revenue	Operating Expenses	Net Revenue	Rate Base	Rate of Return
<u>Staff's Exhibit No. 2</u>					
Year 1955 Adjusted	\$403,200	\$337,500	\$ 65,700	\$ 818,100	8.03%
Year 1956 Estimated	434,500	363,290	71,210	890,400	8.00
Year 1957 Estimated	460,900	383,370	77,530	954,800	8.12
<u>Respondent's Exhibit No. 3</u> (Without present Leased Property in Rate Base)					
Year 1957 Estimated	471,500	423,000	48,500	911,000	5.32
<u>Respondent's Exhibit No. 5</u> (With present Leased Prop- erty in Rate Base)					
Year 1957 Estimated	471,500	413,600	57,900	1,026,800	5.64
<u>Respondent's Exhibit No. 6</u> (Without Present Leased Property in Rate Base)					
Year 1958 Estimated	500,200	440,200	60,000	1,033,300	5.81
<u>Respondent's Exhibit No. 11</u> (With present Leased Prop- erty in Rate Base)					
Year 1958 Estimated	500,200	414,400	85,800	1,514,400	5.67
<u>Staff's Exhibit No. 12</u> Revised (With New Central Office equipment in Rate Base assuming Current Debt Ratio of 61.5%)					
Year 1958 Estimated	526,400	404,500	121,900	1,517,700	8.03
<u>Staff's Exhibit No. 14</u> (With New Central office equipment included in Rate Base assuming 50% Debt Ratio)					
Year 1958 Estimated	526,400	406,400	120,000	1,517,700	7.90
<u>Staff's Exhibit No. 15</u> (With New Central office equip- ment on 10-year lease basis)					
Year 1958 Estimated	526,400	432,800	93,600	1,135,800	8.24
<u>Staff's Exhibit No. 16</u> (With New Central office equip- ment on 20-year lease basis)					
Year 1958 Estimated	526,400	423,000	103,400	1,134,700	9.11
<u>Respondent's Exhibit No. 20</u> (Adjustment of Staff's Exhibit No. 2 (1957) for 1958 allow- ances also applicable to 1957 shown on Exhibit No. 5)					
Year 1957 Estimated	481,400	411,120	70,280	981,420	7.10
<u>Respondent's Exhibit No. 21</u> (Exhibit No. 6 Adjusted for Toll Ticketing Payments and Miscellaneous Items)					
Year 1958 Estimated	508,760	437,710	71,050	1,028,600	6.90
<u>Respondent's Exhibit No. 22</u> (Exhibit No. 11 Adjusted for Toll Ticketing and Misc. Items)					
Year 1958 Estimated	508,760	427,160	81,600	1,406,850	5.80
<u>Respondent's Exhibit No. 23</u> (Staff Exhibit No. 15 (10-year Lease Basis) adjusted for Miscellaneous Items)					
Year 1958 Estimated	511,960	426,360	85,600	1,135,800	7.53
<u>Respondent's Exhibit No. 24</u> (Staff Exhibit No. 14 (50% Debt Rate) adjusted for Miscellaneous Items)					
Year 1958 Estimated	511,960	420,610	91,350	1,401,900	6.52

The rate of return shown by the applicant on the adjusted basis after allowing for a \$10,000 annual rate reduction is approximately 7.0 per cent. Counsel for respondent contends that if a return of 6.25 per cent was reasonable some three years ago a return of 7.0 per cent is not unreasonably high now in view of the conditions which presently obtain.

Trial "A" Reduction

The Trial "A" Reductions are:

<u>Class of Service</u>	<u>Presently Effective Rates</u>	<u>Trial Rate Reduction</u>	
		<u>Amount</u>	<u>Ratio</u>
Residence			
1-Party	\$4.70	\$0.35	7.4%
4-Party	3.15	.15	4.8
10-Party	3.65	.15	4.1
Extension	1.00	----	0.0
Business			
1-Party	\$7.50	\$0.50	6.7%
2-Party	6.00	.35	5.8
4-Party	5.00	.35	7.0
10-Party	5.50	.35	6.4
Extension	1.50	----	0.0

When these reductions are applied to the number of stations in each class the total annual saving is estimated at approximately \$10,000.

Commission Staff Position

The Commission staff did not oppose the offer made by the respondent to reduce rates in accordance with the staff's Trial Rate Reduction "A". It was agreed that the Commission and its staff may at any time review the earnings of the respondent. Respondent's counsel promised to submit such periodic reports as the Commission or staff might require as the change is made from manual to dial service in Manteca.

The staff also had an understanding that the respondent will, over a reasonable period of time, approximating five years, carry out a program of reducing the number of parties on suburban lines from ten to eight.

In a closing statement counsel for the staff discussed the effect of leasing the central office equipment rather than purchasing it. It was pointed out that the respondent's filed tariff provides that exchange service is available by means of facilities owned and operated by the respondent, and that no officer of respondent has authority to make any agreement inconsistent with its tariff without first having such changes accepted or approved by the Commission. Staff counsel questioned whether the respondent could dedicate the equipment to the public service when the lease provides that upon default and in any event upon the termination of the lease, the manufacturer can repossess the equipment. Also, the staff questioned if there would be a saving to the ratepayer. Under present income tax laws the respondent will probably show a higher return, but there is no guarantee that this condition will continue in the future. The question as to whether or not the proposed leases are in violation of the tariffs presently on file will be determined at the time respondent requests approval of the leases.

Findings and Conclusions

The staff's study on the operations of the San Joaquin Telephone Company were in considerable detail and provided for such items as adjustments in the officers' salaries for rate-making purposes and consideration of leased property as though included in the rate base. Economies in operation are expected to result from the addition of the new dial equipment that should make it possible for respondent to meet its public service obligation and render proper utility service in the future. While the indicated rate of return under Trial "A" level of rates is above the 6.25 per cent level which the Commission found reasonable in 1954, this utility has planned for the immediate future substantial changes in exchange and toll facilities and operations. There are uncertainties in the

estimates of future operations. Under all the circumstances Trial "A" level of rates appears reasonable at this time and such rates are expected to produce a rate of return of approximately 7 per cent. However, the Commission will periodically review respondent's operations including rate of return realized at the rates herein-after ordered.

In this order we have refrained from going into a detailed discussion of the many revisions made by the staff to adjust for certain erroneous accounting and management practices of respondent for rate-making purposes. Respondent has indicated its willingness to provide periodic earning reports and to improve its service. On this basis the Commission is of the opinion and finds that the staff's Trial Rate Reduction "A" should be authorized and that this investigation should be terminated.

O R D E R

Investigation on the Commission's own motion into rates, service, contracts, and practices of San Joaquin Telephone Company having been instituted, public hearing having been held, the matter having been submitted and now being ready for decision; therefore,

IT IS ORDERED that respondent shall file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, revised tariff schedules to conform with Appendix A attached hereto and, after not less than five days' notice to this Commission and to the public to make said rates effective for service rendered on and after September 1, 1957.

IT IS FURTHER ORDERED that this investigation be terminated.
The effective date of this order shall be twenty days after
the date hereof.

Dated at San Francisco, California, this 13th
day of August, 1957.

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

Commissioner Ray E. Untereiner, being
necessarily absent, did not participate
in the disposition of this proceeding.

APPENDIX A
RATES

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

Schedule No. A-1
Individual and Party Line Service

The following rates for business and residence services are to be made effective:

	<u>Wall, Desk or Hand Set Station</u> <u>Rate Per Month</u>	
	<u>Residence</u> <u>Service</u>	<u>Business</u> <u>Service</u>
Each individual line primary station	\$4.35	\$7.00
Each two-party line primary station	----	5.65
Each four-party line primary station	3.00	4.65
Each extension station	1.00	1.50

Schedule No. A-5
Suburban Service

The following rates for business and residence service are to be made effective:

	<u>Wall, Desk or Hand Set Stations</u> <u>Rate Per Month</u>	
	<u>Residence</u> <u>Service</u>	<u>Business</u> <u>Service</u>
Each ten-party line primary station	\$3.50	\$5.15
Each extension station	1.00	1.50

Schedule No. A-7
Private Branch Exchange Service

The following trunk line rate, is to be made effective:

	<u>Rate Per Month</u>
Each central office trunk line	\$10.50

Schedule No. A-10
Key System Service

The following trunk line rate is to be made effective:

	<u>Rate Per Month</u>
Each central office trunk line	\$10.50