

ORIGINALDecision No. 50642

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of DORRIS TELEPHONE COMPANY, a)
California corporation, for)
authority to increase rates and)
charges for exchange telephone)
service in the Dorris and Macdoel)
exchanges.)

Application No. 39653

Neal Hasbrook, for applicant.
Neal Hasbrook, for California Independent
Telephone Association, interested party.
Thomas L. Deal and Leo A. Blom, for the
Commission staff.

O P I N I O NApplicant's Request

The Dorris Telephone Company filed the above-entitled application on December 20, 1957 requesting authority to publish, file and make effective the proposed rates, charges and conditions set forth in Exhibit E attached to the application, or such other rates and charges as will increase its gross operating revenues for the year 1958 by \$2,305 or by 6.3 percent approximately on the average.

Public Hearing

After due notice a public hearing upon this application was held before Examiner Manley W. Edwards on March 24, 1958 at Dorris. Applicant presented two exhibits and testimony by one witness in support of its request. The Commission staff made an independent analysis of the applicant's operations and presented three exhibits and testimony by two witnesses for the purpose of developing a full record to aid the Commission in deciding this matter.

Applicant's Operations

Applicant, a corporation duly authorized and existing under the laws of the State of California, is a public utility owning and operating a telephone system furnishing exchange and toll telephone service in the incorporated City of Dorris and the unincorporated town of Macdoel and surrounding territory in Siskiyou County, California. Automatic dial exchange telephone service is furnished from central offices located at Dorris and Macdoel. Message toll telephone service is furnished through interconnection with the lines of The Pacific Telephone and Telegraph Company at Dorris. The operator function on toll calls is performed by the Pacific Company operators in Klamath Falls, Oregon.

Applicant's facilities consist of land, buildings, central office equipment, pole lines, cable, aerial wire, telephone instruments and other accessory appliances and equipment. Applicant represents, as of December 31, 1957, that the original cost of its property and equipment was \$125,348.15 and that 429 company-owned stations were being served.

Applicant's Position

Applicant states that its present rates and charges for exchange telephone service became effective generally on December 1, 1952 in both the Dorris and Macdoel exchanges. At the time the present rates became effective the Dorris exchange was served by a manual common battery switchboard. Since that time the Dorris exchange has been converted to dial operation and applicant represents that its investment in telephone plant has increased by approximately \$93,000.

During the year 1957 applicant states that it was necessary to add an additional maintenance and construction employee to its payroll, resulting in an increase of approximately \$3,200 in operating expenses for the year 1957. Also applicant states that its ad valorem taxes and other operating costs not directly under its control have increased substantially during the year 1957.

Applicant represents that the result of these cost increases was to reduce its rate of return from 5.0 percent in 1956 to 3.89 percent in 1957. For 1958 it originally estimated a return of 4.07 percent, but by the date of the hearing it had received word from The Pacific Telephone and Telegraph Company of an improved ratio on its toll settlements and revised upward its 1958 estimated return to 5.28 percent. In its Exhibit No. 2 it further broke down this 5.28 percent figure into 4.35 percent return on exchange operations and 6.86 percent return on toll operations.

Comparative Earning Summaries for 1958

The Commission staff estimated applicant would earn a rate of return of 4.9 percent in 1958 under present rate levels. A comparison of the applicant's and the staff's 1958 estimates at presently effective exchange rates in more detail follows.

Also shown are the results being adopted by the Commission for the purpose of testing the reasonableness of applicant's request.

<u>Item</u>	<u>Applicant Exh.No.2</u>	<u>Staff Exh.No.3</u>	<u>Adopted Operating Results</u>
Revenues			
Local	\$ 19,650	\$ 19,680	\$ 19,700
Toll	15,560	15,780	15,600
Miscellaneous	1,575	580	600
Uncollectibles	(410)	(540)	(500)
Total Revenue	36,375	35,500	35,400
Expenses			
Maintenance - Plant and Other Operation	7,490	7,750	7,500
Other Traffic Expense	350	350	350
Office Salaries	3,600	3,600	2,800
Other Operating Expense	6,375	6,150	5,700
Taxes - Ad Valorem and Payroll	4,345	4,380	4,350
Taxes on Income	1,775	1,640	2,100
Depreciation Expense	6,655	6,130	6,200
Total Expenses	30,590	30,000	29,000
Net Revenue	5,785	5,500	6,400
Rate Base			
Average Plant in Service	128,750	130,850	129,500
Working Cash	1,485	1,600	1,500
Depreciation Reserve (Deduct)	20,770	19,450	20,000
Total Depreciated Rate Base	109,465	113,000	111,000
Rate of Return	5.3%	4.9%	5.8%

(Red Figure)

In the adopted operating results shown above, which the Commission hereby finds fair and reasonable for the purpose of testing applicant's rate request, we have reduced the applicant's expenses with regard to office rent, office salaries and for personal use of a company automobile by the president. The record shows that only a small room in the president's home is used for office space and no separate office building is rented as would be suggested by the \$50.00 monthly rental charge; that the president does only a minimum of office work (for which he charged \$1,400), leaving this work to the secretary-treasurer and an outside accountant; and that

no adjustment was made for personal use of a Buick Sedan owned by the company (for which we deduct \$250 in expense and \$300 in rate base below the amount we otherwise would adopt). The staff's depreciation allowance is adopted (after rounding) and income tax allowance computed based on the new level of net revenue.

Increase Authorized

Applicant finances new construction for service improvement primarily through a long-term loan agreement with Stromberg-Carlson Company. In the past such funds have been obtained on a 5.5 percent interest basis. Applicant expressed doubt that additional funds could be obtained in the future at a rate of interest as low as 5.5 percent. Also applicant may be required to sell preferred stock to help finance future plant additions. After considering this matter it is the Commission's finding and conclusion that applicant's earnings must be increased to the level of a 6.8 percent rate of return in order to attract the funds necessary to expand the plant and improve the service.

When a rate of return of 6.8 percent is applied to the adopted operating results an increase of approximately \$1,700 based upon the 1958 adopted test year results appears warranted.

Authorized Rates

Applicant proposed increases in business and residence categories for both monthly exchange rates and service connection charges, but did not propose any increase in toll rates inasmuch as the toll service is primarily performed by The Pacific Telephone and Telegraph Company. Applicant's residential rates generally are higher than those in exchanges of similar station development served by the Pacific Company and the business rates are proportionately lower. Also the service connection charges are lower than those of Pacific.

The applicant's total proposed increase of \$2,305 is greater than the authorized increase of \$1,700. In considering the most equitable manner to obtain the authorized increase it is the Commission's finding and conclusion that the increase should be assessed to a greater extent against the business service than the residence service. This will require increases slightly greater in the business class than proposed by applicant. The following tabulation shows the present, applicant's proposed and the authorized rates for the principal classes of service:

	<u>Present</u>	<u>Applicant's Proposed</u>	<u>Authorized</u>
Business			
1 Party	\$6.00	\$6.50	\$6.85
2 Party	5.00	5.25	5.60
Suburban (10 party)	4.25	5.00	5.05
Residence			
1 Party	4.25	4.75	4.60
2 Party	3.75	4.00	3.85
4 Party	3.25	3.50	3.35
Suburban (10 party)	3.25	4.00	3.55
Semipublic Coin Box			
Rate per Month	None	0.75	0.75
Daily Guarantee	0.20	0.20	0.20
Service Connection Charges			
Business	5.00	7.50	10.00
Residence	3.50	5.00	7.00
Extensions	3.00	3.00	4.00

Applicant proposed withdrawal of four-party business service in order to up-grade the quality of business service. Such proposal appears reasonable and will be authorized by the order herein. Applicant should contact each present four-party business subscriber, advise him of the new rates, and determine his option regarding the future type of service desired.

Findings and Conclusions

The Commission is aware that applicant's labor costs have increased since the present level of rates was set in 1952. Also, in the Commission's opinion the cost of money has increased and applicant now requires a rate of return higher than the 6.16 percent found fair and reasonable in 1952 in order to properly finance itself. It is the Commission's finding and conclusion that a fair and reasonable rate of return for applicant for the future now is 6.8 percent.

We are adopting operating results that show \$975 less revenue than applicant estimated because of using net revenue from directory advertising (as the staff did) rather than gross revenue as the applicant did. We are adopting expenses \$1,590 less than applicant's principally because of adjustments for office rent, office salary and personal use of the Buick automobile. A compromise figure is being adopted for the rate base also after adjustment for personal use of the automobile for rate making purposes. When a 6.8 percent rate of return is applied to the adopted operating results we find that an increase of approximately \$1,700 based on the 1958 test year results is fair and reasonable. This amount is approximately three quarters of the \$2,305 increase requested by applicant.

The Commission finds 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.

O R D E R

Dorris Telephone Company having applied to this Commission for an order authorizing increases in telephone rates and charges,

a public hearing having been held, the matter having been submitted and now being ready for decision; therefore,

IT IS ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, revised tariff schedules with the itemized rates revised to the levels shown below:

Schedule No. A-1

	<u>Charge</u>	
	<u>Business</u>	<u>Residence</u>
Each individual line primary station	\$6.85	\$4.60
Each two-party line primary station	5.60	3.85
Each four-party line primary station	-	3.35
Each suburban ten-party line primary station	5.05	3.55

Schedule No. A-12 - Under Rate per Month

Each individual line coin box station	\$0.75
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Schedule No. A-27 - Under Rates

	<u>Charge</u>	
	<u>Business</u>	<u>Residence</u>
(1) New and Additional Service		
Instrumentalities Not In Place:		
Each individual, party or auxiliary line primary station	\$10.00	\$7.00
Each private branch exchange or intercommunicating system trunk	10.00	7.00
Each private branch exchange or intercommunicating system station, except operator's sets	4.00	4.00
Each extension station	4.00	4.00
(2) Instrumentalities In Place and No Change of Location of Type of Facilities Involved:		
Each service, including all stations and supplemental equipment connected thereto	4.00	4.00
Each private branch exchange or intercommunicating system, complete with trunks	4.00	4.00

Schedule No. A-32 - Under (1) Subscriber Telephone Sets

Moving from one location to another on the same premises, each set	\$4.00
Change in type or style not required by change in class, type or grade of service or type of operation	4.00

and, upon not less than three days' notice to this Commission and to the public, to make said revised rates effective for service rendered on and after June 1, 1958.

2. Applicant may withdraw the offering of four-party business service under Schedule No. A-1.

3. Applicant shall review depreciation accruals on the remaining life basis at intervals not to exceed four years or whenever major changes occur in plant composition, and shall submit the results of such reviews to the Commission for approval. Commencing with the year 1958, applicant shall determine depreciation accruals using the rates set forth in Table 7-A of Exhibit No. 3 in this proceeding until review shows that a change in rates is required.

4. Applicant in the future shall maintain a record of troubles reported by subscribers. Such trouble reports shall be kept on file for a period of at least three years and shall be made available for inspection by the Commission's staff upon request.

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

Dated at San Francisco, California, this 16th day of MAY, 1958.

President

Paulo L. Intermeo
[Signature]
[Signature]

Commissioners

Peter E. MITCHELL

C. Lyn FOX

Commissioner [Signature], being necessarily absent, did not participate in the disposition of this proceeding.