

ORIGINALDecision No. 57814

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 Roseville Telephone Company, a)
 California corporation, for)
 authority to increase rates and)
 charges for exchange telephone)
 service in the Roseville exchange.)

Application No. 40177

Thomas E. Srednik, for applicant.
California Farm Bureau Federation, by J. J. Deuel
 and William Knecht; California Independent
Telephone Association, by Neal C. Hasbrook,
 interested parties;
James M. McCraney, for the Commission staff.

O P I N I O NNature of Proceeding

By this application, filed June 14, 1958, Roseville Telephone Company, a California corporation, seeks an order of this Commission authorizing it to increase rates and to consolidate existing base-rate and special-rate areas for telephone service rendered by it in the City of Roseville and adjacent areas in Placer and Sacramento Counties.

Public Hearing

After due notice to public officials and to the public generally, public hearing in the matter was held before Examiner F. Everett Emerson on November 17, 1958, at Roseville. The matter was submitted, subject to receipt of a late-filed exhibit which was received on November 20, 1958. While a number of subscribers attended the hearing, none came forward to testify respecting any phase of the matter before the Commission.

Applicant's Position and Request

Since 1953, when applicant's present telephone rates were established, applicant's investment in telephone plant has increased by approximately \$1,500,000. Increasing activity in applicant's service area has produced a large measure of subscriber growth, requiring not only more physical facilities but also a greater number of personnel. During 1958, alone, applicant had to employ seven additional employees. Coupled with the costs of growth, are increasing costs of nearly all expenses, including substantial increases in ad valorem taxes, occasioned by the continuing influences of inflation. These circumstances, according to applicant, have so reduced the utility's earnings as to make rate relief imperative. Applicant seeks a rate of return of approximately 6.9 percent on its estimated 1958 depreciated rate base of \$2,196,000.

Applicant has proposed specific rates. Typical charges, under present rates and under those proposed, are as follows. The new base-rate area would combine the Roseville base-rate area and Citrus Heights special-rate area and would include presently intervening territory.

<u>Class or Grade of Service</u>	<u>Present Charge</u>		<u>Proposed Charge</u>
	<u>Roseville</u>	<u>Citrus Heights</u>	<u>New Base-Rate Area</u>
Residence Service			
1-party	\$4.00	\$5.00	\$ 6.40
2-party	3.50	4.25	5.40
4-party	3.00	3.50	4.85
Business Service			
1-party	6.50	7.50	12.50
2-party	5.25	6.00	10.75
Extension	1.50	1.50	1.75

Applicant also proposes increasing charges for business suburban service from \$4.75 to \$9.00 and for residence suburban service from \$3.50 to \$5.40. It is also proposed to increase the private branch exchange trunk-line rate from \$9.75 and \$11.25 in the present base-rate and special-rate areas to \$18.75 in the new base-rate area. Increases are also proposed in service-connection charges and certain miscellaneous rates and charges. The over-all effect of the proposed rates would be to increase gross revenues by approximately 53 percent, according to applicant.

Nature of Evidence

Witnesses for applicant and witnesses for the Commission staff testified and presented exhibits respecting all phases of applicant's operations. The evidence pertaining to the financial results of the utility's operations is summarized as follows:

SUMMARY OF TOTAL OPERATIONS ESTIMATED YEAR 1958

At Existing Telephone Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 594,300	\$ 608,700
Operating Expenses	517,720	517,200
Net Revenue	76,580	91,500
Rate Base (depreciated)	2,196,000	2,050,000
Rate of Return	3.5%	4.5%

At Proposed Telephone Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 760,500	\$ 770,400
Operating Expenses	607,321	604,400
Net Revenue	153,179	166,000
Rate Base (depreciated)	2,196,000	2,050,000
Rate of Return	6.98%	8.10%

The fundamental difference in the respective showings of applicant and the Commission staff lies in the amount of revenues derived from toll operations. Other revenue differences are of a

relatively minor nature. This Commission has heretofore indicated that the interchanged toll operations of independent telephone utilities should yield to the independent its costs plus a reasonable return on the facilities devoted to toll operations and, in effect, has recognized a rate of return of 7.7 percent as being reasonable for such purpose.^{1/} In this proceeding, the staff has used such a percentage as being indicative of that which applicant should earn on such business. While the percentage is not static, no lesser percentage, in our opinion, should be used at this time. Accordingly, we adopt the staff estimates of toll revenues as being reasonable for the purpose of this proceeding and shall turn our attention to applicant's exchange operations.

The evidence respecting applicant's exchange operations is summarized in the following tabulation.

SUMMARY OF EXCHANGE OPERATIONS
ESTIMATED YEAR 1958

At Existing Telephone Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 346,100	\$ 353,200
Operating Expenses	302,102	298,400
Net Revenue	43,998	54,800
Rate Base (depreciated)	1,684,000	1,573,000
Rate of Return	2.6%	3.5%

At Proposed Telephone Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 512,300	\$ 514,900
Operating Expenses	391,703	385,600
Net Revenue	120,597	129,300
Rate Base (depreciated)	1,684,000	1,573,000
Rate of Return	7.2%	8.2%

The difference in revenue estimates at the local service level is due primarily to applicant's having neglected to take into

^{1/} Decision No. 56652 in Application No. 39309, issued May 6, 1958 (56 CPUC 277, 291).

account trends of revenue on a per-station basis. In view of the evidence respecting revenues, therefore, we shall adopt the staff-calculated amounts which do reflect such trend.

With respect to the exchange portion of operating expenses, the evidence is convincing that due allowance must be made for increased personnel and the amortization of the expense of an inventory and appraisal of facilities which is now being made. Also, applicant granted wage increases in November 1958, the effect of which is not reflected in any of the above figures. An adjustment, in the opposite direction, is occasioned by both applicant and the staff having estimated ad valorem taxes in excess of those actually billed. In view of the evidence respecting expenses, we shall adopt the amount of \$387,100 as being a reasonable total of all operating expenses assignable to exchange operations for the estimated year 1958, under applicant's proposed telephone rates.

Applicant and the staff differ in all of the essential elements of rate base. With respect to total plant in service, the staff used averages weighted by in-service dates whereas applicant used a simple average of beginning-and-end-of-year estimated amounts. Late-filed Exhibit No. 7 demonstrates that the staff-calculated amount is actually being more closely approximated than is applicant's. We shall adopt, therefore, an exchange total of average fixed capital of \$1,755,000 for the estimated year 1958. Applicant's estimate of \$40,000 for materials and supplies allocated to exchange operations appears reasonable and it will be adopted. It appears reasonable to include an amount of \$10,000 for working cash and to deduct \$226,000 as the exchange portion of the depreciation reserve. In summary, therefore, a total average depreciated rate base of \$1,579,000 is adopted and the Commission finds such rate base to be fair and reasonable for the exchange portion of applicant's operations in the estimated year 1958.

Findings and Conclusions

Applicant has conclusively demonstrated its need for and entitlement to increased revenues.

Applicant's proposed exchange rates would produce the following indicated results of operations, using the elements hereinabove adopted:

<u>PROPOSED RATES</u> <u>EXCHANGE OPERATIONS - ESTIMATED YEAR 1958</u>	
<u>Item</u>	<u>Amount</u>
Operating Revenues	\$ 514,900
Operating Expenses	387,100
Net Revenue	127,800
Rate Base (depreciated)	1,579,000
Rate of Return	8.03%

It is apparent that the telephone rates which applicant has proposed would yield an excessive rate of return. The proposed rates will not be authorized.

In our opinion, applicant should be accorded the opportunity to earn a rate of return of approximately 6.5 percent on the exchange portion of its business. The evidence is clear that applicant will experience a decline in rate of return of approximately 0.7 percent on exchange operations in the year 1959. It is appropriate, therefore, to authorize rates on the basis of the year 1958, which will yield an initial rate of return of approximately 7.2 percent, so that a rate of return of 6.5 percent may be realized in the first year in which new telephone rates may be fully effective. We find such rates of return on a depreciated rate base of \$1,579,000 to be fair and reasonable. Accordingly, we shall authorize telephone rates which will produce such results. The rates to be authorized are estimated to increase annual revenues by \$131,700 for the test year 1958.

The Commission finds as a fact that the increases in rates and charges herein authorized are justified and that existing rates

and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

The Commission finds that applicant's proposed new base-rate area, combining the existing Roseville and Special-Rate Areas and including intervening and adjacent territory is in the public interest and should be authorized.

The evidence is convincing that applicant should, as soon as possible, establish accurate unit costs for retirement purposes. The work order system for new plant construction should be revised so as to provide unit costs and better identification of plant installed. Also, applicant should install a better control of materials charged from stores so as to eliminate, or reduce to a minimum, inventory shortages. Administrative and general expenses incurred in connection with plant construction should be transferred to plant accounts as overheads. The utility should better coordinate activities of its engineering staff with those of its accounting staff so that all transactions recorded on books of account regarding construction and maintenance of plant may be more accurately recorded. Charges to clearing accounts should be analyzed to determine if the appropriate account is being charged. Methods in regard to distribution from clearing accounts should be reviewed to determine their reasonableness.

Applicant contemplates converting its 80 "post-paid" public coin-box telephones to a "pre-paid" type and estimates that the costs of such conversion will be \$35,000. The evidence is not convincing that such an expenditure at this time is warranted (and no allowance therefor will be included herein.)

The basic exchange telephone rates authorized herein are as follows:

<u>Residence Service</u>	<u>Rate Per Month</u>
1-party	\$ 6.25
2-party	5.15
4-party	4.35
Suburban	5.00
<u>Business Service</u>	
1-party	12.50
2-party	10.50
Suburban	8.00
Extension	1.75

Inasmuch as the Commission is authorizing new foreign exchange rates for applicant, it follows that affected foreign exchange rates filed by connecting companies should be revised so as to be consistent therewith. Such connecting companies should request authority of this Commission, by advice letter procedures, to make the necessary tariff filings to reflect the increase authorized in the serving exchange by the order herein.

Applicant has proposed to modify its Rule 17 so as to prohibit binders or covers being placed on its directories if such binders or covers contain advertising matter not authorized by it. The evidence is not convincing that such modification has merit or should be authorized.

O R D E R

Roseville Telephone Company having applied to this Commission for authority 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 based upon the evidence and the findings and conclusions contained in the foregoing opinion;

IT IS HEREBY ORDERED that 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, schedules of rates and charges revised 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 schedules effective for telephone service rendered on and after February 1, 1959, excepting that increases in installation, service connection and move and changes charges shall be made effective on applications received by the utility on and after February 1, 1959.

IT IS HEREBY FURTHER ORDERED that applicant is authorized and directed to discontinue the existing Roseville base-rate area and Citrus Heights special-rate area and to substitute therefor a new and expanded base-rate area as delineated in Exhibit G attached to the application, making the necessary filings in connection therewith so as to become effective coincident with the revised rate schedules hereinabove authorized.

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

Dated at San Francisco, California, this 6th day of January, 1959.

E. L. Fox
President
W. E. Mitchell
W. H. [unclear]
Theodore [unclear]
Commissioners

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

Flat Rate Exchange Service

Changes set forth on Page 1 of Exhibit H attached to the application are authorized except that the following monthly rates are authorized.

Rates:	Rate Per Month	
	<u>Business Service</u>	<u>Residence Service</u>
Each individual line primary station	\$12.50	\$ 6.25
Each two-party line primary station	10.50	5.15
Each four-party line primary station	--	4.35
Each extension station	1.75	1.25

Schedule No. A-2

Semi-Public Coin Box Service

Changes set forth on Pages 1 and 2 of Exhibit H attached to the application are authorized except that the following changes in rates and charges are authorized.

Rates:	Rate Per	Minimum Charge
	<u>Month</u>	<u>Per Day</u>
Each individual line coin-box station	\$ 2.00	\$.25
Each extension station without coin box	1.75	--

Schedule No. A-4

Mileage Rates

Change in Condition 1 set forth on Page 2 of Exhibit H attached to the application is authorized.

Schedule No. A-5

Suburban Service

Changes set forth on Page 2 of Exhibit H attached to the application are authorized except that the following monthly rates are authorized.

Rates:	Rate Per Month	
	<u>Business Service</u>	<u>Residence Service</u>
Each suburban line primary station	\$ 8.00	\$ 5.00
Each extension station	1.75	1.25

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Schedule No. A-7
Private Branch Exchange Service

Changes set forth on Pages 2 and 3 of Exhibit H attached to the application are authorized.

Schedule No. A-10
Key Station Dial Private Branch Exchange Service

Changes set forth on Pages 3 and 4 of Exhibit H attached to the application are authorized.

Schedule No. A-12
Farmer Line Service

Changes set forth on Page 4 of Exhibit H attached to the application are authorized.

Schedule No. A-15
Supplemental Equipment

Increases in installation charges set forth on Pages 4 and 5 of Exhibit H attached to the application are authorized.

Schedule No. A-16
Service Connection Charges

Increases in service connection charges set forth on Page 5 of Exhibit H attached to the application are authorized.

Schedule No. A-17
Move and Change Charges

Increases in move and change charges set forth on Page 6 of Exhibit H attached to the application are authorized.

Schedule No. A-19
Local Leased Line and Private Line Telephone Service

Increases in station rate per month and station installation charge set forth on Page 6 of Exhibit H attached to the application are authorized.

Foreign Exchange Service Rates

Primary rates for foreign exchange service, other than farmer line foreign exchange service, served from Roseville exchange are to be adjusted to the extent required by the changes hereinabove authorized in primary rates, and in addition, are to be increased by 50 cents per month.

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Schedule No. A-20

Foreign Exchange Service, Foreign Exchange Farmer Line Service

Changes in conditions set forth on Page 6 of Exhibit H attached to the application are authorized.

Schedule No. A-21

Key Telephone System Service

Increases in monthly rate and installation charges and changes in conditions set forth on Pages 7 and 8 of Exhibit H attached to the application are authorized.

Schedule No. A-31

Line Extension Charges

Change set forth on Page 8 of Exhibit H attached to the application is authorized.