

ORIGINAL

Decision No. 57963

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 Foresthill Telephone Co., Inc., a )  
 California Corporation, for authori- ) Application No. 40249  
 ty to increase rates and charges for )  
 exchange telephone service in the )  
 Foresthill exchange. )

Neal C. Hasbrook, for applicant.  
California Farm Bureau Federation, by Ralph Hubbard; California Independent Telephone Association, by Neal C. Hasbrook; interested parties.  
L. L. Thormod and N. Felsing, for the Commission staff.

O P I N I O NNature of Proceeding

By the above-entitled application, filed July 14, 1958, Foresthill Telephone Co., Inc., a California corporation, seeks an order of this Commission authorizing it to increase rates and charges for exchange telephone service rendered in the community of Foresthill, Placer County.

Public Hearing

After due notice, public hearing in the matter was held before Examiner F. Everett Emerson on December 10, 1958, at Foresthill. No public official nor any of applicant's subscribers attended the hearing.

Applicant's Position and Request

At the time applicant's present telephone rates were authorized in 1952, the Foresthill exchange was served by a magneto switchboard and telephone service was available only during limited hours. The telephone utility was then a partnership. In 1955 the utility became a sole proprietorship and continued as such until

April 1, 1957, when the present corporation began operating the system. The exchange was converted to dial operation in December 1957 and service has since been available on a continuous basis to all of its approximately 300 subscribers. In the six years since applicant's present telephone rates were established, applicant's plant investment has increased by about \$66,000. Applicant is heavily in debt because of system improvements and the dial conversion, and at present owes \$44,000 at an interest rate of 5-1/2 percent and \$13,000 at an interest rate of 6 percent. In addition, applicant has outstanding short-term notes and accounts payable of about \$3,700.

Applicant alleges that it is operating at a loss. It seeks to increase its gross revenues by \$6,235, or 57.45 percent, and to earn a rate of return of 7 percent on its estimated depreciated rate base of \$79,060 for the year 1958. Applicant has proposed specific rate revisions which it estimates will produce such results. The principal rate changes proposed are indicated in the following tabulation.

<u>Class or Grade of Service</u>	<u>Present Rate</u>	<u>Proposed Rate</u>
<u>Business</u>		
1-party	\$4.50	\$7.75
2-party	3.75	6.50
10-party	3.75	6.00
<u>Residence</u>		
1-party	\$3.50	\$6.00
4-party	2.75	4.40
10-party	3.00	5.00
<u>Service Connections</u>		
Business	\$6.00	\$10.00
Residence	5.00	7.00
Ext. Stations	3.00	4.00
Instru. in Place	3.00	4.00

Nature of Evidence

A witness for applicant and two witnesses for the Commission staff testified and presented exhibits respecting all phases of applicant's operations. Since applicant's toll operations consist only of those normally to be found in a company interconnected with the Bell System, attention will be directed primarily to applicant's exchange operations. The following tabulation will serve to summarize the evidence respecting exchange operations.

SUMMARY OF EXCHANGE OPERATIONS  
ESTIMATED YEAR 1958

At Present Telephone Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$12,260	\$12,660
Operating Expenses	13,665	11,630
Net Revenue	(1,405)	1,030
Rate Base (depreciated)	56,815	60,230
Rate of Return	Loss	1.7%

(Red Figure)

Assuming Proposed Telephone Rates in Effect

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$18,495	\$19,100
Operating Expenses	14,505	13,655
Net Revenue	3,990	5,445
Rate Base (depreciated)	56,815	60,230
Rate of Return	7.0%	9.0%

Findings and Conclusions

Applicant's witness accepted the staff-calculated amounts of revenues, based upon an average of 280 stations, as more closely approaching the actual to be experienced during the year 1958 than would his own estimate based on 266 stations. We shall adopt, therefore, the staff-calculated amounts of local service revenues as being reasonable.

Applicant and the staff differ as to what may constitute reasonable maintenance expenses and office salaries. Applicant apparently contemplates the continued full-time employment of one employee, whose duties heretofore have been primarily those of an installer and maintenance man during the construction of the new plant necessary for dial conversion. Such full-time employment, according to the staff witness, being additional to the full-time employment of applicant's president and manager is, or should be, unnecessary on a telephone system serving so few subscribers.

Applicant rendered limited hours of service prior to December 1957. Since conversion to dial at that time, unlimited service has been available to all of its subscribers and applicant has employed a full-time office clerk to keep its office open to the public on a full-time, regular work-week basis. In the opinion of the staff witness, this type of operation, for so few subscribers, is not essential and the staff estimate of operating expenses includes provision for only part-time office clerk employment.

This telephone operation, although having corporate status, is essentially a "one-man and helper" operation. It is heavily in debt. It has few subscribers but has been experiencing a steady, though slow, growth. Careful and economic operations are essential to its well-being and its ability adequately to serve the public. It renders a vital service to an essentially isolated and one-industry community. Its management must be realistically attuned to this situation.

Applicant employs an out-of-state accounting firm. The staff investigation of applicant's accounting records, in connection with this proceeding, discloses a number of discrepancies for which there appears to be no justification whatsoever. We see no reason

why applicant should not itself keep its own books and records and keep them more accurately. By so doing it may save not less than \$750 per year.

In our opinion, the evidence presented by the staff is convincing that applicant can adequately serve the public, maintain its financial integrity and earn a fair and reasonable profit in the presently foreseeable future under the total expenses estimated by the staff in this proceeding. We find, therefore, that the staff estimates are reasonable and they will be adopted herein.

The difference between applicant's and the staff-determined rate base lies essentially in the manner of weighting plant and building additions. Since the staff-derived rate base more nearly represents plant which will be in service in the first year in which new telephone rates may be made effective, it will be adopted herein, augmented, however, by an increased amount for an allowance for working cash in order to recognize the seasonal nature and pattern of employment and bill paying which characterizes the community.

To summarize, we find that the following indicates a fair and reasonable estimate of the results of applicant's exchange operations, based on the year 1958.

ADOPTED RESULTS OF EXCHANGE OPERATIONS  
ESTIMATED YEAR 1958

At Present Rates

<u>Item</u>	<u>Amount</u>
Operating Revenues	\$12,660
Operating Expenses	11,630
Net Revenue	1,030
Rate Base (depreciated)	60,600
Rate of Return	1.7%

In view of the evidence, we find that applicant has conclusively demonstrated its need for and entitlement to increased

revenues. The evidence further shows, however, that the specific increases in telephone rates which applicant has proposed would produce a rate of return of about 9 percent. Such a rate of return would be excessive. The proposed rates will not be authorized.

In our opinion, applicant should be accorded the opportunity to earn a rate of return of approximately 6.7 percent on the exchange portion of its business and we find such a return to be fair and reasonable. Accordingly, we shall authorize exchange telephone rates which will produce gross revenues of \$17,000 which is an increase of \$4,340 annually over what present rates yield. Such gross revenues, after a reasonable allowance of \$12,940 for total exchange operating expenses will produce a net revenue of \$4,060 and the required rate of return on a depreciated exchange rate base of \$60,600.

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 basic exchange telephone rates authorized herein are as follows:

<u>Residence Service</u>	<u>Rate Per Month</u>
1-party	\$ 5.10
4-party	3.65
10-party	4.30
 <u>Business Service</u>	
1-party	\$ 7.75
2-party	6.10
10-party	5.35
PBX trunks	11.50

The evidence is convincing that applicant should revise the map of its exchange area so as to include all subscribers presently served and the order herein will so provide. The evidence is also

convincing that the present base rate area should include subscribers located within one-quarter mile of the western boundary along Auburn Road; the base rate area boundaries may continue to be referenced to section or township lines, however.

The review of depreciation accruals presented as part of the staff's evidence in this proceeding indicates that the accrual should be based on a composite rate of 4.43 percent until such time as a further review is made. The order will so provide.

O R D E R

Foresthill Telephone Co., Inc., 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 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 and exchange and base rate area maps 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 March 1, 1959, excepting that increases in installation, service connection and move and change charges shall be made effective on applications received by the utility on and after March 1, 1959.

IT IS FURTHER ORDERED that applicant shall, beginning with the year 1958, determine depreciation expense by multiplying the depreciable utility plant by a rate of 4.43 percent. This rate

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should be used until review indicates it should be revised. Applicant shall review the depreciation rate using the straight-line remaining life method whenever substantial changes in depreciable utility plant occur and at intervals of not more than five years. Results of these reviews shall be submitted to the Commission.

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

Dated at San Francisco, California, this 3rd day of February, 1959.

E. L. Fox  
President  
Walter E. Miller  
Malcolm D. ...  
Theodore ...  
Commissioners



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

Schedule No. A-1  
Individual and Party Line Service and Mileage Rates

Changes as set forth on Sheet 1 of Exhibit F attached to the application are to be made except the following rates are authorized:

	<u>Rate Per Month</u>	
	<u>Business Service</u>	<u>Residence Service</u>
Each individual line primary station	\$7.75	\$5.10
Each two-party line primary station	6.10	-
Each four-party line primary station	-	3.65
Each extension station	1.50	1.25

Schedule No. A-2  
Suburban Service

Schedule set forth on Sheet 2 of Exhibit F attached to the application is authorized with the following rates:

	<u>Rate Per Month</u>	
	<u>Business Service</u>	<u>Residence Service</u>
Each suburban line primary station	\$5.35	\$4.30
Each extension station	1.50	1.25

Schedule No. A-3  
Mileage Rates

Schedule set forth on Sheets 3 and 4 of Exhibit F attached to the application with proposed rates is authorized.

Schedule No. A-6  
Supplemental Equipment

Changes in schedule set forth on Sheets 5 to 11, inclusive, are authorized.

Schedule No. A-8  
Private Branch Exchange Service

This schedule is to be revised to reflect a PBX trunk rate of \$11.50.

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Schedule No. A-29  
Move and Change Charges

Changes in schedule set forth on Sheet 12 of Exhibit F attached to the application are authorized.

Schedule No. A-30  
Service Connection Charges

Changes in schedule set forth on Sheets 13 and 14 of Exhibit F attached to the application are authorized.

Exchange Area Map

Revise exchange area map to include all subscribers presently served.

Base Rate Area Map

Revise base rate area map to include subscribers located within one-quarter mile of the western boundary along Auburn Road.