

ORIGINAL

Decision No. 58372

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of  
 KERN MUTUAL TELEPHONE COMPANY, a  
 California corporation, for an order  
 authorizing it to increase rates for  
 message toll telephone service and  
 service connection and move and change  
 charges. ) Application No. 40656

(Appearances and Witnesses are Listed in Appendix A)

O P I N I O NApplicant's Request

Kern Mutual Telephone Company, a California corporation, filed the above-entitled application on December 10, 1958 requesting an increase in operating revenues of approximately \$48,100 per year or 6.9% on estimated year 1958 revenues at present rates. Applicant's proposed toll rates are set forth in Exhibit G, and the proposed service connection charges and move-and-change charges are set forth in Exhibit 1, each attached to the application, but no increase is proposed in basic local exchange rates at this time.

Public Hearing

After due notice, a public hearing was held before Examiner Manley W. Edwards on March 2, 1959 at Taft, California. Applicant presented one main exhibit at the hearing (and later filed three additional exhibits), and testimony was given by one witness in support of its application. The Commission staff cross-examined the witness and presented one late-filed exhibit for the purpose of developing a full record to aid the Commission in deciding this matter. Of those present at the hearing, neither the representative of the California Farm Bureau Federation nor the counsel for the City of Taft opposed the granting of this application. Likewise, neither subscribers nor members of the public opposed the request.

Applicant's Operations

The Kern Mutual Telephone Company furnishes exchange and toll telephone service over its own facilities to subscribers in the incorporated cities of Taft and Maricopa, and the unincorporated communities of Buttonwillow, Fellows, McKittrick, Belridge, Cuyama Valley, Lost Hills, Tupman, Valley Acres, Dustin Acres, Derby Acres and Ventucopa. The service area comprises approximately 1,000 square miles of territory, chiefly in western Kern County; the area also covers portions of Santa Barbara, Ventura and San Luis Obispo Counties where they adjoin Kern County.

Applicant owns land, buildings, central office equipment, station installations and equipment, pole lines, rights-of-way cables, and other equipment used in furnishing telephone service. Also, it owns and operates toll lines between its exchanges and between its Taft exchange and The Pacific Telephone and Telegraph Company's exchange at Bakersfield, California. Applicant rents commercial and administrative space from the Central Western Company building and obtains certain services from them. The Central Western Company uses this building primarily for revenue accounting functions. Within its service area, applicant was serving a total of 8,035 company-owned stations as of September 30, 1958. Most of the applicant's territory is semi-desert in character and is devoted principally to the production and processing of oil and petroleum products.

Applicant's Position

Applicant represents that it has a history of 50 years' operation under the same management and that it takes great pride in having consistently offered high-grade telephone service by means of a modern plant, dial service in all six exchanges, and automatic toll-ticketing equipment which provides direct-distance dialing

for all its subscribers. Applicant states that it has been able to provide this service without having once increased its exchange rates during this period; in fact, exchange rates were decreased several times. Toll rates, applicant states, were increased only once, in 1953, to the level of state-wide toll rates in effect at that time.

Now applicant represents that it has experienced a combination of factors, over which it has no control, which have resulted in a sharp decline in its earnings. Applicant attributes the decline in earnings to the following three primary causes:

1. Continuing inflation, as indicated by increased investments per station and by increased property taxes.
2. Increased wage costs, which became effective February 1, 1958.
3. A marked decreased activity in the local oil business, which for all practical purposes is the sustaining industry in applicant's territory.

Also, applicant states that it is faced with the necessity of refunding its short-term notes and of raising funds for plant additions and replacements; that, although its growth has leveled off, such plant additions and replacements are required to keep its plant in modern condition.

#### Earnings Position

Applicant presented a summary of its 1957 earnings by Exhibit 1, its 1958 earnings by Exhibit 2, and its estimated 1959 earnings by Exhibit 4. The rates of return shown by these exhibits are as follows:

	<u>Rate of Return</u>
Year 1957 Recorded	6.1%
Year 1958 Recorded	3.6%
Year 1959 Estimated under Present Rates	3.7%
Year 1959 Estimated under Proposed Rates	5.2%

Applicant's operating results in more detail are summarized below:

	Year 1957 <u>Recorded</u>	Year 1958 <u>Recorded</u>	<u>Estimated Year 1959</u>	
			<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Operating Revenues</u>				
Local Service Revenue	\$ 273,472	\$ 271,987	\$ 273,500	\$ 280,100
Toll Service Revenue	413,610	400,563	408,200	450,500
Miscellaneous Revenue	14,353	28,279	33,200	33,200
Uncollected Revenue	(4,437)	(4,435)	(3,600)	(3,800)
Total Revenue	696,998	696,394	711,300	760,000
<u>Operating Expenses</u>				
Maintenance Expense	168,228	186,456	176,600	176,600
Traffic Expense	69,199	80,859	83,300	83,300
Commercial Expense	33,656	42,217	52,450	52,450
Gen.Ofc.Salaries&Exp.	87,079	93,124	86,700	86,700
Other Operating Exp.	51,998	65,117	77,900	77,900
Depreciation	79,330	94,220	97,000	97,000
Taxes-o/t Federal Inc.	68,905	70,533	70,000	70,000
Federal Income Taxes	41,000	5,000	4,400	27,400
Total Expenses	599,395	637,526	648,350	671,350
Net Revenue	97,603	58,868	62,950	88,650
Rate Base - Depreciated	1,598,986	1,641,468	1,685,700	1,685,700
Rate of Return	6.1%	3.6%	3.7%	5.2%

(Red Figure)

The above operating results were determined on the basis that straight-line depreciation was used for computing federal income tax deductions. If accelerated depreciation for tax purposes and the so-called flow-through method for computing rate of return<sup>1/</sup> were used, the 1959 estimated returns would be 3.87% under present rates and 5.5% under proposed rates.

#### Staff Analysis

The Commission staff reviewed applicant's exhibits and arrived at the general conclusion that the amount of additional revenue

<sup>1/</sup> The question of what rate treatment should be accorded to accelerated depreciation options for income tax purposes is being studied by the Commission under Case No. 6148 but has not been decided as yet.

requested in this application will result in rates of return for the years 1958 and 1959 of less than 6% for Kern Mutual Telephone Company, using for federal income tax purposes either the current straight-line depreciation method or the accelerated depreciation and flow-through method. At the same time, the staff pointed out that the decreased oil activity in 1958 may be of temporary significance, in view of the mandatory oil import control program ordered by President Eisenhower on March 10, 1959. Such program will result in a 13% to 15% reduction of oil imports, compared to the quota under the now-expired voluntary control program.

#### Cost Settlement Study

The record reveals that applicant is proceeding with a study to determine the results of a cost basis of settlement for message toll telephone traffic interchanged with The Pacific Telephone and Telegraph Company. In view of the situation, the order herein will require applicant to file the results of its separation study and of its negotiations with The Pacific Telephone and Telegraph Company on a cost basis of settlement.

#### Findings and Conclusions

After considering the evidence of record and the statement of position presented by the staff, the Commission finds and concludes:

1. That, based on the Commission staff's review of the applicant's work papers and exhibits, and, after considering the normal staff adjustments, it is found that applicant's rate of return will not go above a reasonable level.
2. That applicant should file the results of its cost settlement study and of its negotiations thereon.
3. That the use of accelerated tax depreciation, under the method most favorable to the rate payer, does not show a rate of return above the zone of reasonableness.

4. 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.
5. That an order should be issued authorizing increases in toll rates, service connection charges, and move-and-change charges as requested by applicant.

Authorized Rate Increases

Increases in service connection charges, move-and-change charges, and rates for message toll telephone service will be authorized, as proposed by the applicant in Exhibits G and I attached to the application.

In general, by the order herein, service connection charges will be authorized to be increased from \$3.50 to \$10 for new business primary service, from \$3 to \$7 for new residence primary service, and from \$1.50 to \$4 for extension and PBX stations and for instrumentalities in place. Move-and-change charges also will be authorized to be increased from \$1.50 to \$4. The higher service connection charges and the move-and-change charges authorized by the order herein are generally those in effect elsewhere in California and in exchanges adjacent to those served by applicant.

With respect to message toll telephone service, the rates being authorized by the order herein for toll service over the toll lines of applicant are at the same level as those which became effective for toll service generally throughout California on June 1, 1958 pursuant to Decision No. 56652, dated May 6, 1958, in Application No. 39309. Examples of present and authorized toll rates for a three-minute station toll message over the principal routes involved are as follows:

Rates for 3-Minute Station Toll Messages

<u>Route</u>		<u>Bakers- field</u>	<u>Button- willow</u>	<u>Cuyama</u>	<u>McKittrick</u>	<u>Taft</u>
Buttonwillow	- Present	\$0.30	\$ -	\$0.35	\$0.15	\$0.20
	Authorized	.35	-	.40	.15	.25
Cuyama	- Present	.45	.35	-	.25	.20
	Authorized	.50	.40	-	.30	.25
McKittrick	- Present	.40	.15	.25	-	.15
	Authorized	.45	.15	.30	-	.20
Taft	- Present	.35	.20	.20	.15	-
	Authorized	.40	.25	.25	.20	-

Increases in person-to-person toll rates and increases in overtime rates over certain routes also are being authorized.

C R D E R

Kern Mutual Telephone Company having applied to this Commission for increases in certain telephone rates and charges, a public hearing having been held and the Commission being of the opinion that increases in rates and charges should be authorized as herein provided and the matter now being ready for decision; therefore,

## IT IS ORDERED:

1. That applicant is authorized to file with this Commission, in quadruplicate and in conformity with General Order No. 96, revised schedules of rates and charges as set forth in Exhibits G and I attached to the application and, on not less than five days' notice to the Commission and to the public, to make said rates effective for service rendered on and after June 1, 1959, except that the service connection charges and the move-and-change charges shall be made effective on applications received by the utility on and after June 1, 1959.

2. That applicant, on or before October 31, 1959, shall file with this Commission a copy of the results of its separation cost settlement study and of its negotiations with The Pacific Telephone and Telegraph Company thereon.

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

Dated at San Francisco, California, this 5th day of May, 1959.

E. L. Fox  
President  
W. H. D. [illegible]  
Theodore J. [illegible]  
Commissioners

Commissioner Everett C. McKeage - being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A

LIST OF APPEARANCES

For Applicant: Orrick, Dahlquist, Herrington & Sutcliffe, by Warren A. Palmer.

Interested Parties: City of Taft, by Henry G. Barren,  
City Attorney; California Farm Bureau Federation,  
by J. J. Deuel; California Independent Telephone  
Association, by Neal C. Hasbrook.

Commission Staff Representative: Gustave B. Weck.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by  
J. P. Maguire.