

Decision No. 59276

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA INTERSTATE TELEPHONE COMPANY,
a corporation, for authority to increase
certain charges for telephone service in
its service territory.

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)
) Application No. 41070
) (Amended)
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)

James H. Krieger, of Best, Best and Krieger,
for applicant.
J. J. Deuel and Ralph Hubbard, California Farm
Bureau Federation, interested party.
Cyril M. Saroyan, for the Public Utilities
Commission staff.

O P I N I O N

A public hearing was held in this matter before Examiner Grant E. Syphers in Victorville on October 1, 1959, on which date evidence was adduced and the matter submitted, subject to the filing of late-filed exhibits. These now have been filed and the matter is ready for decision.

The applicant herein proposes to increase certain service connection charges, move and change charges, and certain other charges. These charges are contained in the following list of tariff schedules which are proposed to be revised.

<u>Schedule No.</u>	<u>Description</u>	<u>Cal. P.U.C. Sheet No.</u>
A-6	Manual Private Branch Exchange Service	2205-T
A-7	Automatic Private Branch Exchange Service	2208-T
A-15	Supplemental Equipment Service	2157-T, 2026-T

<u>Schedule No.</u>	<u>Description</u>	<u>Cal. P.U.C. Sheet No.</u>
A-15	Supplemental Equipment Service Automatic Answering and Recording Equipment	2021-T
A-29	Move and Change Charges	1909-T, 1537-T
A-30	Service Connection Charges	1910-T, 1539-T

The specific revisions are set out in Exhibit C attached to the application. Applicant does not propose increases in any monthly exchange rates or toll rates.

The applicant company is an independent telephone company operating as a public utility in providing the public with telephone and telegraph service in portions of the Counties of Douglas, Lyon, Mineral and Esmeralda in the State of Nevada, and in the Counties of Alpine, Mono, Kern, Inyo and San Bernardino in the State of California. As of March 31, 1959 it had 23 telephone exchanges, operated a total of 27 central offices, and provided service to 21,653 telephones.

Testimony presented at the hearing shows that the present rates, for which changes are herein proposed, were established in 1953. Since that time wage and material costs have substantially increased. For example, the evidence shows that the wages of telephone installers have increased by 27% during this period. It was also testified that the proposed charges are comparable to similar charges of other companies such as General Telephone Company of California, and the California Water and Telephone Company.

The effects of these changes are set out in Exhibit F attached to the application and Exhibits Nos. 2 and 3, which supplement that exhibit. From these exhibits, the following results of operation are shown:

FOR THE YEAR ENDING MARCH 31, 1959

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues:		
Local service revenues	\$ 1,361,516	\$ 1,394,837
Toll service revenues	2,693,865	2,693,865
Miscellaneous revenues	110,215	110,215
Less - Uncollectible revenues	12,062	12,062
Total operating revenues	\$ 4,153,534	\$ 4,186,855
Operating Expenses:		
Maintenance	\$ 460,855	\$ 460,855
Depreciation	610,328	610,328
Traffic	564,770	564,770
Commercial	269,340	269,340
General Office	256,134	256,134
Other operating expenses	178,353	178,353
Total	\$ 2,339,780	\$ 2,339,780
Operating Taxes:		
Federal taxes on income	443,100	459,734
Other federal taxes	25,773	25,773
City, county and state expenses	461,005	462,338
Total operating expenses	\$ 3,269,658	\$ 3,287,625
Net Revenue	\$ 883,876	\$ 899,230
Weighted Average Depre- ciated Rate Base	\$14,376,990	\$14,376,990
Rate of Return %	6.15	6.25

FOR THE ESTIMATED YEAR ENDING MARCH 31, 1960

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues:		
Local service revenues	\$ 1,623,862	\$ 1,663,603
Toll service revenues	3,121,493	3,121,493
Miscellaneous revenues	119,029	119,029
Less - Uncollectible revenues	14,384	14,384
Total operating revenues	<u>\$ 4,850,000</u>	<u>\$ 4,889,741</u>
Operating Expenses:		
Maintenance	\$ 528,552	\$ 528,552
Depreciation	745,110	745,110
Traffic	644,753	644,753
Commercial	300,188	300,188
General office	297,940	297,940
Other operating expenses	191,980	191,980
Total	<u>\$ 2,708,523</u>	<u>\$ 2,708,523</u>
Operating Taxes:		
Federal taxes on income	494,018	513,857
Other federal taxes	28,520	28,520
City, county and state taxes	590,890	592,480
Total operating expenses	<u>\$ 3,821,951</u>	<u>\$ 3,843,380</u>
Net Revenue	\$ 1,028,049	\$ 1,046,361
Weighted Average Depre- ciated Rate Base	\$17,646,000	\$17,646,000
Rate of Return %	5.83	5.93

It should be noted that the foregoing figures are based upon the use of straight-line tax depreciation and do not reflect the use of accelerated depreciation for income tax purposes, as permitted under Section 167 of the Internal Revenue Code of 1954.

It also should be noted that this applicant is using accelerated depreciation in the payment of its income tax. However, we call attention to the fact that this Commission is now making a general inquiry into the use of accelerated depreciation in pending Case No. 6148. Until such case is decided, the applicant shall advise the Commission as to its selection regarding accelerated depreciation by January 1 of each year.

Exhibit No. 3 shows the estimated results of the use of accelerated depreciation under the so-called interest credit method and the so-called flow-through method. Under either of these methods the tax expense for rate-making purposes of the applicant would be less than by using the straight-line method of tax depreciation, accounting and, accordingly, the rate of return would be greater. The following table discloses these differences:

<u>Item</u>	<u>Straight Line Depreciation</u>	<u>Accelerated Depreciation Interest Credit : Flow Through</u>	
Year Ending March 31, 1959			
Present Rates	6.15%	6.26%	6.84%
Proposed Rates	6.25%	6.37%	6.94%
Year Ending March 31, 1960			
Present Rates	5.83%	5.96%	6.55%
Proposed Rates	5.93%	6.06%	6.65%

For the purposes of this decision only, pending final decision by this Commission on the treatment to be accorded accelerated depreciation for rate-making purposes, the tax expense for rate-making purposes herein will be determined on the basis of interest credit method with accelerated depreciation.

Late-filed Exhibit No. 4 is a separation study which shows the rate of return being earned on the various facilities. It should be noted that a return of 4.44% is being earned by applicant on its investment in exchange facilities.

The Commission has carefully weighed all of the evidence of record in this proceeding and hereby finds that the rates of return under the proposed rates using the interest credit method are within the zone of reasonableness; that the proposed increases in

charges authorized herein are justified; and that present rates and charges, in so far as they differ from those herein prescribed, for the future are unjust and unreasonable.

O R D E R

The California Interstate Telephone Company, a California corporation, having applied to this Commission for an order authorizing increases in charges for telephone service, public hearing having been held, the matter having been submitted, and the Commission being duly advised in the premises,

IT IS ORDERED that applicant is authorized to file in quadruplicate with the Commission, on or after the effective date of this order, and in conformity with the provisions of General Order No. 96, revised tariff schedules with rates, charges and conditions modified as set forth in Exhibit C attached to the First Amended Application No. 41070 and, on not less than five days' notice to the public and to this Commission, to make said revised tariffs effective for all service rendered on and after January 1, 1960.

IT IS FURTHER ORDERED that applicant shall advise this Commission as to its selection regarding the use of accelerated depreciation for income tax purposes by January 15 of each year with regard to the income tax payments method it will use for that year.

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

Dated at San Francisco, California, this 17th day of November, 1959.

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

-6- Commissioner Theodore H. Jenner, being necessarily absent, did not participate in the disposition of this proceeding.