

Decision No. 59765

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
COACHELLA VALLEY TELEPHONE COMPANY,)
a California corporation, for author-)
ity to increase rates and charges for)
exchange telephone service in all of)
its exchanges.)

Application No. 41263

List of Appearances attached hereto as Appendix A.

INTERIM OPINION

Coachella Valley Telephone Company, a corporation, by the above-entitled application, filed June 29, 1959, seeks authority to increase its rates and charges for exchange telephone service in its Coachella, Eagle Mountain, Indio, La Quinta, Mecca, Oasis, Palm Desert, Thermal, and Thousand Palms exchanges in Riverside County, and Desert Shores and Salton City exchanges in Imperial County, by a gross annual amount of approximately \$194,000 over the estimated gross revenues for the year 1959 which would be produced at the present rates. The proposed increase in exchange service rates amounts to an approximated 17 percent increase in total estimated annual operating revenues, including toll service and other service revenues.

Public hearings were held before Examiner Stewart C. Warner on September 1, 2, and 3, 1959, and before Commissioner Peter E. Mitchell and Examiner Warner on November 4, 5, and 6, 1959, and before Examiner Warner on December 29, 1959, at Indio. Many subscribers and representatives of civic organizations protested the

granting of the application verbally and by letter to the Commission. Principal protests were based on complaints of poor service including busy trunk signals, line interference, unsatisfactory installation and repair of equipment, poor number change and intercept, party interference, failure to meet service requirements, delay in upgrading of service, incorrect billing, cross-talk, and poor reception. At the November 6, 1959 hearing, the applicant was directed by the presiding Commissioner to submit as Exhibit No. 18 a report on its plans for the improvement of service for the years 1959 through 1961 to eliminate the service conditions complained of. At the hearing of December 29, 1959, the applicant submitted as Exhibit No. 25 its estimated summary of earnings for the year 1960, including the effect on such earnings at the present and proposed rates of the cost of capital improvements for said year as outlined in Exhibit No. 18, supra.

A Commission staff engineering witness submitted as Exhibit No. 30 a statement of rebuttal to Exhibit No. 18, pointing out deficiencies therein and submitting recommendations further with respect thereto. A Commission staff accounting witness submitted as Exhibit No. 31 a supplemental financial report setting forth applicant's plans for interim financing, its capital requirements for 1960, applicant's proposed permanent financing, the requisites for public sale of applicant's common stock, dividend policy and requirements, a summary of earnings for the calendar year 1960 estimated at present and proposed rates based on the applicant's showing for said year, applicant's capital structure, its financial requirements, and conclusions with respect to applicant's present condition and outlook.

At the December 29, 1959 hearing, the applicant requested interim relief pending a final decision of the Commission and said request was then submitted for decision. The matter was continued to a date to be set for the staff to cross-examine as to applicant's Exhibits Nos. 25, 26, 27, 28, and 29. Each of these exhibits was submitted and received at said hearing and deals with a projection of applicant's earnings and financial requirements at present and proposed rates into the years 1960 and 1961, based on its service improvement program submitted in Exhibit No. 18. This program was adopted as applicant's official budget for the years 1960 and 1961 at a regular meeting of applicant's Board of Directors on November 24, 1959.

General Information

The applicant furnishes telephone service in the aforementioned locations in Coachella Valley and as of June 30, 1959, 9,143 stations, including 65 company business phones, were in service. Since 1951, applicant's telephone utility plant had increased from \$860,000 to \$2,804,000 by the end of 1958. Operating revenues had increased from \$250,000 to \$944,000, and stations had increased from 4,446 to 8,944 during the same period. A 10 percent increase in stations and revenues, per year, over the next five years was estimated as likely to occur, which said estimate may be conservative. The record shows that this desert resort and agricultural area of Riverside County has grown very rapidly, and the indications are that such growth will not only be maintained but may also be accelerated with the construction of additional large resort hotels, motels, desert apartments, golf and country clubs, private desert homes, and commercial service establishments.

The record shows that the rapid growth of the area has strained applicant's facilities and that such strain has, for the most part, resulted in poor service. Nearly all subscribers and their representatives who appeared at the hearing testified that were telephone service provided and maintained at good standards they would not object to the granting of the application.

Rates

Applicant's present basic exchange service rates were authorized by Decision No. 46662, dated January 22, 1952, in Application No. 32600.

The following tabulation compares the present flat rates for business base rate area, business extended service area, residence base rate area, and residence extended service area exchange service with the rates proposed in the application for such services:

<u>Class and Grade of Service</u>	<u>Rates per Month</u>	
	<u>Present</u>	<u>Proposed</u>
<u>Flat Rate Exchange Service</u>		
<u>Business Base Rate Area</u>		
1 - Party	\$ 6.50	\$ 12.50
2 - Party	5.25	9.80
4 - Party	4.75	7.25
Extension	1.50	1.50
<u>Business Extended Service Area</u>		
1 - Party	10.05	16.05
2 - Party	8.25	12.80
4 - Party	6.95	9.45
Extension	1.50	1.50
<u>Residence Base Rate Area</u>		
1 - Party	4.00	5.60
2 - Party	3.50	4.60
4 - Party	3.00	4.00
Extension	1.25	1.25
<u>Residence Extended Service Area</u>		
1 - Party	4.85	6.45
2 - Party	4.10	5.20
4 - Party	3.30	4.30
Extension	1.25	1.25

Earnings

Exhibit No. 8, submitted by applicant's accounting witness, is a summary of earnings from total operations for the year 1957 recorded and adjusted, for the year 1958 recorded, and the estimated year 1959 at present and proposed rates. Exhibit No. 16-A, submitted by staff engineering witnesses is a revised report on applicant's operations for the years 1957 recorded, 1958 recorded and adjusted, and the year 1959 estimated at present and proposed rates. Exhibit No. 25, submitted by applicant's witness, is a summary of earnings for the year 1960 based on applicant's budgeted capital improvement program set forth in Exhibit No. 18. The earnings data contained in Exhibits Nos. 8, 16-A and 25 are summarized and compared in the following tabulation.

SUMMARY OF EARNINGS

Item	Year 1959 Estimated				Year 1960 Est'd.	
	Present Rates		Proposed Rates		Present	Proposed
	Per Co. : Ex. 8	Per P.U.C. : Ex. 16-A	Per Co. : Ex. 8	Per P.U.C. : Ex. 16-A	Rates : Per Co. Ex. 25	Rates : Ex. 25
Oper. Revenue	\$1,121,300	\$1,110,015	\$1,326,200	\$1,303,215	\$1,401,824	1,615,763
Oper. Expense	636,770	603,100	636,770	603,100	852,060	852,060
Depreciation	153,800	144,800	153,800	144,800	203,300	203,300
Taxes	188,297	164,427	306,114	269,992	194,557	311,454
Subtotal	\$ 978,867	\$ 912,327	\$1,096,684	\$1,017,892	\$1,249,917	\$1,366,814
Not Oper. Rev.	\$ 142,433	\$ 197,688	\$ 229,516	\$ 285,323	\$ 151,907	\$ 248,949
Rate Base	3,257,664	3,281,800	3,257,664	3,281,800	4,303,344	4,303,344
Rate of Return	4.37%	6.02%	7.05%	8.69%	3.5%	5.8%

The record shows that the applicant has been computing depreciation for income tax deduction purposes for the years 1954 through 1958 using shorter lives for certain of its items of depreciable capital and that such computations have resulted in a total

tax deduction of \$179,571.33 over the said period. However, in the preceding tabulation the applicant has computed depreciation for income tax purposes on the straight-line basis but the staff computed it on the "taxes as paid" basis.

In the above tabulation differences between the estimates of operating expenses, depreciation, taxes and rate base submitted by the applicant and the staff are evident, the staff having normalized operating expenses for nonrecurring items of expense and having utilized procedures for the determination of rate base in line with practices heretofore generally adopted by the Commission.

Exhibit No. 18 shows that for the year 1959 the applicant will have added net telephone plant in service amounting to \$153,738 to improve service; in 1960, \$290,569; and in 1961, \$272,442; for a total of \$716,749. In addition thereto, the applicant will have added, in 1959, \$740,902, in 1960, \$1,054,421, and in 1961 \$559,058; for a total of \$2,354,381 for regrading, trunking and new services. The total budget for net telephone plant in service additions for the three-year period is \$3,071,130, of which the total of \$1,344,990 is budgeted for the year 1960 and is reflected in the estimated rate base shown in Exhibit No. 25 and as shown in the preceding tabulation.

Staff Recommendations

Chapter 10 of Exhibit No. 16 contains 17 detailed recommendations of the staff for the remedying and elimination of service complaints submitted by subscribers at the hearings of September 1, 2 and 3, 1959. Said Chapter also contains 11 detailed recommendations by the staff regarding the filing of bimonthly reports on

service improvement projects, giving cost effects and the dates for starting and completion of such projects to alleviate service complaints and to maintain adequate telephone service. Said Chapter further contains 4 major recommendations by the staff that minimum standard of service of answering time, of dial service requirements, of maintenance of plant and equipment, and of service interruptions be maintained by the applicant.

In Exhibit No. 18 and through testimony of its president, the applicant indicated that a number of the staff recommendations were already being carried out or followed by the applicant, that some staff recommendations would be incorporated in present procedures, and that some new studies, which the applicant felt would be beneficial in improving the service to the subscribers, would be made.

Exhibit No. 30 sets forth in detail, a specific discussion of every omission, qualification, or addition found in Exhibit No. 18 as it relates to Chapter 10 of Exhibit No. 16.

Financing of Service Improvement
Capital Additions' Program

A financial expert witness of the applicant testified that in order to finance the service improvement capital additions' program set forth in Exhibit No. 18, the applicant would be required, and before the end of 1960, planned to avail itself of a recently negotiated line of credit with a bank amounting to \$1 million and to draw down \$500,000 on its mortgage to refinance, in part, such short term credit, and to issue and sell, before the end of 1961, \$1 million of its common stock, \$500,000 of which would be used to

further refinance the short term bank credit. This witness testified that in his opinion the applicant would be required to pay a \$1.00 annual dividend on its \$20 par value common stock, or 5 percent, in order to sell it at a public offering due in part to applicant's present financial condition as set forth on the record and due, also, to its lack of a sustained common stock earnings' record. Exhibit No. 26, submitted by applicant's accounting witness, is a calculation of estimated revenue requirements of service improvements for the year 1960 to produce a rate of return of 7.05 percent as requested in the instant application. Said exhibit shows that estimated local service revenue at the proposed rates for the year 1960 would be \$846,000; that the local service revenue requirement to produce said rate of return would be \$967,648; and that the estimated revenue requirements of service improvements therefor would be \$121,048. This means, according to this witness's testimony, that utilizing the applicant's estimated revenues, expenses and rate base for the year 1960, the rates proposed in the instant application would be deficient by the last said amount to produce the rate of return requested. As noted hereinbefore, Exhibit No. 31 is a supplemental financial report on the applicant submitted by a staff accounting witness which sets forth the applicant's financial requirements on interim and permanent bases to complete the proposed construction program set forth in Exhibit No. 18.

Findings and Conclusions

From a review of the record it is evident, and the Commission finds as a fact and concludes, that the rate of return for the years 1959 and 1960 estimated which would be produced by the

operating revenues at the present rates is deficient and the applicant is in need of financial relief. It is further found as a fact and concluded that the public interest requires that the applicant be directed to improve its telephone service as a condition to the authorization to place into effect any increase in exchange telephone service rates. It is clearly demonstrated on the record that in order to bring the applicant's telephone service up to minimum standards of operation, the applicant must have expended approximately \$3 million during the years 1959, 1960 and 1961 on capital improvements.

Without passing with finality on the accuracy of the applicant's showing for the year 1960 estimated as set forth in Exhibit No. 25, it is apparent, however, that the rate of return of 5.8 percent shown therein which would be produced by the rates proposed in the application is not excessive and that said proposed rates are just and reasonable on an interim basis for this proceeding pending final determination thereof. Upon such final determination the interim rates, authorized hereinafter to be filed, may be adjusted downward or may be made permanent depending upon the facts regarding applicant's earnings under the said interim rates as they may be developed on the record in a subsequent hearing or hearings.

The Commission further finds as a fact that the increases in rates and charges authorized herein are justified, and that present rates, insofar as they differ from those herein prescribed, will, for the future, be unjust and unreasonable.

It is further found as a fact and concluded that the public interest requires that the applicant be directed to carry out and place in effect, and periodically report its progress with respect thereto, the staff recommendations contained in Chapter 10 of Exhibit No. 16 and in Exhibit No. 30, and the order hereinafter will so provide.

Failure on the part of applicant to carry out and place in effect the staff recommendations or any neglect or unreasonable delay in the applicant's pursuing and completing its service improvement capital additions' program in the years 1960 and 1961 would constitute grounds for the Commission's considering the reduction of the applicant's telephone exchange service rates as may be appropriate.

INTERIM ORDER

Application as above entitled having been filed, public hearings having been held, a request for interim rate relief having been submitted, and based on the record in the proceedings and the findings and conclusions with respect thereto as hereinbefore set forth,

IT IS HEREBY ORDERED as follows:

1.(a) That the application of Coachella Valley Telephone Company, a corporation, for authority to increase its rates for exchange telephone service be and it is granted, and that Coachella Valley Telephone Company be and it is authorized to file in quadruplicate with the Commission on or after the effective date of this order and in conformance with the provisions of General Order No. 96, the tariff schedules for exchange telephone service with rates, charges and conditions as set forth in Exhibit E attached to the application, and on not less than four days' notice to the public and to this Commission to make said tariffs effective for all service furnished on and after April 1, 1960.

(b) That the authority to increase rates hereinbefore granted be and it is conditioned upon the applicant's not neglecting or unreasonably delaying the pursuing and completing of its service improvement capital additions' program as outlined in the opinion herein.

2. That applicant shall improve service facilities and operations; shall maintain standards of service; and shall further investigate and study service deficiencies and provide the Commission with monthly operating reports pursuant to the staff recommendations contained in Chapter 10 of Exhibit No. 16 and in Exhibit No. 30 as said Exhibit is related to Exhibit No. 18. Such periodic reports are to start April 1, 1960 and four copies shall be filed by the 15th day of each month with the Commission.

3. That applicant shall, within six months after the effective date of this order, make and submit to the Commission, in writing, an extended service study of the plant, revenue and expense effects, and community of interest between contiguous central office and exchange areas in its Thousand Palms and Indio exchanges.

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

Dated at San Francisco, California, this 8th day of March, 1960.

[Signature]
President

[Signature]

[Signature]

[Signature]
Commissioners

Appendix A.

Appearances

For Applicant:

Gibson, Dunn & Crutcher, attorneys, by Raymond L. Curran, and J. C. Newman, president.

Protestants:

Harry B. Cannon, city attorney, for City of Coachella and Palm Desert Chamber of Commerce; Henry M. Lennie, for Thousand Palms Chamber of Commerce; Hal Kapp, for Palm Desert Chamber of Commerce; Clifford W. Henderson, for Firecliff Lodge, C. W. Henderson Properties, and in propria persona; George T. Mitchell, for Indio Thunderbird Service and Burger Boy; Richard B. Kite, for Welcome-Kite & Co. and Jean Chisholm; Mrs. Wm. B. Gardner, for Foster-Gardner, and in propria persona; Ralph E. Phillips, for Palm Desert Hotel group and Candlewood Lodge; E. V. Lampkin, for Lampkin & Parry Business & Tax Service and Kenneth Gigoux; Mrs. Jay Herod, Milton A. Hoffman, Patsy Benfante, Mrs. Owen Hudson, Mrs. Wm. X. Mullen, Mrs. Stephen Schweitzer, Miss Lily Heffernan, Mrs. C. Charles Crockett, William F. Lester, Mrs. Tom E. Triplett, Ed Gierlich, Elizabeth Harrelson, Frank B. Lamb, William Warth, and Margaret Timm, in propria personae.

Interested Parties:

Neal C. Hasbrook, for California Independent Telephone Association; Justin M. McCarthy and Gerald J. Geerlings, deputy county counsels, for the County of Riverside; William L. Knecht, attorney, for California Farm Bureau Federation; Mrs. Lucille Carnes, manager, for Indio Chamber of Commerce; Robert S. Cox, for La Quinta Chamber of Commerce; Joyce H. Dewey, for Dew-All Services, Inc.; and Elizabeth R. Price and Tom A. Triplett, in propria personae.

For the Commission Staff:

Hector Anninos, counsel.