

ORIGINAL

Decision No. 59861

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
TUOLUMNE TELEPHONE CO., a California
corporation, for authority to increase
rates and charges for exchange tele-
phone service in the Tuolumne exchange.

Application No. 41628

John R. Wise, for Tuolumne Telephone Co.
Neal C. Hasbrook, for California Independent Tele-
phone Association; Marc S. Boles, for Pickering
Lumber Company; William Knecht, for California
Farm Bureau Federation; and Sadi B. Fontaine,
for himself; interested parties.
George F. Baker, for a group of citizens of
Tuolumne, protestant.
Thomas L. Deal and Jean B. Balcomb, for the
Commission staff.

OPINIONApplicant's Request

Tuolumne Telephone Co., a corporation, furnishing tele-
phone service in the unincorporated town of Tuolumne and vicinity,
Tuolumne County, filed the above-entitled application on November
2, 1959, requesting authority to increase rates for exchange
service, as set forth on Exhibit H of the application, so as to
increase its annual exchange revenues by \$7,770, or by about 28
percent, based on the test year 1960.

Public Hearing

After due notice, public hearing on this application was
held before Examiner William W. Dunlop on February 10, 1960, at
Tuolumne. Applicant presented two exhibits and testimony through

two witnesses in support of its request. The Commission staff presented the results of its independent study and investigation of applicant's operations through two witnesses and, in addition, cross-examined applicant's witnesses. Counsel for the California Farm Bureau Federation also cross-examined certain of the witnesses.

Two public witnesses presented testimony to the effect that their telephone service was excellent, that the requested rates were fully justified, and that the requested rate increase should be granted.

A representative for a citizens group, appearing as a protestant, presented a petition with 259 signatures of local subscribers, residents, or users of telephone service protesting any increase in rates and alleging that existing rates are adequate and yield a fair and adequate return on applicant's investment. This representative took particular exception to the level of management salaries and expenses but acknowledged that telephone service generally was satisfactory.

In addition, testimony was presented by four public witnesses who generally were opposed to the requested increase. One of the witnesses stated that many residents of Tuolumne lived on pensions or on public welfare and could not pay any more for their telephone service. Another witness pointed to the fact that rates for telephone service in neighboring exchanges were considerably lower than those requested in this proceeding for Tuolumne and that toll charges applied on calls to Sonora, the principal trading and service center for Tuolumne and environs.

Applicant's Operations

Applicant furnishes dial telephone service to approximately 520 telephone stations in its Tuolumne Exchange. Through interconnection with the lines of The Pacific Telephone and Telegraph Company, applicant provides its Tuolumne subscribers with direct distance dialing of message toll telephone station-to-station toll calls. Person and other manual toll and operator assistance functions are provided from the toll switchboard of Pacific Telephone in Sonora.

Present exchange rates, except move and change and service connection charges, generally became effective on March 1, 1952.^{1/} At that time Tuolumne Exchange was served by a magneto manual switchboard. The exchange was converted to dial operation on February 1, 1958. Since 1952, when the present rates generally became effective, applicant's plant investment has increased from some \$31,800 to in excess of \$193,000.

In addition to four permanent employees, the utility hires part-time help as necessary. Two of the permanent employees are the sole stockholders of the corporation as well as its principal officers.

Rates, Present and Requested

A comparison of presently effective rates for the major classes of service with those which applicant has requested, is as follows:

^{1/} Decision No. 46713, dated February 5, 1952, Application No. 32646.

<u>Classification</u>	<u>Number of Services 9-15-59</u>	<u>Rate per Month</u>	
		<u>Present</u>	<u>Requested</u>
<u>Business</u>			
1-party	29	\$5.50	\$7.50
2-party	16	4.75	6.25
6-party	-	4.50	withdraw
8-party suburban	-	-	5.50
10-party suburban	7	4.50	withdraw
<u>Residence</u>			
1-party	113	4.00	5.25
2-party	23	3.50	withdraw
4-party	-	-	3.75
6-party	175	3.00	withdraw
8-party suburban	-	-	4.00
10-party suburban	92	3.00	withdraw
		<u>Charge</u>	
Moves and Changes		4.00	5.00
Service Connections:			
Business		10.00	15.00
Residence		7.00	10.00
Extensions and Instruments in place		4.00	5.00

Results of Operations

A summary of the evidence respecting applicant's over-all rate of return related to an average depreciated rate base as presented by witnesses for applicant and for the Commission staff follows:

<u>Year</u>	<u>Rate of Return</u>			
	<u>Present Rates</u>		<u>Requested Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Recorded Year 1958	0.30%	- %	- %	- %
Test Year 1959	loss	0.19	2.82	3.49
Test Year 1960	0.29	1.33	3.53	4.52

Comparisons of the respective showings on applicant's over-all revenues, expenses, net revenues, rate base and rate of return for the test year 1960 follow:

OVER-ALL RESULTS OF OPERATIONS - TEST YEAR 1960

<u>Item</u>	<u>Present Rates</u>		<u>Requested Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 50,580	\$ 48,640	\$ 58,300	\$ 56,130
Operating Expenses before Depreciation and Taxes	33,880	32,890	33,880	32,890
Depreciation	8,910	7,300	8,910	7,300
Amort. of Extraordinary Retirements	160	170	160	170
Amort. of Plant Acquisition Adjustment	1,290	-	1,290	-
Taxes	<u>5,780</u>	<u>5,790</u>	<u>7,240</u>	<u>7,310</u>
Total Operating Expenses	50,020	46,150	51,480	47,670
Net Revenue	560	2,490	6,820	8,460
Avg. Rate Base (depreciated)	193,000	187,300	193,000	187,300
Rate of Return	0.29%	1.33%	3.53%	4.52%

Witnesses for applicant and for the Commission staff not only presented the results for the over-all company but also presented the separated results for interchanged toll operations and for exchange operations. For the test year 1960 at the requested rates, the separated results may be summarized as follows:

RATE OF RETURN - SEPARATED OPERATIONS
TEST YEAR 1960 - REQUESTED RATES

	<u>Over-All Company</u>	<u>Interchanged Toll Portion</u>	<u>Exchange Portion</u>
Applicant	3.53%	7.86%	1.76%
CPUC Staff	4.52	7.70	3.21

The above estimates of the staff for the 1960 test year do not reflect increases in wages of 25 cents per hour awarded by applicant early in 1960 to two nonmanagement employees. These wage increases actually are being paid, are reflected in applicant's showing, and will be considered in a determination of applicant's reasonable operating expenses.

Applicant has included in expenses for 1960 an amount of \$1,290 to cover the amortization, over a five-year period, of the plant acquisition adjustment account balance. The evidence shows that the December 31, 1959 balance of \$5,178.63 in the plant acquisition adjustment account represents the unamortized balance of the difference between the purchase price of the telephone system paid by Mr. Wise, the predecessor owner, and the historical cost of the system purchased. The amortization of such amount in this particular case is, in our opinion, not a proper charge to operating expenses for rate-fixing purposes.

The applicant and the staff reflected management salaries for the president and his wife^{2/}, the sole stockholders of the corporation, in the total amount of \$9,492 for 1958 and \$12,594 for 1959 and 1960. This represents an increase of \$3,102, or about 33 percent, over the 1958 amount. As previously indicated, the level of such management salaries was seriously challenged by public witnesses. In fixing applicant's rates, we must balance the interests of the ratepayers and of the utility stockholders and allow in rates only those operating expenses that are reasonably required to enable applicant under prudent management to furnish reasonable service to the public.

^{2/} The president's wife is Secretary-Treasurer of the corporation.

Applicant's Investment

The record shows that applicant has financed its current investment in properties primarily through the use of proceeds from a loan agreement which it executed with the United States Government, through the Rural Electrification Administration (REA), and that it proposes to finance future expansion through the use of funds derived from the same source. Applicant's capital structure as of December 31, 1959, was as follows:

Long-Term Debt Due REA		\$190,116.19	97.0%
Equity Capital:			
Common Stock	\$12,000.00		
Surplus as Adjusted	*(6,155.18)	<u>5,844.82</u>	<u>3.0</u>
		\$195,961.01	100.0%

*As adjusted in Table 2-A of Exhibit 3
() Red Figure

As of December 31, 1959, applicant's balance sheet, as adjusted by the staff to eliminate accounting errors, showed an investment in properties of \$180,087.55, after deducting \$16,481.04 in the depreciation reserve account. The \$180,087.55, representing applicant's depreciated investment in properties, is \$15,873.46 less than its total capitalization. This \$15,873.46 is composed of the following:

Net Current Assets	\$ 8,165.61
Unamortized Telephone Plant	
Acquisition Adjustment Account Balance	5,178.63
Deferred Extraordinary Maintenance	4,144.74
Loan Expense	2,341.81
Other Deferred Charges	4,153.53
Subtotal	<u>\$23,984.32</u>
Less: Deferred Interest Payable	8,110.86
Total	<u>\$15,873.46</u>

The loan agreement with the REA provides for repayment of the loan principal in annual installments over a period of 35 years with interest at the rate of 2 percent per annum on the deferred balances. In authorizing applicant to enter into this loan agreement, the Commission in Decision No. 54467, dated February 5, 1957, in Application No. 38725, made the following statement: "In the event we may be called upon to fix rates in the future, we will give consideration at that time to applicant's established and approved investment in its properties and to the terms under which it has financed itself."

On the basis of applicant's capital structure as of December 31, 1959, it will incur interest expense of \$3,802.32 which is equivalent to 2 percent of its REA loan balance of \$190,116.19. The above amount of \$3,802.32 represents the cost to applicant of servicing \$190,116.19, or 97.0 percent, of its capital structure. These favorable terms, as well as other elements of applicant's financing discussed above, will be accorded due consideration in the determination of a fair and reasonable rate of return to be allowed on a depreciated rate base representing an investment in physical properties.

Findings and Conclusions

After considering all of the evidence of record, the Commission finds and concludes that an order should be issued authorizing increases in rates in the over-all amount of approximately \$2,600. Such increase will produce annual gross revenues approximating \$51,250, which, when related to reasonable operating expenses and rate base shown in the following tabulation, will yield a fair and reasonable rate of return to applicant.

TEST YEAR 1960

Operating Revenues	\$ 51,250
Operating Expenses before Depreciation and Taxes	31,930
Depreciation	7,300
Amortization of Extraordinary Retirement	170
Taxes, Other than on Income	5,720
Income Taxes	330
Total Expenses and Taxes	<u>\$45,450</u>
Net Revenues	5,800
Avg. Rate Base (depreciated)	187,300
Rate of Return	3.1%

Results of operations in the above amount should be ample to service applicant's obligations and to yield a reasonable return on the amount of equity capital invested in operative properties. We find the above-tabulated revenues, expenses, rate base and rate of return to be fair and reasonable in the light of the entire record in this proceeding. The rates hereinafter authorized are designed to produce such an indicated result.

Rates authorized for basic exchange telephone service and comparisons with existing rates are shown in the tabulation following.

<u>Business</u>	<u>Rate per Month</u>		
	<u>Present</u>	<u>Authorized</u>	<u>Increase</u>
1-Party	\$5.50	\$7.00	\$1.50
2-Party	4.75	5.60	.85
6-Party	4.50	Withdraw	-
8-Party Suburban	-	5.10	-
10-Party Suburban	4.50	Withdraw	-
<u>Residence</u>			
1-Party	4.00	4.40	.40
2-Party	3.50	3.75	.25
4-Party	-	3.05	-
6-Party	3.00	Withdraw	-
8-Party Suburban	-	3.25	-
10-Party Suburban	3.00	Withdraw	-

The evidence is clear that applicant's base rate area should be enlarged substantially as shown in Chart 1B of Exhibit No. 3 on or before March 1, 1961 and the order herein will so provide. Applicant's request to increase rates for suburban mileage, directory listings, and for a telephone set for a noisy location will be denied. The staff's recommendation with respect to semipublic coin box service does not appear warranted at this time. Applicant will be expected to submit proposed changes in depreciation rates to the Commission for its review prior to their use by applicant. Moreover, applicant will be expected to give particular attention to improving its accounting records as noted by the Commission's staff on page 17 of Exhibit No. 3.

We find, therefore, that the increases in rates and charges authorized herein are justified and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

O R D E R

Tuolumne Telephone Co., having applied to this Commission for an order authorizing increases in telephone rates and charges, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS ORDERED that:

1. 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, revised tariff schedules with rates, charges and conditions modified 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 tariffs effective for all service furnished on and after May 1, 1960, excepting that the increases in installation, service connection and move and change charges shall be made effective on applications received by the utility on and after May 1, 1960, and the change in base rate area shall be made effective no later than March 1, 1961.

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

Dated at San Francisco, California, this 29th day of March, 1960.

Evelyn R. Page
President
Ed. E. Mitchell
William H. ...
E. ...
Theodore Deener
Commissioners

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

Present Schedule No. A-1 (Cancel and replace by Schedules Nos. A-1, A-2 and A-4 as set forth herein.)

Schedule No. A-1
Individual and Party Line Service

Applicability:

Applicable to individual, two- and four-party line residence and business flat rate exchange telephone service.

Territory:

Within the base rate area and the suburban area (subject to added mileage charges) of the exchange as said areas are defined on maps filed as part of the company's tariff schedules.

Rates:

	<u>Rate Per Month</u>	
	<u>Business Service</u>	<u>Residence Service</u>
Each individual line primary station	\$7.00	\$4.40
Each two-party line primary station	5.60	3.75
Each four-party line primary station	-	3.05
Each extension station	1.50	1.25

Special Conditions

1. Individual, two-party and four-party line service will be furnished within the base rate area at the above rates. These services will be furnished outside the base rate area but within the suburban area at the above rates plus mileage rates as set forth in Schedule No. A-4.

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2. Extension stations at the above rates will be installed on the same premises as the primary station. Off premises extension stations will be installed at the above rates plus mileage rates as set forth in Schedule No. A-4.

3. Extension stations with bells are limited to (3) on individual lines, (2) on two-party lines, and (1) on four-party lines. Additional extension stations without bells may be furnished.

Present Schedule No. A-2
Commercial Private Branch Exchange Service (Cancel and withdraw)

Schedule No. A-2
Suburban Service

Applicability:

Applicable to eight-party line suburban business and residence flat rate exchange telephone service.

Territory:

Within the suburban area of the exchange as said area is defined on maps filed as part of the company's tariff schedules.

Rates:

	<u>Rate per Month</u>	
	<u>Business Service</u>	<u>Residence Service</u>
Each suburban eight-party line primary station	\$5.10	\$3.25
Each extension station	1.50	1.25

Special Conditions

1. Service under this schedule is furnished only outside the base rate area and within the exchange area. In no case will the total number of primary stations connected to one suburban circuit exceed eight (8) stations.

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2. Extension stations at the above rates will be installed on the same premises as the primary station. Off premises extension stations will be installed at the above rates plus the off premises mileage rates as set forth in Schedule No. A-4.

3. Extension stations with bells are limited to one for each primary station. Additional extension stations without bells may be furnished.

Schedule No. A-4
Mileage Rates

Applicability:

Applicable to mileage rates in connection with exchange telephone service.

Territory:

Within the exchange area as said area is defined on maps filed as part of the company's tariff schedules.

Rates:

	<u>Rate per Month</u> <u>Each ¼-mile or</u> <u>fraction thereof</u> <u>airline measurement</u>
Suburban Mileage	
Individual line	\$.60
Two-party line	.40
Four-party line	.20
Off premises extension mileage	1.00

Conditions

1. Suburban mileage applies when individual, two-party or four-party service is provided in the suburban area, and is in addition to the basic rates for these services as listed in Schedule No. A-1. Suburban mileage is the airline distance between the location of the primary station and the nearest point

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on the boundary of the base rate area.

2. The mileage rates for off premises extensions are applicable to extension or private branch exchange stations located off the premises on which the primary service is located, and within the exchange area, and apply in addition to the other rates applicable to those services. The mileage rates apply to the airline distance between the primary and the extension stations. No mileage charge is applicable when the off premises extension station is within 300 feet airline distance of the primary station.

Schedule No. A-6
Supplemental Equipment

Changes in schedule set forth on Sheet 2 of Exhibit H attached to the application are authorized, except that the rate for a noisy location set is not authorized.

Schedule No. A-9
Automatic private branch exchange service

	<u>Installation Charge</u>	<u>Rate Per Month</u>
Automatic switching unit	\$200.00	\$40.00
Station	-	1.50
Central office trunk	-	10.50

Schedule No. A-19
Residence Foreign Exchange Service

Changes in schedule set forth on Sheet 3 of Exhibit H attached to the application are authorized.

Schedule No. A-29
Move and Change Charges

Changes in schedule set forth on Sheet 3 of Exhibit H attached to the application are authorized.

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Schedule No. A-30
Service Connection Charges

Changes in schedule set forth on Sheet 3 of Exhibit H attached to the application are authorized.

Base Rate Area Map

Revise base rate area map substantially as indicated in Chart 1-B of Exhibit 3.