

ORIGINALDecision No. 60702

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 CENTRAL CALIFORNIA TELEPHONE COMPANY,
 a California corporation, for authority
 to (1) replace the White River Exchange
 with a new California Hot Springs Exchange
 and a new Glennville Exchange; (2) to
 enlarge the area served so as to include
 the community of Johnsondale in the pro-
 posed California Hot Springs Exchange;
 (3) to establish new rates and charges
 for the proposed Glennville and California
 Hot Springs Exchange; and (4) to establish
 toll centers at California Hot Springs and
 Glennville and discontinue the present toll
 center at White River.

Application No. 41998
(Amended)

Warren A. Palmer and Orrick, Dahlquist, Herrington
 & Sutcliffe, for applicant.
J. J. Deuel and Ralph Hubbard, for California Farm
 Bureau Federation; Rodney Williams, for James
 Vizzard; Lois R. Booth, for Panorama Heights
 Resort, Posey Fire Department, Ernest T. Carney,
 and Robert McDonnell; Miss Hester C. McDonald,
 for Idlewild Community; Mrs. Trudee Wible, for
 herself; interested parties.
Hugh N. Orr, for the Commission staff.

O P I N I O NApplicant's Request

By the above-entitled application filed on March 2, 1960,
 and as amended on April 5, 1960 and on June 21, 1960, Central
 California Telephone Company seeks authority to: (1) replace its
 White River exchange located in the counties of Tulare and Kern with
 two new exchanges to be designated California Hot Springs and
 Glennville, respectively; (2) enlarge its existing service area by
 approximately 40 square miles; (3) establish and/or increase rates
 and charges for the proposed California Hot Springs and Glennville

exchanges as set forth in the application; and (4) establish toll rate centers at California Hot Springs and at Glennville exchanges and discontinue the existing toll rate center at White River.

Public Hearing

After due notice, public hearing was held at Porterville on July 20, 1960 before Examiner William W. Dunlop. Applicant presented ten exhibits and testimony through one witness in support of its request.

Seven public witnesses testified generally in favor of the applicant's request. The California Farm Bureau Federation cross-examined witnesses and in its closing statement urged the granting of the application including the proposed maximum mileage areas as a reasonable method of meeting the special problems of the area and in the interests of service improvements.

The Commission's staff made an independent investigation of applicant's operations, cross-examined witnesses and presented one exhibit through two staff witnesses.

Applicant's Operations

Applicant is a California corporation furnishing exchange and toll telephone public utility service through nine exchanges in the central part of the State. Its largest exchanges are at Corcoran, Exeter and McFarland. In total it serves approximately 8,000 telephones and at the end of 1959 it reported telephone plant in service approximating \$2,170,000.

Central Western Company, a service organization, provides centralized purchasing, engineering, accounting and similar services to applicant and to three other associated telephone utilities. These services are performed in accordance with written contracts with each utility which set forth the types of service to be

provided and the methods of calculating charges. Charges are based on actual costs incurred by Central Western, plus a 5 percent profit.

White River Exchange

Applicant purchased the White River exchange in October 1958 pursuant to Decision No. 57472, dated October 15, 1958, in Application No. 40437, and assumed operations of the exchange in February 1960. White River exchange now serves approximately 130 telephones. Principal communities served by the exchange are Glennville, California Hot Springs and Pine Flat. The latter two communities are adjacent and essentially form a single community. The evidence reveals that existing facilities in the exchange are inadequate to meet all demands for service, that the present dial central office is filled to capacity and cannot be expanded, and that the existing toll facilities to Porterville are inadequate. Applicant forecasts a demand of 257 telephones by January 1961 and 526 telephones by January 1966.

Proposed Changes

To meet growing service demands based on studies of White River exchange, applicant proposes to serve Glennville and the surrounding area by a new exchange with a dial central office at Glennville and further proposes to serve California Hot Springs, Pine Flat and surrounding territory by a new exchange with a dial central office at California Hot Springs. A base rate area is proposed within each of the exchanges. Within the Glennville exchange three maximum mileage areas also are proposed to be established. The maximum mileage areas permit the offering of higher grades of service at approximately one half the suburban mileage charges that otherwise would apply. On Exhibit 5 applicant shows the proposed location of the boundaries of the exchanges, base rate areas and maximum mileage areas.

Under applicant's plan, calling between the proposed two new exchanges would be made without toll charges on an extended service basis. Present toll facilities are proposed to be replaced by a microwave system connecting at Bakersfield with facilities of The Pacific Telephone and Telegraph Company. This arrangement, according to the evidence, will be more economical than rebuilding existing facilities to Porterville, will provide dependable service, and permit the offering of nationwide subscriber toll dialing.

In lieu of the existing toll rate center at White River, applicant proposes to establish two new toll rate centers, one at Glennville and the other at California Hot Springs.^{1/} Necessary construction work to implement applicant's plans, according to the testimony can be completed during March 1961.

Financing

Financing of the proposed \$393,000 of new construction is to be by 35-year 2 percent interest REA loan commitments, as approved by Decision No. 57366, dated September 29, 1958, in Application No. 40398.

Rates - Present and Proposed

Applicant's existing White River exchange rates have been in effect for many years and do not provide for such modern day service standards as one- and two-party line business service and one- and four-party line residence service. A comparison of present and applicant's proposed rates are set forth in detail in Exhibit 9, and for the principal classifications of exchange service are as follows:

^{1/} The geographical locations of the proposed toll rate centers are: California Hot Springs, Northwest one-quarter of Northeast one-quarter of Section 5, Township 24 South, Range 31 East M.D.B.&M.; Glennville, Southwest one-quarter of Northwest one-quarter of Section 26, Township 25 South, Range 30 East, M.D.B.&M.

<u>Classification</u>	<u>Rate Per Month</u>		
	<u>Present</u>	<u>Company Proposed</u>	
Business - Flat Rate Within Base Rate Area:			
One-Party	*	\$6.75	
Two-Party	*	5.50	
Extension	*	1.50	
Residence - Flat Rate Within Base Rate Area:			
One-Party	*	4.50	
Four-Party	*	3.10	
Extension	*	1.00	
Suburban Ten-Party Flat Rate:			
Business	\$1.50	5.00	
Residence	1.50	3.60	
Farmer Line:			
Business	.75	1.35	
Residence	.75	.80	
Minimum Charge Per Line	3.75	4.00	
Suburban Mileage Charges - Per 1/4 Mile:			
One-Party	*	.50	
Two-Party	*	.35	
Four-Party	*	.25	
Maximum Suburban Mileage Charges - Glennville:			
One-Party	* <u>Area 1</u>	<u>Area 2</u>	<u>Area 3</u>
Two-Party	* \$5.00	\$7.50	\$4.50
Four-Party	* 3.50	5.25	3.10
	* 2.50	3.75	2.25

* Service Not Offered.

In general, applicant's proposed exchange rates for California Hot Springs and for Glennville are the same as those in effect in other of applicant's smaller exchanges.

Applicant's proposed toll rates are the same as those generally in effect in other areas of California. A comparison of the present and the proposed toll rates from California Hot Springs and Glennville to Bakersfield and to Porterville are as follows:

<u>From</u>	<u>3-Minute Station Call To</u>			
	<u>Bakersfield</u>		<u>Porterville</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
California Hot Springs	\$0.40	\$0.45	\$0.30	\$0.35
Glennville	.40	.35	.30	.35

Evidence on Earnings

The evidence on earnings submitted by applicant and by the Commission staff may be summarized as follows:

	<u>Rate of Return</u>	
	<u>Applicant</u>	<u>Staff</u>
White River Exchange, Present Rates & Service Company Proposed Rates and Service, Glennville and California Hot Springs Exchanges:	Loss	*
1961 Estimated	0.69%	2.60%
1966 Estimated	4.05	*
Total Company - Year 1959	4.74	*
1961 Estimated	4.12	*
1966 Estimated	4.63	*

* Not shown

A comparison of the estimates for Glennville and California Hot Springs exchanges for 1961 at applicant's proposed rates and service arrangements follows:

	<u>Applicant</u>			<u>Staff</u>		
	<u>Exchange</u>	<u>Toll</u>	<u>Total</u>	<u>Exchange</u>	<u>Toll</u>	<u>Total</u>
Revenues	\$ 18,940	*	*	\$ 15,130	\$ 60,490	\$ 75,620
Expenses and Taxes	32,174	*	*	20,060	44,480	64,540
Net Revenue	\$(13,234)	\$ 15,850	\$ 2,616	\$ (4,930)	\$ 16,010	\$ 11,080
Rate Base	\$176,858	\$204,516	\$381,374	\$223,380	\$207,890	\$431,270
Rate of Return	Loss	7.7%	0.69%	Loss	7.7%	2.6%

(Red Figure)

* Not Shown

Retirement of Existing Plant

This record reveals that under applicant's plan of service, \$54,711 of its existing White River plant will be retired at cut-over in 1961 and only \$29,412 will be retained in service. Applicant estimates that because of this large, contemplated retirement, its reserve for depreciation applicable to the White River exchange at cut-over in 1961 will be deficient by approximately \$31,250. While applicant asserted that it was less costly in the long run to retire the existing plant and build new plant, it presented no proof on this record in support of such assertion.

Applicant proposed to charge the depreciation reserve with the amount of the retirement, to credit the reserve with the tax savings, and to increase the depreciation expense so that the net deficiency would be written off over a 20-year period.

The Commission staff pointed out that the plant and depreciation reserve of the White River exchange are based on an appraisal as of December 31, 1955; that such appraisal resulted in a net plant "write-up" of \$17,472, which was credited to proprietary capital, and in the establishment of a depreciation reserve balance of \$4,292; and that subsequent events reveal that the depreciation reserve balance established by the appraisal and the subsequent accruals were too low. In view of these considerations, the staff suggested that the portion of the retired plant in excess of the accumulated reserve, less the tax savings, be charged to surplus. This suggestion was objected to by applicant.

An alternate proposal advanced by the staff was to treat the retired plant in excess of the accumulated reserve, less the tax savings, as an extraordinary retirement to be charged to operating expenses over a period of 20 years. Applicant did not oppose this alternative proposal, but urged that its proposal be authorized.

Staff Recommendations

The following recommendations were made by the staff:

1. Applicant prepare a comprehensive cost study establishing justification for providing lower mileage charges to subscribers within the proposed maximum mileage areas and not to subscribers or potential subscribers outside of the maximum mileage areas.
2. Applicant submit data on exchange revenues, direct maintenance expenses, plant in service, station development and separations factors for the California Hot Springs and Glennville exchanges, based on conditions one year after they are placed in operation.

3. Applicant offer classified directory advertising service to subscribers of the California Hot Springs and Glennville exchanges.

Applicant took exception to the first recommendation as being unnecessary since the maximum milcage areas were designed to meet particular problems in the Glennville territory and met with the general approval of the customers in the territory. The second recommendation was not objected to by applicant; however, with respect to the third recommendation applicant stated the present telephone development was too small to interest the directory company in soliciting advertising but that in the future with growth applicant would offer such service.

Findings and Conclusions

After considering the evidence of record the following findings and conclusions are made:

1. Applicant's plans to replace White River exchange with two new exchanges, California Hot Springs and Glennville, to establish base rate areas, maximum mileage areas, toll rate points and rates for exchange and toll telephone service appear reasonable and should be authorized.

2. The requested rates will not yield an excessive rate of return.

3. The retired plant in excess of the accumulated reserve, less the tax savings, should be charged to the depreciation reserve and, under the remaining-life depreciation method, included as an element of depreciation expense over the life of the plant devoted to service.

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

O R D E R

Public hearing having been held on the above-entitled matter, the matter having been submitted for decision and the Commission being informed thereon; therefore,

IT IS ORDERED as follows:

1. Central California Telephone Company, after the effective date hereof and on or before March 31, 1961, is authorized to replace its White River exchange with two new exchanges to be designated California Hot Springs and Glennville with exchange, base rate, and maximum mileage area boundaries substantially as shown on Exhibit 5, with toll rate centers as discussed in the foregoing opinion, and with exchange and toll rates as proposed in Exhibit 9.

2. Central California Telephone Company shall make and file necessary tariff schedule revisions in accordance with the provisions of General Order No. 96, and make said revisions effective for service coincident with the establishment of said two new exchanges on not less than ten days' notice to the public and to this Commission.

3. Such retired plant in excess of the accumulated reserve, less the tax savings, shall be charged to the depreciation reserve and included as an element of depreciation expense over the life of the plant devoted to service.

4. Central California Telephone Company shall file with this Commission within ninety days of the close of first full year of operation of the California Hot Springs and Glennville exchanges, data showing exchange revenues, direct maintenance expenses, plant in service, station development and separation factors applicable

to said two exchanges based on conditions one year after being placed in operation.

The authorization herein granted will lapse if not exercised within one year from the date hereof.

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

Dated at San Francisco, California, this 6th day of SEPTEMBER, 1960.

[Signature]
 President

[Signature]

[Signature]

[Signature]

Commissioners

Commissioner ~~Frederic H. Jenner~~, being necessarily absent, did not participate in the disposition of this proceeding.