

**ORIGINAL**Decision No. 51027

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 authority  
 to increase rates for exchange tele-  
 phone service and message toll tele-  
 phone service, and for interim relief.

Application No. 42567

Orrick, Dahlquist, Herrington, and Sutcliffe, by  
Warren A. Palmer, for Kern Mutual Telephone  
 Company, applicant.

Henry G. Baron, for City of Taft, protestant.  
Ralph Hubbard, for California Farm Bureau Federa-  
 tion, interested party.

John Gibbons, Robert W. Beardslee and William  
C. Bricca, for the Commission staff.

OPINION ON REQUEST FOR INTERIM INCREASE

Applicant's Request

Kern Mutual Telephone Company filed the above-entitled application on August 15, 1960, requesting the Commission (1) to issue its interim order authorizing applicant to file and make effective the increased rates and charges set forth in Exhibit G of the application; or (2) to issue its interim order authorizing applicant to file and make effective such increased rates and charges as will, in the Commission's discretion, enable applicant to meet its public utility obligations; and (3) to issue its final order authorizing applicant to file and make effective such rates and charges as will afford applicant the opportunity to earn additional annual gross revenues of not less than \$147,565 based on the estimated year 1961.

Public Hearing

After due notice, public hearing was held before Examiner William W. Dunlop on September 28 and 29, 1960, at Taft. Applicant presented four exhibits and testimony through one witness in support of its request.

The City Attorney of the City of Taft appeared as a protestant, cross-examined applicant's witness, and presented a resolution passed by the Kern County Board of Supervisors objecting to the increases in rates as requested by applicant and requesting the Commission to make a full and complete examination of all of the facts and to grant only such increases as are determined just and reasonable under the circumstances.

The representative of the California Farm Bureau Federation took no position with respect to applicant's request for interim rate increases and no member of the public or subscriber expressed a desire to present any testimony.

The Commission staff cross-examined applicant's witness, presented a financial report dealing with applicant's interim rate request and presented testimony through one witness.

At the conclusion of the second day of hearing applicant moved for an immediate interim rate increase of not less than \$97,313 to meet its estimated minimum requirements for the year 1961 pending completion of a thorough investigation by the Commission staff, further public hearings, and final disposition of the proceeding. Applicant's motion was taken under submission and the hearing was continued to January 11, 1961, at Taft.

This opinion and order will relate solely to applicant's motion for immediate interim rate increases.

### Applicant's Operations

Applicant is a California corporation furnishing exchange and toll telephone public utility service through four exchanges located principally in western Kern County. Its principal exchange is at Taft. In total it serves approximately 8,200 telephones and at the end of 1959 it reported telephone plant in service approximating \$2,290,000. As of July 1, 1960 applicant had no unfilled orders for primary service but was holding 205 requests for higher grades of service.

Central Western Company, an affiliated service organization, provides centralized purchasing, engineering, accounting and similar services to applicant and to several other telephone utilities. These services are performed in accordance with written contracts with each utility. Said contracts set forth the types of service to be provided and the method of calculating charges. Appendix B of Exhibit 1 is a copy of applicant's contract with Central Western.

### Need for Interim Rate Increase

Applicant represents that it is presently in a critical financial condition and that immediate rate relief is necessary in order to preserve the high grade of service provided to applicant's subscribers and to remove the present threat to applicant's equity stockholders. Applicant's witness testified that if immediate rate relief is not obtained, the result will be a serious default under applicant's bond indenture, economic disaster for its equity stockholders, and impaired service for its customers.

The evidence reveals that applicant's earnings in the last two years have deteriorated; that although applicant's basic exchange rates have not been increased during the entire 52 years of operation,

increases in toll rates and in miscellaneous exchange rates have been made effective; and that applicant has attempted, but without success, to restore earnings by means other than a general increase in basic exchange rates.

The testimony further reveals that applicant has financed its recent plant additions by means of internal sources and by a loan of \$176,000 represented by three demand notes payable to Colorado River Telephone Company; that applicant is faced with obtaining an additional \$125,000 to complete its construction program for 1960 and 1961; that the demand notes have created a default under applicant's first mortgage indenture in that the indenture restricts applicant from borrowing short-term money except from a bank; that a waiver from the bondholder has been obtained but the waiver prohibits additional short-term borrowing until the present notes are retired by funds received from the sale of equity capital by November 1960; that applicant's present and future earnings at present rates are not sufficient to permit the issuance of additional bonds under the provisions of the present indenture; that, due to depressed earnings, applicant's Board of Directors for the first time in applicant's 52-year history suspended dividends on common stock which would have been payable October 20, 1960; and that under these circumstances the sale of common stock at this time would be most difficult if not impossible.

Applicant has been authorized<sup>1/</sup> to issue and sell 7,000 shares, \$25-par value, 6½ percent, Series B convertible preferred stock for the purpose of paying outstanding indebtedness. Applicant states that if it can sell the additional preferred stock of \$175,000

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<sup>1/</sup> Decision No. 60671, dated September 1, 1960, in Application No. 42557.

and borrow from a bank approximately \$125,000 more to complete the 1960 and 1961 construction program, then approximately one year from now, assuming earnings are sufficiently improved, applicant could issue additional bonds in the amount of \$300,000 to retire the \$175,000 in preferred stock and the short-term note in the amount of \$125,000. It was the view of applicant's witness that immediate interim rate relief was the key to the success of applicant's financing plan as discussed above.

Earnings Results Presented by Applicant

A summary of the earnings results presented by applicant in Exhibit 4 for its total California operations at present rates and at the rates sought in this application is as follows:

Item	Recorded	Estimated Year 1960		Estimated Year 1961	
	Year 1959	Present: Rates :	Co. Proposed Rates	Present: Rates :	Co. Proposed Rates
Operating Revenues	\$ 748,149	\$ 761,805	\$ 908,525	\$ 791,984	\$ 939,549
Operating Expenses and Taxes	688,654	704,829	780,892	743,486	819,218
Net Revenue	59,495	56,976	127,633	48,498	120,331
Rate Base (Depreciated)	1,649,171	1,669,483	1,669,483	1,733,437	1,733,437
Rate of Return	3.61%	3.41%	7.65%	2.80%	6.94%

Applicant also presented in Exhibit 4 certain separations of its total California operations which show the following results:

Item	Rate of Return			
	Estimated Year 1960		Estimated Year 1961	
	Present Rates	Co. Proposed Rates	Present Rates	Co. Proposed Rates
Intercompany Toll	10.44%	8.60%	10.57%	8.60%
Intracompany Toll	(10.27)	1.53	(11.26)	.40
Remainder - Principally Exchange	.35	7.42	(.63)	6.37
Total	3.41	7.65	2.80	6.94

(Red Figure)

The above results for the recorded year 1959 do not reflect on a full-year basis an increase in applicant's intracompany toll rates and certain nonrecurring exchange rates which became effective on June 1, 1959 pursuant to Decision No. 58372, dated May 5, 1959, in Application No. 40656. Said increase was estimated to augment applicant's gross revenues by \$48,100 on an annual basis.

Applicant's estimates of intercompany toll revenues for 1960 and 1961 reflect a cost basis of settlement, although applicant currently settles with The Pacific Telephone and Telegraph Company on a basis other than cost. Applicant's witness estimated that the current basis of settlement applied to the year 1960 produces approximately \$8,000 more revenues than the cost settlement basis included in its showing. It appears that applicant has no agreement with Pacific to adopt the cost settlement basis at this time.

The testimony of applicant's witness further reveals that applicant's estimates of expenses for 1961 include in excess of \$7,000 for wage increases which have not been committed by management.

#### Staff's Analysis

The Commission staff had not completed its independent study and investigation of this utility and accordingly did not present evidence as to its estimates of applicant's operations. The staff did, however, cross-examine applicant's witness and presented a financial report (Exhibit 5) based upon applicant's filed reports and applicant's estimates of revenues, expenses, rate base, and financing program for 1960.

The staff's analysis shows that for the years 1950 through 1959 applicant had earnings available for common stock of \$312,206 and paid cash dividends of \$341,815, or \$29,609 in excess of earnings for that ten-year period; that in the two years 1958 and 1959

applicant paid cash dividends totaling \$76,800 compared with total earnings available for common stock of \$14,325; that earnings realized on common equity for 1958 and 1959 were 1.0 percent and 1.6 percent, respectively; and that applicant's estimate of net operating income for 1960 at present rates is sufficient to pay total fixed charges of \$37,970, total preferred dividends of \$18,180 and leave \$7,784 available for common stock.

#### Findings and Conclusions

Applicant's direct presentation ostensibly has been completed both as to its interim request and its permanent rate proposals, and its witness has been cross-examined as to its interim request. It should be understood, however, that, in addition to applicant's witness remaining subject to cross-examination with respect to its permanent rate proposals, the Commission staff has not completed its presentation, and some of the other parties may desire to present evidence. Therefore, while applicant's figures are shown herein, the Commission is not necessarily accepting these figures except to the extent that they are evidence relating to this interim request.

The evidence now of record is convincing and we so find that applicant is in urgent need now of some interim relief pending the completion of the entire proceeding, but not to the extent sought, in order to maintain its service and discharge its obligations as a public utility. We find it to be in the public interest to maintain applicant in a reasonably sound financial condition so that it may continue to furnish reasonable service to the public.

The record reveals that applicant's earnings on its exchange and intracompany toll operations are low. We find an increase in revenues of \$65,550 based on the test year 1960 to be justified at this time. Such an increase in revenues applied to applicant's operations for the year 1960 will produce a rate of return of approximately 5½ percent based upon applicant's showing.

A comparison of the increases in annual revenues requested by applicant with those authorized by the order herein based on applicant's estimates for the year 1960 is set forth as follows:

<u>Item</u>	<u>Annual Increase</u>	
	<u>Company Requested</u>	<u>Authorized</u>
Business Primary Service	\$ 41,940	\$35,050
Residence Primary Service	65,170	-
Business Extension Stations	6,990	6,990
Residence Extension Stations	1,430	1,430
PBX Switchboards	430	430
PBX Trunks	6,660	5,550
PBX Stations	2,510	2,510
Wall Set Telephones	1,800	1,800
Mileage Rates	2,750	2,750
Joint User Service	250	250
Directory Listings	500	500
Supplemental Equipment	2,120	2,120
Interexchange Receiving Service	770	770
Public Telephone	1,100	1,100
Service Stations	4,300	4,300
Intracompany Toll Service	8,000	-
Total	\$146,720	\$65,550

Applicant proposes no increase in primary rates for Cuyama exchange since rates for that exchange initially were established in February 1955. Applicant's present business rates in its Buttonwillow, McKittrick, and Taft exchanges are low in comparison with the residence rates and with business rates generally in effect elsewhere in California. At this time increases are being authorized in primary business rates in Buttonwillow, McKittrick and Taft. No increases, however, are being authorized at this time in primary residence rates.



For typical classes of primary business and residence service there is set forth in the tabulation following the present rates together with the increases requested by applicant and the increases being authorized by the order herein.

Item	Amount Per Month - Hand Set Station					
	Present Rate	Increase Requested	Increase Authorized	Present Rate	Increase Requested	Increase Authorized
	<u>Buttonwillow Exchange</u>			<u>Cuyama Exchange</u>		
<u>Business Service</u>						
1-Party	\$3.25	\$3.75	\$3.75	\$6.75	-	-
2-Party	-	-	-	5.50	-	-
4-Party	2.50	2.50	2.50	-	-	-
10-Party Subn.	2.75	2.35	2.35	5.00	-	-
<u>Residence Service</u>						
1-Party	2.75	2.00	-	4.50	-	-
2-Party	-	-	-	-	-	-
4-Party	2.00	1.25	-	3.10	-	-
10-Party Subn.	2.25	1.35	-	3.60	-	-
	<u>McKittrick Exchange</u>			<u>Taft Exchange</u>		
<u>Business Service</u>						
1-Party	\$3.25	\$3.50	\$3.25	\$4.50	\$4.00	\$3.25
2-Party	2.75	2.75	2.35	4.00	2.50	2.10
4-Party	2.25	2.50	2.25	3.50	2.40	2.00
10-Party Subn.	4.50	.50	.35	5.00	.35	.35
<u>Residence Service</u>						
1-Party	2.75	1.75	-	3.25	1.75	-
2-Party	2.25	1.50	-	2.75	1.20	-
4-Party	2.00	1.10	-	2.25	1.15	-
10-Party Subn.	3.20	.40	-	3.45	.15	-

Increases in rates also are being authorized for business and residence extension stations, private branch exchange service, wall set telephones, messages placed from coin boxes, and for a number of miscellaneous services. While applicant requested increases in intracompany toll rates, the present level of such rates is the same as generally obtains elsewhere in California and no increases will be authorized in such rates at this time.

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

INTERIM ORDER

Kern Mutual Telephone Company having made a motion for authority to place into effect immediate interim rate increases, the motion having been taken under submission, and based upon the evidence and the findings and conclusions contained in the foregoing interim opinion,

IT IS ORDERED as follows:

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 and charges 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 December 5, 1960.

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

Dated at San Francisco, California, this 7<sup>th</sup> day of NOVEMBER, 1960.

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President

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Commissioners

## APPENDIX A

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RATES

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

Schedule No. A-1, Flat Rate Exchange Service

The following monthly business service rates and residence extension station rates are authorized:

	<u>Rate Per Month - Each Station</u>			
	<u>Buttonwillow</u>	<u>Cuyama</u>	<u>McKittrick</u>	<u>Taft</u>
<b>Business</b>				
Individual Line	\$7.00	\$6.75*	\$6.50	\$7.75
Two-Party Line	-	5.50*	5.10	6.10
Four-Party Line	5.00	-	4.50	5.50
Inside Extension	1.50	1.50	1.50	1.50
Outside Extension	2.00	2.00	2.00	2.00
<b>Residence</b>				
Inside Extension	1.00	1.00	1.00	1.00
Outside Extension	1.50	1.50	1.50	1.50

\* Presently effective rate.

Schedule No. A-3, Semi-Public Coin Box Service

The rate for each exchange message and the monthly rate for each extension station are authorized as follows for all exchanges:

	<u>Rate</u>
Each exchange message	\$ .10
Each extension station without coin box, per month	1.50

## APPENDIX A

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RATES (Continued)Schedule No. A-4, Mileage Rates

The increases in mileage rates set forth on page 2 of Exhibit G attached to the application are authorized.

Schedule No. A-5, Suburban Service

The following monthly business service rates and residence extension rates are authorized:

	<u>Rate Per Month - Each Station</u>			
	<u>Buttonwillow</u>	<u>Cuyama</u>	<u>McKittrick</u>	<u>Taft</u>
Business				
Ten-Party Line	\$5.10	\$5.00*	\$4.85	\$5.35
Extension without bell	1.50	1.50	1.50	1.50
Residence				
Extension without bell	1.00	1.00	1.00	1.00

\*Presently effective rate.

Schedule No. A-7 (a), Private Branch Exchange Service

The following monthly rates are authorized:

	<u>Rate Per Month</u>	
	<u>Cuyama</u>	<u>Taft</u>
(1) Manual Equipment Rate:		
Non-multiple switchboard position	\$12.00	\$12.00
Multiple	#	#
(3) Trunk Rate:		
Each Trunk	10.15*	11.50
(4) Station Rate		
Each station not in guest room	1.50	1.50
Each station in guest room	1.00	1.00

# Rate authorized to be canceled.

\* Presently effective rate.

## APPENDIX A

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RATES (Continued)Schedule No. A-7 (Rates B), Commercial Private Branch Exchange Service

The following monthly rates are authorized:

	<u>Rate Per Month</u>	
	<u>McKittrick</u>	<u>Taft</u>
(1) Trunk Rate:		
Each trunk line:		
Within base rate area	\$ 9.75	\$11.50
Within suburban area:		
Air-line distance from nearest point on base rate area boundary:		
First one-quarter mile or less	10.35	12.10
Each additional one-quarter mile or fraction thereof	.60	.60
(2) Station Rate:		
Each subscriber-owned station	.75	.75

Schedule No. A-8, Business Intercommunicating System

This schedule is authorized to be canceled.

Schedule No. A-11, Public Pay Station Service

The following rate is authorized:

	<u>Rate</u>
Each exchange message	\$ .10

Schedule No. A-13, Joint User Service

The increases in joint user rates set forth on page 4 of Exhibit G attached to the application are authorized.

APPENDIX A

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RATES (Continued)

Schedule No. A-14, Directory Listings

The increases in directory listing rates set forth on page 5 of Exhibit G attached to the application are authorized.

Schedule No. A-15, Supplemental Equipment

The increases and changes in rates and charges for supplemental equipment set forth on pages 5 and 6 of Exhibit G attached to the application are authorized.

Schedule No. A-21, Interexchange Receiving Service

The rate per month for each interexchange receiving service is authorized to be increased to \$5.00.

Schedule No. A-28, Wall and Hand Set Telephones

This schedule is authorized to be canceled.