

**ORIGINAL**Decision No. 61267

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 WESTERN CALIFORNIA TELEPHONE COMPANY, )  
 a California corporation, for an ) Application No. 41188  
 order of the Commission authorizing )  
 it to increase certain rates and )  
 charges for telephone service. )

Warren A. Palmer, Robert A. Keller, and Orrick,  
Dahlquist, Herrington and Sutcliffe, for  
 applicant.

Walter Serum, for Loma Prieta Area, Melody Woods  
 Area and Highland and Hester Creek; Mrs. Paul  
Hinchcliffe, Jr., for Paradise Valley Home  
 Owners; R. L. Popham, for himself and numerous  
 neighbors; protestants.

William Knecht and Ralph Hubbard, for California  
 Farm Bureau Federation; Neal C. Hasbrook, for  
 California Independent Telephone Association;  
Franklin T. Laskin, for San Jose City Manager  
 and for the City of San Jose, interested  
 parties.

William C. Bricca, James M. McCraney, and  
L. L. Thornd, for the Commission staff.

FINAL OPINION AND ORDER

Following four days of public hearing on the above-entitled application, the Commission on February 25, 1960, issued an interim opinion and order (Decision No. 59714) authorizing increases in rates of Western California Telephone Company effective for service furnished on and after April 1, 1960. The increases authorized by said Decision No. 59714 were estimated to yield additional annual gross revenues of \$97,900 based on the 1959 test year level of business. However, no increases in basic exchange rates for Los Gatos exchange were authorized at that time pending further developments in the Los Gatos extended service settlement negotiations between applicant and The Pacific Telephone and Telegraph Company. The total amount of annual revenue increase sought by applicant was \$256,000.

In said Decision No. 59714 we stated, in part:

"In view of the large impact which the extended service settlement has upon applicant's Los Gatos operations and rates, and the current unsettled status of such matter, we will issue only an interim decision at this time."

Ordering paragraph 3 of said Decision No. 59714 required the following:

"3. Applicant shall file monthly with this Commission, until agreement is reached or until further order herein, a report concerning its negotiations with The Pacific Telephone and Telegraph Company relating to settlements for Los Gatos extended service traffic. Such report shall include a resume of such negotiations as are held during the period, a summary of any offers made and of their impact upon applicant's operations, a copy of any agreements reached and of their impact upon applicant's operations. The initial report shall be filed within twenty days after the effective date of this order and shall include information for the period from November 13, 1959 through January 31, 1960. Subsequent reports shall be filed within twenty days after the close of the month."

Subsequent to the issuance of said decision, and pursuant thereto, applicant has kept the Commission currently informed of its progress in negotiating a new extended service settlement agreement with The Pacific Telephone and Telegraph Company. On September 21, 1960, applicant advised this Commission, in writing, that it had negotiated a new extended service settlement agreement with Pacific under which it is estimated applicant will receive approximately \$134,000 of additional annual gross revenues compared with the prior agreement.

In a subsequent report filed on November 16, 1960, applicant suggests that the impact of its new extended service settlement is such that no further rate adjustment is necessary at this time and that the rates and charges authorized by interim Decision No. 59714 be made final. Applicant further reiterated its proposal to include the Glen Una special rate area within the Los Gatos base rate area;

proposed that business flat rate services be continued in Los Gatos; advised that agreement had been reached with The Pacific Telephone and Telegraph Company whereby Los Gatos customers, by the second quarter of 1962, would be able to dial calls to San Jose, Saratoga, and Campbell without first having to dial an access code "nine"; and stated that it had decided to discontinue the use of accelerated depreciation for tax expense on all plant additions, past, present and future.

Applicant also presented a separated summary of earnings for the year 1960 giving effect to the new Los Gatos extended service settlement. Such earning results are summarized as follows:

	Year 1960 Adjusted		
	<u>Exchange</u>	<u>Toll</u>	<u>Total</u>
Operating Revenues	\$1,485,800	\$ 571,000	\$2,056,800
Operating Expenses	530,900	241,300	772,200
Depreciation Expense	236,400	67,500	303,900
Taxes Other than Income	169,800	52,100	221,900
Income Taxes	197,900	88,600	286,500
Total Expenses and Taxes	\$1,135,000	\$ 449,500	\$1,584,500
Net Revenue	\$ 350,800	\$ 121,500	\$ 472,300
Avg. Rate Base (Depreciated)	\$5,454,600	\$1,578,000	\$7,032,600
Rate of Return	6.43%	7.7%	6.72%

The above results reflect the following enumerated adjustments made by applicant in an attempt to simulate the 1959 showing which was adopted by the Commission in Decision No. 59714:

1. Revenues reflect for the full year the rate increases authorized by Decision No. 59714, the new Los Gatos extended service settlement, and the expansion of Los Gatos base rate area to include Glen Una special rate area and adjacent territory.
2. Wage and salary increases which became effective in July and August 1960 are reflected for the full year.
3. Working cash was determined by applying to operating expenses, excluding taxes and depreciation, a ratio derived from Decision No. 59714.

4. The deficit to the depreciation reserve on the former Morgan Hill central office equipment was deducted from rate base.
5. The Federal income tax amount was credited with interest calculated on the deferred tax reserve at 6.43 percent, the derived exchange rate of return.

Findings and Conclusions

Upon a consideration of this matter we find and conclude as follows:

1. The Los Gatos base rate area should be expanded to include the Glen Una special rate area and adjacent territory as set forth on Exhibit 8 and as proposed by applicant. This will result in an over-all saving in customer charges of several thousand dollars and a corresponding reduction in applicant's revenues, although certain business customers now served on eight-party lines would receive one- or two-party service and pay more than they now pay for eight-party service.

2. The rates authorized by our interim order (Decision No. 59714) after considering the effect of the new Los Gatos extended service settlement, will not yield an excessive rate of return. Accordingly, such rates should be continued in effect.

3. Our action herein should not be construed as approval of the new extended service agreement. The burden of proof as to reasonableness of such agreement rests upon applicant and is a continuing responsibility.

4. Such increases in rates and charges as result from an expansion of the Los Gatos base rate area as authorized herein are justified and present rates and charges, insofar as they differ from those herein prescribed, for the future are unjust and unreasonable.

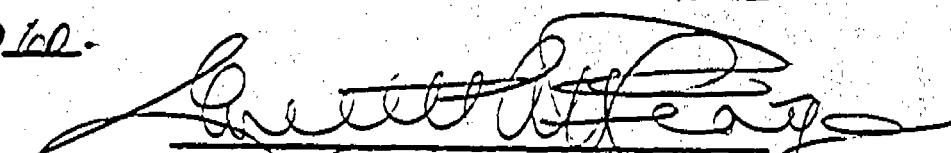
Public hearing having been held in the above-entitled proceeding and the Commission being informed thereon,


IT IS ORDERED as follows:


1. Western California Telephone Company, within sixty days after the effective date of this order is authorized and directed to expand its Los Gatos base rate area to include the Glen Una special rate area and adjacent territory as delineated on Exhibit No. 8.
2. Necessary tariff schedule filings shall be made in accordance with General Order No. 96 at least five days prior to the effective date of the base rate area expansion.
3. The increases in rates authorized by Decision No. 59714, dated February 25, 1960, in this application are continued in effect.
4. Further proceedings in this matter shall be and they hereby are discontinued.

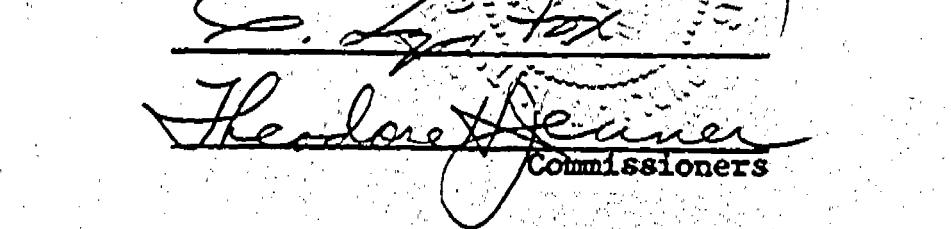
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 28th day of DECEMBER, 1960.

  
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President

  
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Commissioners