

64070

Decision No. _____

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
THE SISKIYOU TELEPHONE COMPANY, a)
California corporation, for author-)
ity to increase rates and charges)
for exchange telephone service,)
service connections and certain)
miscellaneous charges in its various)
exchanges.)

Application No. 43876

H. A. Dannenbrink and Leland Dowden, for
applicant.
William L. Knecht, for California Farm Bureau
Federation and Siskiyou County Farm Bureau,
interested parties.
R. T. Perry, for the Commission staff.

INTERIM OPINION

Applicant's Request

By the above-entitled application, filed October 26, 1961, The Siskiyou Telephone Company seeks an interim order increasing the rates charged to the subscribers of the Hamburg and Happy Camp exchanges to those now in effect in the Etna and Fort Jones exchanges, and a final order authorizing increases in its exchange rates as well as other certain increases in service connection and supplemental equipment charges all as set forth in Exhibit "H" attached to the application.

Public Hearing

After due notice, public hearing on this application was held before Examiner Leonard S. Patterson at Fort Jones on March 1 and 2, 1962. Applicant presented five exhibits and testimony through two witnesses in support of its request. The Commission staff presented the results of its independent study and investigation of the applicant's operations through two witnesses and in addition cross-examined applicant's witnesses. Counsel for the

California Farm Bureau Federation sponsored certain public witnesses and also cross-examined witnesses. Two public witnesses presented testimony to the effect that their telephone service was entirely satisfactory. Four public witnesses from the Fort Jones and Etna areas testified that service had improved greatly, but they had been bothered by a considerable number of outages. They also expressed a desire to have the Fort Jones and Etna exchanges combined. Two public witnesses from the Happy Camp area complained of cross-talk and, although they admitted service had improved, they were opposed to any increase in rates because of the poor quality of service which had been rendered in the past.

Applicant's Operations

On June 16, 1960, applicant converted from magneto operation to automatic dial in each of its four exchanges and made certain other improvements, including installation of a modern microwave system for handling toll service between each exchange and the central office at Fort Jones as well as between Fort Jones and Yreka where connection is made with the lines of The Pacific Telephone and Telegraph Company. The number of stations increased from 919 as of December 31, 1959, to 1,437 as of December 31, 1960, and 1,568 as of December 31, 1961. Plant in service increased in this same period from \$329,283.76 as of December 31, 1959, to \$1,250,197.93 as of December 31, 1960, and to \$1,337,824.88 as of December 31, 1961. These plant improvements have been financed primarily by the execution and issuance of long-term mortgage notes to the Rural Electrification Administration in the amount of \$1,340,000.

Rates, Present and Requested

The present exchange rates in the Klamath River exchanges of Hamburg and Happy Camp have existed for many years and are the lowest exchange rates in California. The present exchange rates in Scott Valley exchanges of Fort Jones and Etna became effective September 15, 1954.^{1/}

Applicant has requested an interim order increasing the Klamath River exchange rates up to the level of the presently effective exchange rates in the Scott Valley exchanges and a final order further increasing rates in all four exchanges. A comparison of the presently effective exchange rates with those as proposed for final rates follows, along with a summary of certain other nonrecurring charges in which increases are proposed:

Item	Rate Per Month			
	Business		Residence	
	Present	Proposed	Present	Proposed
<u>Hamburg & Happy Camp Exchanges</u>				
1-Party	\$2.75	\$7.50	\$2.25	\$4.75
2-Party	2.25	5.75	2.00	4.00
4-Party	-	-	1.75	3.25
8-Party Suburban	2.25	5.50	2.00	4.00
Extension Station	1.00	1.50	1.00	1.25
<u>Etna and Fort Jones Exchanges</u>				
1-Party	4.75	7.50	3.75	4.75
2-Party	4.00	5.75	3.40	4.00
4-Party	-	-	3.10	3.25
8-Party Suburban	3.75	5.50	3.40	4.00
Extension Station	1.50	1.50	1.25	1.25
<u>Nonrecurring Charges</u>				
New Service Connection	3.50	7.00	3.50	7.00
Extension Station	1.50	4.00	1.50	4.00
Instrumentalities in Place	1.50	4.00	1.50	4.00

^{1/} Decision No. 50438, dated August 17, 1954, Application No. 34616.

In addition to the increases summarized in the above tabulation applicant proposes to establish monthly rates for long cords and a monthly rate for trunk hunting service. Also increases are proposed for directory advertising to the next higher grouping, for a station count of 1,501 to 2,500, for which applicant has become eligible.

Withdrawal of the schedules for farmer line service and for local switching service is requested.

No increases are proposed in applicant's rates for toll service.

Toll Service

Toll service revenues are derived from intracompany toll traffic between applicant's exchanges and from toll traffic interchanged with The Pacific Telephone and Telegraph Company, (B-I) toll. The basis for settlement with The Pacific Company was negotiated in 1959 and became effective in 1960 following cutover of the system to dial operation. Under the toll settlement agreement a separation study is made of applicant's plant and expenses devoted to interchange traffic and applicant receives from Pacific Company for the ensuing year a return on such allocated plant at the rate of return experienced by Pacific Company in its California intra and interstate message toll operations during the preceding year. According to the record, the method of settlement to be used in 1962 will differ from the method previously used, as the average of beginning and end-of-year plant will be used rather than end-of-year plant.

Summary of Earnings

Applicant presented recorded and estimated results of total operations in Exhibit No. 1, which may be briefly summarized as follows:

Total Operations

Item	Year 1960		Estimated Year 1961	
	Recorded	Adjusted*	Present Rates	Proposed Final Rates
Revenues	\$110,808.43	\$135,597.45	\$235,260.39	\$265,123.54
Expenses	157,806.30	205,468.58	213,226.26	220,645.78
Net Revenue	(46,997.87)	(69,871.13)	22,034.13	44,477.76
Average Rate Base-Depreciated			1,224,276.80	1,224,276.80
Rate of Return	Loss	Loss	1.80%	3.63%

(Red Figure)

* Adjusted for full year dial operation.

During the course of the proceeding, 1961 recorded figures became available and applicant presented as Exhibit No. 5 a results of operation tabulation which developed a rate of return for the year 1961 of 2.50%.

Applicant also presented in Exhibit No. 1 the results of other than toll operations which may be summarized as follows:

Results of Other Than Toll Operations

Item	Year 1960		Estimated Year 1961	
	Adj. for Dial Operations	Present Rates	Proposed Final Rates	Final Rates
Revenues	\$ 57,562.60	\$ 58,299.86	\$ 88,953.93	
Expenses	76,622.55	30,000.35	82,233.98	
Net Revenue	(19,059.95)	(21,700.49)	6,719.95	
Average Rate Base-Depreciated	568,186.63	591,129.62	591,129.62	
Rate of Return	Loss	Loss	1.14%	

(Red Figure)

Applicant's estimates include a return on (3-I) toll traffic of 7.7%.

The staff's estimates of results of total operations as presented in Exhibit No. 3 which includes a return on B-I toll traffic of 7.7% may be summarized as follows:

	<u>Total Operations</u>			
	<u>Estimated Year 1961</u>		<u>Estimated Year 1962</u>	
	<u>Present Rates</u>	<u>Proposed Final Rates</u>	<u>Present Rates</u>	<u>Proposed Final Rates</u>
Revenues	\$ 249,890	\$ 274,940	\$ 269,500	\$ 296,920
Expenses	219,030	230,760	237,000	249,740
Net Revenues	30,860	44,180	32,500	47,180
Average Rate Base- Depreciated	1,260,610	1,260,610	1,302,200	1,302,200
Rate of Return	2.45%	3.50%	2.50%	3.62%

The staff also showed in Exhibit No. 8 that if a return of 7.7% is calculated on all toll traffic, which would include applicant's intracompany toll as well as the B-I toll, present rates would produce for the year 1962 an estimated 3.72% rate of return and proposed final rates a 4.66% rate of return.

The staff also presented in Exhibit No. 6 a separated summary of earnings which indicate the following rates of return for the estimated year 1962:

<u>Item</u>	<u>Rate of Return Estimated Year 1962</u>	
	<u>Present Rates</u>	<u>Proposed Final Rates</u>
Total Operations	2.65%	3.87%
(B-I) Toll	7.70	7.70
Intracompany Toll	(5.76)	(3.89)
Exchange Portion	(0.59)	1.68

(Red Figure)

The above figures for total operations differ slightly from those presented in late-filed Exhibit No. 8 as they do not contain an adjustment made to income taxes resulting from the treatment of amortization. The figures do indicate, however, that the intra-company toll rates are not compensatory.

The staff in its closing statement pointed out that if official notice is taken of the toll rates on file with the Commission it will be observed that applicant's person-to-person intracompany toll rates are one-half to one-third Pacific Company's rates for like service and that applicant does not have station-to-station toll rates on file.

Quality of Service

The record clearly shows that since the cutover to dial operation, there has been a great improvement in the quality of service rendered. The staff witness testified that no complaints were disclosed during a sampling survey he made of service in all four exchanges. The record shows, however, that there is room for further improvement in service as indicated by testimony of public witnesses relative to outages and failure on the part of the utility to adjust bills for such outages.

Position of the Parties

Applicant contends that Exhibit No. 1 demonstrates that it has been conducting its business other than toll at a substantial loss and will continue to operate at a substantial loss unless relief is granted in its exchange rates and its charges for service connections, moves, and changes. Applicant contends further that it is furnishing identical 24-hour dial service to each of the four exchanges, and there is no reason why the Klamath River exchanges

should enjoy a preference in rates over the subscribers in the Scott Valley exchange. Applicant estimates that the interim rates requested for Scott Valley would increase revenues by \$8,721 based on the number of subscribers as of December 31, 1960.

The staff witness testified that it is desirable to have uniform toll rates but that the short haul rates are not compensatory to independent telephone companies if they are at the same level as Pacific Company's toll rates. He recommended that under these circumstances applicant's toll settlement agreement with Pacific Company should include applicant's intracompany toll traffic. In its closing statement the staff also recommended that applicant consider the adoption of Pacific's intrastate toll rates for its intracompany toll service as a prior step to such inclusion.

Another staff witness presented his financial analysis of applicant's operations and through Exhibit No. 7 his recommendation that 3.1% would be a fair rate of return for applicant which has financed over 95% of its plant by long term REA loans bearing an interest rate of 2% per annum. Applicant has a common equity ratio of about 3%.

It is the staff's position that since rates are set for the future, the estimated year 1962 constitutes a proper test year period in this proceeding.

It is the position of the Farm Bureau Federation that applicant has not had sufficient operating experience under dial operation, nor under the toll cost settlement basis with Pacific Company, and that therefore interim rates only should be granted at this time.

Findings and Conclusions

After considering all the evidence of record, the Commission finds and concludes that an interim order should be issued authorizing applicant to increase its Hamburg and Happy Camp

exchange rates up to the level of present rates charged in the Fort Jones and Etna exchanges. The ensuing order will also authorize the increased charges proposed for service connections and moves and changes, for trunk hunting service and for classified directory advertising, but will not authorize the proposed monthly charges for long cords.

Applicant will be authorized to reduce the installation charge for a colored handset from \$10 to \$7.50 as proposed, and will be authorized to withdraw its schedules for farmer line service and for local switching.

The increased revenue which will result from such interim order should produce a rate of return less than the 3.1% rate of return recommended by the staff. We conclude, however, that it would not be reasonable to authorize at this time any further increase in exchange rates when applicant's intracompany toll rates are so substantially below the rates of Pacific Company for similar service. Furthermore, it would not be proper to increase applicant's intracompany toll rates as there is nothing in the record as to the revenue effect of such an increase. We also conclude that it would not be reasonable to urge the inclusion of applicant's intracompany toll traffic in the cost toll settlement with Pacific Company until such rates are equalized. Such an increase in intracompany toll rates could be initiated by the filing of a supplemental application for authority to concur in Pacific Company toll rates through the filing of a toll service schedule, including an adoption notice, in lieu of present rates.

Moreover, we are of the opinion that the appropriate test year to be used is 1962 as developed by the staff but, since the record has not developed sufficient data to permit a final order based on that year, applicant will be directed to present a summary of operations report which will develop rates of return for the estimated year 1962 for both total and separated operations which will reflect on a full-year basis the revenue effect of the interim order

issued herein and intracompany toll rates for both person-to-person and station-to-station service at the same level as Pacific Company rates for like service and settlement for (B-I) toll on the basis actually used in 1962.

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.

INTERIM ORDER

Public hearing having been held on the above-entitled application and the applicant having requested an interim order, the Commission having been informed thereon, 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, after the effective date of this order and in conformity with General Order No. 96-A, tariff schedules with rates and charges modified as set forth in Appendix A attached to this order, and upon not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after September 1, 1962.
2. On or before December 1, 1962, applicant shall file with this Commission a summary of operations report showing the development of rates of return for the estimated year 1962 for both total and separated operations which will reflect on a full-year basis the

revenue effect of (1) the interim order issued herein; (2) intra-company toll rates for station-to-station and person-to-person service at the same level as The Pacific Telephone and Telegraph Company intrastate rates for like service; and (3) settlement for (B-I) toll on the basis of a 7.7% rate of return.

3. On or before December 1, 1962, applicant shall submit a written report setting forth the results of its negotiations with The Pacific Telephone and Telegraph Company to have its intracompany toll traffic included in the toll cost settlement.

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

Dated at San Francisco, California, this 7th day of AUGUST, 1962.

George J. Crover
President
W. H. Mitchell
S. J. Lopez
Walter H. Page
Fredrick B. Hallock
Commissioners

APPENDIX A
Page 1 of 2

RATES

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

Schedule No. A-1, Individual and Party Line Service

The following monthly rates are authorized:

	<u>Rate Per Month</u>
All Exchanges	
<u>Business Service</u>	
Each Primary Station	
Individual Line	\$4.75
Two-Party Line	4.00
Each Extension Station	1.50
<u>Residence Service</u>	
Each Primary Station	
Individual Line	3.75
Two-Party Line	3.40
Four-Party Line	3.10
Each Extension Station	1.25

Schedule No. A-3, Suburban Service

The following monthly rates are authorized:

	<u>Rate Per Month</u>
All Exchanges	
Business Service	\$3.75
Residence Service	2.25

Change Condition No. 1 to read as follows:

1. Total number of primary stations connected to one circuit will not exceed eight (8) stations.

Schedule No. A-5, Farmer Line Service

This schedule is to be canceled.

Schedule No. A-6, Local Switching Service

This schedule is to be canceled.

APPENDIX A
Page 2 of 2RATES (Continued)Schedule No. A-9, Service Connection Charges

The following nonrecurring charges are authorized:

	<u>Nonrecurring Charge</u>
New and Additional Service:	
Business and Residence:	
Individual or Party Line Primary Station	\$7.00
Extension Station	4.00
Instrumentalities in Place and No Change of Location or Type of Facilities Involved:	
Business and Residence:	
Service Including All Stations and Equipment	4.00

Schedule No. A-10, Supplemental Equipment

The following installation charges are authorized:

Sections (1) through (3) and (4) through (10) no change.

	<u>Installation Charge</u>
Section (4) Colored Hand Sets:	
Stock finishes as available from the manufacturer	\$7.50
Section (11) Trunk Hunting per trunk	1.00

Schedule No. D-1, Classified Directory Advertising Service

The following monthly rates are authorized:

	<u>Rate Per Month</u>
Display Advertisement:	
One-quarter column	\$2.25
One-half column	4.50
Two one-half columns	9.00
Column Advertising:	
Informational Listing:	
One-half inch	.90
One Inch	1.50
One and one-half inch	2.00
Trade Mark heading	2.00
Trade Name listing	.60
Bold Type listing	.50
Trade Mark or Name x-reference listing or heading	Cancel