EP

Decision No. 66181

ORIGINAL

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 increase rates and charges for exchange telephone service within Applicant's McFarland and Farmington Exchanges; to enlarge the McFarland Base Rate Area; and to incorporate all tariffs for Applicant's Farmington and McFarland Exchanges into the tariff book for Applicant's Alpaugh, California Hot Springs, Clements, Corcoran, Exeter, Lemon Cove, Linden, and Glennville Exchanges.	Application No. 44913 (Filed November 2, 1962) (Amended April 15, 1963)

Orrick, Dahlquist, Herrington & Sutcliffe, by Warren A. Palmer, for applicant.

Timothy E. Treacy, Robert W. Beardslee and L. L. Thormod, for the Commission staff.

OPINION AND ORDER

Public hearing in this matter was held before Examiner Emerson on June 18, 1963, at McFarland and on June 20, 1963, at Stockton.

Applicant seeks authority (1) to increase rates for exchange telephone service so as to produce increased revenues of \$24,510 annually in its McFarland exchange and \$1,270 annually in its Farmington exchange, (2) to enlarge the base rate area of the McFarland exchange and (3) to consolidate its tariffs into one tariff book.

Applicant operates ten telephone exchanges, in various parts of the central valley and foothills, known as Alpaugh, California Hot Springs, Clements, Corcoran, Exeter, Farmington, Glennville, Lemon Cove, Linden and McFarland. As of April 30, 1963, applicant provided exchange telephone service to a total of 9,211 stations, including 173 in Farmington and 1,497 in McFarland. Applicant acquired its McFarland exchange by purchase in August 1957 and its Farmington exchange by purchase in October 1957. Outside plant facilities have been completely rebuilt or rehabilitated during the past four years.

Applicant's basic rate increase proposals in this proceeding are as follows, the requested increases ranging from 3 percent to 118 percent:

Present and Requested Rates
Monthly Rates

Classification	Present McF.	Present Farm.	Proposed Both Exchanges
Business			
1-Party	$2.75	$4.25	$6.00
2-Party	2.25	3.75	4.75
Suburban	2.00	-	4.00
Residence			
1-Party	2.25	3.50	4.00
4-Party	1.75	2.50	2.70
Suburban	1.75	3.00	3.10

Applicant's plant additions and betterments made during the last four years have been financed primarily through the use of funds obtained from the United States Government, through the Rural Electrification Administration, by means of a 2 percent interest-bearing loan repayable over a term of 35 years. The average capital structure of applicant for the years 1960, 1961 and 1962, in terms of dollars and as a percentage of the total, is as follows:

Average Capital Structure[1/]

Item	1960	1961	1962
Long-term Debt	$2,559,325	$3,449,363	$3,870,499
Preferred Stock	200,000	200,000	200,000
Common Equity	527,033	538,924	576,519
Total Capitalization	$3,286,358	$4,188,287	$4,647,018
Long-term Debt	77.88%	82.36%	83.29%
Preferred Stock	6.09	4.78	4.30
Common Equity	16.03	12.86	12.41
Total Capitalization	100.00%	100.00%	100.00%

1/ From Exhibit No. 8.

The outstanding preferred stock consists of 8,000 shares of $25 par value 6 percent cumulative stock. Common stock outstanding consists of 51,360 shares of $10 par value stock. As of December 31, 1962, applicant had drawn down $4,077,009 on its loan from the REA, had repaid $105,765 and had $47,991 unadvanced funds remaining under the loan agreement. No preferred stock dividends are in arrears. In 1959, applicant earned $1.12 per common share and paid dividends of $0.19 per share; in 1960 earnings were $0.46 and dividends were $0.45; in 1961 earnings were $1.28 and dividends $0.60; while in 1962, earnings per common share were $1.58 and dividends per average share were $0.80, the latter representing a pay-out ratio of approximately 50 percent.

Applicant's total capitalization at December 31, 1962 and as estimated at December 31, 1963, together with statements of working capital as of the same dates, is shown in the following tabulation:

Capitalization and Working Capital 2/

Item	December 31 1962	December 31 1963
Total Capitalization	$4,771,927	$4,738,327
Net Telephone Plant	4,250,485	4,498,285
Working Capital		
Cash	151,339	103,039
Notes Receivable (affiliates)	125,300	-
Accounts Receivable	179,992	179,992
Materials and Supplies	70,357	70,357
Prepayments and Deferred Charges	63,896	50,296
Less: Current Liabilities	68,288	162,488
Deferred Credits	1,154	1,154
Total Working Capital	$521,442	$240,042

2/ From Exhibit No. 11.

In its 1962 Annual Report,[3] applicant reports a net operating income of $170,898 for such year. This amount is sufficient (1) to service the outstanding long-term debt of applicant which has an effective average cost of 2.015 percent and requires an annual payment of $77,991, (2) to cover the dividend requirements of $13,334 (average cost of 6.667 percent) on the outstanding preferred stock, and (3) provide earnings of $79,573 on the common stock equity, which represents a return thereon of 13.75 percent. Applicant's over-all cost of capital, based upon inclusion of these amounts, was 3.68 percent for the year 1962.

Applicant's reported $170,898 in net operating income for 1962, when related to applicant's claimed 1962 total-company rate base of $4,292,000, produced a rate of return of 3.98 percent for the year.

Since January 1, 1958, applicant's records have been kept on a company-wide basis rather than by individual exchanges. As a result, the operating results of any exchange, and the actual profit contribution of any exchange to the total, cannot be determined accurately or on an "actual" basis. With respect to both applicant's McFarland exchange and its Farmington exchange, toll-revenue contributions to the earnings of the exchange are only those allocated thereto by applicant. With respect to expenses, practically every item of expense involves allocations, and allocations of allocations. The single item which can be determined with certainty is the item of local-service revenue. All others are dependent upon the preferences of the person or persons making the analysis. Indicative of such situation is the $76,000 of operating expenses applicant claims as being necessary for the McFarland exchange. Of the total amount of

3/ Part of this record by reference.

$76,000 claimed, $39,000 represents a direct allocation (practically all labor expense, but based on system-wide wage costs, rather than those in effect in the exchange itself) and $37,000 represents allocations of total company expenses, on per-station bases, which in turn include allocations of certain of the expenses or fees assessed by applicant's parent and affiliates. Under such conditions, the reliability of the end result is at best, questionable. With respect to applicant's showing for the two exchanges here brought before the Commission, such conditions and methods make the showing clearly undependable for the purpose of viewing the results of operations on an individual exchange basis.

It is clear from the evidence that applicant's over-all earnings, under existing rates for its telephone services, are adequate to meet all of its financial requirements, including substantial earnings on common equity. We find that applicant has not proved that increased rates would be justified. Accordingly, the application should be denied in this respect.

Applicant has offered to increase its base rate area in the McFarland exchange. No objection to such offering has been entered. Accordingly, applicant will be directed to make the enlargement as proposed.

Applicant may accomplish consolidation of its various tariffs into one tariff book upon routine "advice letter" filing, providing no increases in rates or more restrictive terms and conditions result therefrom.

IT IS ORDERED that:

1. The application of Central California Telephone Company for authority to increase rates in its McFarland and Farmington exchanges is hereby denied.

2. Applicant, on or before January 1, 1964, shall, by appropriate filing with this Commission, enlarge its base rate area in the McFarland exchange to no lesser dimensions than those delineated on Exhibit No. 4 in this proceeding.

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

Dated at San Francisco, California, this 1st day of OCTOBER, 1963.

President

George G. Grover

Frederick B. Holoboff

Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.