

ORIGINAL

Decision No. 67465

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CAPAY VALLEY TELEPHONE SYSTEM, INC.,)
a California corporation, for)
authority to increase rates and)
charges for exchange telephone)
service.)

Application No. 45891
(Filed October 22, 1963)

Andrew E. Smith, for applicant.

Neal C. Hasbrook, for California Independent Telephone Association, interested party.

R. T. Perry and John J. Gibbons, for the Commission staff.

O P I N I O N

This application was heard before Examiner Coffey at Guinda on January 10, 1964. It was submitted upon the receipt of a late-filed exhibit and the filing of the transcript on February 5, 1964. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

Applicant presented two exhibits and testimony by two witnesses in support of its request for authority to increase its rates and charges for exchange telephone service in the unincorporated communities of Brooks, Capay, Guinda and Rumsey and surrounding territory in Yolo County. Two witnesses from the Commission staff presented the results of their studies and investigations of applicant's operations. Three public witnesses testified that the service was excellent. Two of the public witnesses protested the requested rate increase.

Since applicant was acquired by the present owner, dial and carrier equipment has been installed at Capay and Guinda, manual station equipment has been replaced by new dial equipment and most of

the outside plant has been replaced with new poles, cable, and wire. This accounts for the increase in average gross plant per station from \$351 in 1961 to \$534 in 1962. Applicant served 220 stations on December 31, 1963.

The following table compares the proposed rates with applicant's present rates. No increases are proposed for extension stations, public coin-box service, mileage rates, key rates, compact telephone sets, directory listings, long cord installations, color telephone installations and compact telephone installations. Applicant proposed to increase one-party business service and suburban residential service by 40 percent.

Comparison of Present and Proposed Rates

<u>Class and Grade of Service</u>	<u>Present Monthly Rate</u>	<u>Proposed Monthly Rate</u>
<u>Business</u>		
1-Party	\$6.25	\$8.75
2-Party	5.00	7.00
4-Party	4.25	Withdraw
Suburban	4.25	5.95
Extension Station	1.75	1.75
<u>Residence</u>		
1-Party	4.25	5.95
2-Party	3.75	5.25
4-Party	3.25	4.55
Suburban	3.25	4.55
Extension	1.25	1.25
<u>Coin-Box Service</u>		
Public	.10/msg	.10/msg
<u>Semipublic</u>		
Rate per Month	1.00	1.20
Daily Guarantee	.30/day	.35/day
Extension Station	1.75	1.75
<u>Foreign Exchange Service - Farmer Line</u>		
Business	2.55	2.80
Residence	1.55	1.70
Minimum Charge per Line	4.65	5.10
<u>Supplemental Equipment</u>		
Small Extension Bell	.50	.60
Extension Gong	.75	1.00
<u>Service Connection Charges</u>		
Business Primary Station	7.00	10.00
Residence Primary Station	5.00	7.00
Extension Station	2.50	4.00
Instrumentalities in Place	3.00	4.00
<u>Installation Charges</u>		
Small Extension Bell	2.50	4.00
Extension Gong	2.50	4.00
Two-way Key	2.50	4.00
Three-way Key	3.00	4.00

The following are issues in this proceeding:

1. Reasonableness of the estimates of operating revenues, expenses, including taxes, and rate base.
2. Reasonableness of the rate of return.

The tabulation which follows is taken from Staff Exhibit 2 and compares the estimates made by the staff and by the applicant of the results of operation in the test year 1963 under present and proposed rates:

SEPARATED SUMMARY OF EARNINGS
Year 1963 Estimated

	<u>Present Rates</u>					
	<u>Total</u>		<u>Toll</u>		<u>Exchange</u>	
	<u>Appli- cant</u>	<u>CPUC Staff</u>	<u>Appli- cant</u>	<u>CPUC Staff</u>	<u>Appli- cant</u>	<u>CPUC Staff</u>
<u>Revenues</u>						
Local Service	\$ 8,880	\$ 9,230	\$ -	\$ -	\$ 8,880	\$ 9,230
Toll Service	27,225	26,384	27,225	26,384	-	-
Miscellaneous	100	100	-	-	100	100
Subtotal	36,205	35,714	27,225	26,384	8,980	9,330
Less: Uncollectible	345	337	312	302	33	35
Total Revenue	35,860	35,377	26,913	26,082	8,947	9,295
<u>Deductions</u>						
Operating Expenses	17,395	16,970	10,640	10,387	6,755	6,583
Depreciation	6,675	6,675	4,427	4,427	2,248	2,248
Operating Taxes	3,235	2,365	2,114	1,537	1,121	828
Income Tax	174	837	2,004	2,084	(1,910)	(1,247)
Total Expenses Plus Tax	27,479	26,847	19,265	18,435	8,214	8,412
Net Revenue	8,381	8,530	7,648	7,647	733	883
Avg. Depr. Rate Base	149,800	149,700	99,300	99,300	50,500	50,400
Rate of Return	5.59%	5.70%	7.70%	7.70%	1.45%	1.75%
<u>Proposed Rates</u>						
<u>Revenues</u>						
Local Service	\$ 12,075	\$ 12,549	\$ -	\$ -	\$ 12,075	\$ 12,549
Toll Service	27,225	26,384	27,225	26,384	-	-
Miscellaneous	100	100	-	-	100	100
Subtotal	39,400	39,033	27,225	26,384	12,175	12,649
Less: Uncollectible	357	349	312	302	45	47
Total Revenue	39,043	38,684	26,913	26,082	12,130	12,602
<u>Deductions</u>						
Operating Expenses	17,395	16,970	10,640	10,387	6,755	6,583
Depreciation	6,675	6,675	4,427	4,427	2,248	2,248
Operating Taxes	3,235	2,365	2,114	1,537	1,121	828
Income Tax	349	1,957	2,084	2,084	(1,735)	(127)
Total Expenses Plus Tax	27,654	27,967	19,265	18,435	8,389	9,532
Net Revenue	11,389	10,717	7,648	7,647	3,741	3,070
Avg. Depr. Rate Base	149,800	149,700	99,300	99,300	50,500	50,400
Rate of Return	7.60%	7.16%	7.70%	7.70%	7.41%	6.09%

(Red Figure)

The staff's estimate of local service revenues exceeded that of applicant by \$350 since the staff used more recent data to determine estimated annual revenue per station and gave weight to the larger than normal increase in stations during the first six months of the test period.

The staff's estimate of exchange operating expense was \$172 less than that of applicant since the staff included only one-fifth of the legal expense of obtaining a loan, expected to occur not more frequently than every five years.

The staff's estimate of exchange operating taxes is \$293 lower than that of applicant since the staff's estimate is based on more recent actual taxes paid or billed.

The staff's estimate of exchange income taxes under present rates is \$663 more than that of applicant. This difference results from the previously noted differences and from the effect of different amounts of investment tax credit. Due to the extensive renewal of plant in 1962, applicant was entitled to an investment credit of \$2,632, of which \$2,064 was carried over to 1963. The additional investment tax credit was estimated to be \$130 in 1963 and to be smaller in the years following 1963. Applicant used in the test year all of the available investment tax credit while the staff deducted one-fifth, \$413, of the tax credit carried forward to 1963 and the estimated 1963 investment tax credit, \$130. The staff method in effect treated the abnormally large investment credit as a large nonrecurring item and spread its impact on gross revenue requirements over a five-year period.

The difference in the rate base estimates resulted from a \$35 greater estimate by applicant of the working cash allowance and from rounding to the nearest \$100.

Basically both applicant and the staff attempted to estimate actual 1963 local service revenues and operating expenses, before adjustment. Applicant by late-filed Exhibit 3, presented the recorded 1963 results of operations, separated between toll and exchange.

The testimony shows that the applicant in obtaining past financing has not fully investigated all sources of borrowing. In the future applicant shall diligently explore all sources available for financing its plant and be prepared to substantiate its decisions.

We find that the estimates as set forth below, of operating revenues, expenses, including taxes and depreciation, rate bases and rates of return for the year 1963, reasonably represent the results of applicant's operations for the purposes of this proceeding. We find reasonable the exchange rate base and rate of return.

ADOPTED SUMMARY OF EARNINGS

	<u>Present Rates</u>			<u>Authorized Rates</u>	
	<u>Total</u>	<u>Toll</u>	<u>Exchange</u>	<u>Total</u>	<u>Exchange</u>
<u>Revenues</u>					
Local Service	\$ 9,676	\$ -	\$ 9,676	\$11,991	\$11,991
Toll Service	25,774	25,774	-	25,774	-
Miscellaneous	100	-	100	100	100
Subtotal	<u>35,550</u>	<u>25,774</u>	<u>9,776</u>	<u>37,865</u>	<u>12,091</u>
Less: Uncollected	331	295	36	340	45
Total Revenue	<u>35,219</u>	<u>25,479</u>	<u>9,740</u>	<u>37,525</u>	<u>12,046</u>
<u>Deductions</u>					
Operating Expenses	16,664	10,254	6,410	16,664	6,410
Depreciation	6,836	4,534	2,302	6,836	2,302
Operating Taxes	2,365	1,537	828	2,365	828
Income Tax	413	1,486	(1,073)	1,192	(294)
Total Exps. Plus Tax	<u>26,278</u>	<u>17,811</u>	<u>8,467</u>	<u>27,057</u>	<u>9,246</u>
Net Revenue	8,941	7,668	1,273	10,468	2,800
Avg. Depr. Rate Base	150,150	99,580	50,570	150,150	50,570
Rate of Return	5.9%	7.7%	2.5%	7.0%	5.5%

(Red Figure)

In this adopted summary is included for the year 1963 from Exhibit 3 the actual recorded local service revenues, recorded operating expenses modified by the staff adjustments, and rate base, all of which we find reasonable. The staff operating taxes are included, which we find reasonable, and the staff method of calculating income taxes for this utility after modification, which we find reasonable after reflecting the current income tax rate and spreading the effect of the entire amount of the abnormally large investment tax credit secured in 1962, \$2,632, over five years.

The record in this proceeding shows that applicant has not paid dividends on its outstanding preferred stock since the end of the first quarter of the year 1960 and that the cumulative unpaid dividends on said preferred stock totaled \$4,375, as of September 30, 1963. A continuation of this practice of not paying dividends on preferred stock can only result in a deterioration of applicant's financial standing. The rates authorized herein should provide applicant with sufficient earnings and cash funds to meet current preferred stock dividend requirements and to liquidate the arrearages over a reasonable period of time. Applicant should undertake to correct this unfavorable condition and to insure that the Commission is fully advised thereon, the order herein will require applicant to report annually the amount of any arrearages on preferred stock dividends and the reason, or reasons, for nonpayment thereof.

The staff witness testified that recent and continuing improvement in central office equipment and replacement of outside plant have resulted in improved service and that subscribers reported favorably regarding the quality and availability of service and the promptness in answering trouble calls.

Findings

Upon consideration of the evidence the Commission finds that:

1. The foregoing adopted rates of return, operating revenues, expenses, including taxes and depreciation, and rate base, are reasonable for the purpose of prescribing rates.

2. Applicant is earning less than a reasonable rate of return and increased rates should be authorized.

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

The Commission concludes that:

1. This application for increased rates should be granted in part.

2. Applicant should be authorized to file the schedules of rates for exchange telephone service attached to this order.

The rates and charges herein authorized will increase the rate for one-party business service from \$6.25 to \$7.80, an increase of 23 percent and will increase the rate for suburban residential service from \$3.25 to \$4.05, an increase of 23 percent.

O R D E R

IT IS ORDERED that:

1. Applicant is authorized to file with this Commission and in conformity with General Order No. 96-A, tariff schedules with rates and charges, as set forth in Appendix A attached hereto, and upon not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on or after August 1, 1964.

2. Applicant shall, on or before February 1 of each year, report in writing to this Commission the amount of preferred stock dividends in arrears as of the preceding December 31 and the reasons for the nonpayment during the preceding year of preferred dividends and preferred stock arrearage. The first report shall be due in 1965 and shall be made each year for five years, or until the payment of all arrearage is reported, unless otherwise ordered by this Commission.

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

Dated at San Francisco, California, this 30th day of JUNE, 1964.

 President

[Handwritten Signature]

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 Commissioners

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

APPENDIX A
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RATES

The presently effective rates and charges of the Capay Valley Telephone Systems, Inc., are authorized to be changed to the level and to the extent prescribed in this appendix.

	<u>Rate Per Month</u>
<u>Schedule No. A-1, Flat Rate Exchange Service</u>	
<u>Each Primary Station</u>	
Business Service:	
Individual line	\$7.80
Two-party line	6.25
Four-party line	Withdrawn
Residence Service:	
Individual line	5.30
Two-party line	4.70
Four-party line	4.05
 <u>Schedule No. A-3, Suburban Service</u>	
<u>Each Primary Station</u>	
Business Service	5.30
Residence Service	4.05
 <u>Schedule No. A-5, Foreign Exchange Service - Farmer Line</u>	
1. <u>Each Primary Station</u>	
Business Service	2.85
Residence Service	1.75
2. <u>Each Line</u>	
Minimum Charge	5.25
 <u>Schedule No. A-6, Supplemental Equipment</u>	
<u>Rates</u>	
Extension Bell, small	0.65
Extension Bell, gong	1.00
 <u>Installation Charge</u>	
<u>Nonrecurring Charge</u>	
Extension Bell, small	\$3.15
Extension Bell, gong	3.15
Two-way key	3.15
Three-way key	3.75

APPENDIX A
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New and Additional Service

Nonrecurring Charge1. Each Primary Station

Business Service	\$8.75
Residence Service	6.25

2. Each Extension Station

3.15

Instrumentalities in PlaceEach Service

Business Service	3.75
Residence Service	3.75

Schedule No. A-8. Move and Change ChargesSubscriber's Telephone SetsCharge per Move

Move on Same Premises	\$3.75
Change in type or style	3.75
Change between Manual and Dial	Withdrawn

Schedule No. A-10. Semipublic Coin-Box Service

Individual Line Coin-Box Station

<u>Rate Per</u> <u>Month</u>	<u>Min. Chg.</u> <u>per Day</u>
\$1.25	\$0.40