

ORIGINALDecision No. 69078

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of JAMES TELEPHONE COMPANY,)
 a California corporation, and JAMES)
 MUTUAL TELEPHONE COMPANY, a California)
 nonprofit corporation, for a certificate)
 of public convenience and necessity for)
 permission to issue and sell stock, for)
 authority to assume long-term note and)
 liabilities and to establish rates for)
 telephone service in and near)
 Tranquillity and San Joaquin,)
 California.)

Application No. 46237
 (Filed February 27, 1964)

Thomas, Snell, Jamison, Russell, Williamson,
 & Asperger, by Philip H. Wile; William G.
 Sebastian, Lawrence K. Martin, for
 applicant.

R. T. Perry, for the Commission staff.

O P I N I O N

By this application James Telephone Company, a California corporation (hereinafter referred to as James Telephone), seeks (1) authority to acquire the assets and assume the liabilities of James Mutual Telephone Company, a California nonprofit corporation (hereinafter referred to as James Mutual), (2) a certificate of public convenience and necessity, (3) authority to issue and sell common stock, and (4) authority to establish rates for said telephone service.

A duly noticed public hearing was held before Examiner Mooney at San Joaquin on September 17, 1964.

James Mutual provides telephone service to its members in the towns of San Joaquin and Tranquillity and in the surrounding

area of Fresno County by means of community dial offices in both towns. The area served is approximately 295 square miles (Exhibit 2). The number of memberships in James Mutual was frozen at 441 at the time the application was filed, and as an interim measure, service has been provided to additional parties on payment of an installation fee of ten dollars and the current monthly charges made to members for similar service.

Telephone service in the area was provided by a land development company in 1920 and was continued by various individuals after the land company was dissolved. In 1928, James Ranch Mutual Telephone Association took over and sold memberships for 75 dollars. In 1951, it was incorporated as a nonprofit mutual organization under its present name.

In 1961, new community dial equipment was installed in San Joaquin and Tranquillity. About 60 percent of the installed capacity is in use, and there is adequate space for expansion. Operator service is provided by the Pacific Company at Fresno. Message toll service is provided through a connection with Pacific toll lines at Jameson. The toll center of James Mutual is at San Joaquin. Toll calls are now handled manually, but it is planned to replace this with direct distance dialing.

James Mutual employs a manager, bookkeeper and three linemen. A board of five directors elected annually by the members control the business affairs. Telephone business is transacted at the home of the bookkeeper. It has no business office. Material, poles, supplies and equipment are stored in a yard and building at San Joaquin.

James Telephone proposes to issue 12,672 shares of no par value common stock, 20 dollars stated value, as consideration

for the proposed transfer. A copy of the proposed form of agreement for sale is attached to the application as Exhibit B thereof. The shares are to be distributed among the members of James Mutual according to the grade of membership. The membership grades which number five are based on the type of telephone service provided to a member and the initial membership fees paid to James Mutual which ranged from \$100 to \$500. The proposed plan of distribution of the shares is as follows:

<u>Membership Grade</u>	<u>Number of Members</u>	<u>Shares Per Member</u>	<u>Total Shares</u>
I	389	24	9,336
II	32	48	1,536
III	7	72	504
IV	11	96	1,056
V	<u>2</u>	120	<u>240</u>
Total	441		12,672

Testimony and exhibits were presented by the manager of James Telephone. He stated that he will serve as manager of James Telephone under contract (Exhibit 4) if the application is granted and that he has also been manager of the Kerman Telephone Company, which serves an area adjacent to James Mutual, for 18 years. The witness testified that because of the increase in members and plant investment, James Mutual has grown beyond the stage where it can be operated as a mutual company.

The manager pointed out that The Pacific Telephone and Telegraph Company had, in the past, filed to serve approximately nine square miles of the service area proposed to be served by James Telephone. He introduced in evidence a letter from Pacific dated

September 10, 1964 (Exhibit 3) which states that it will file an advice letter with the Commission to transfer this area to applicant.

The manager explained that the Kerman Telephone Company will handle all bookkeeping and office work for James Telephone under contract (Exhibit 5) and that arrangements have been made with a local bank to handle collections from customers. He stated that all stock issued by James Telephone would be distributed to the members of James Mutual in accordance with the aforementioned plan of distribution. The witness stated that James Mutual has an outstanding promissory note payable to Automatic Electric Sales Corporation for the purchase of central office equipment; that the balance due on the note on June 30, 1964 was \$37,488.79, which bears interest at 6½ percent per annum; and that the payee has agreed in writing (Exhibit K to the application) to have James Telephone assume the liability.

The manager further testified that James Telephone will show on its books all assets acquired in the transfer at the cost shown on James Mutual's books (Exhibit 10). He stated that based on the station count on June 30, 1964 and the exchange rates proposed by James Telephone (Exhibit 7), the estimated operations for the year 1964 would result in a net income of \$17,766 (Exhibit 6) and a rate of return of approximately 5½ percent. Copies of the proposed tariff and an amendment thereto were introduced in evidence by the manager (Exhibits 8 and 9).

Testimony and exhibits (Exhibits 11 and 12) on behalf of the Commission staff were presented by a financial examiner and a

utility engineer. The staff evidence was as follows: James Mutual has a very conservative capital structure of which 89 percent is equity and only 11 percent is debt; the telephone plant and equipment are well-maintained, and over 50 percent of the present plant has been placed in operation since 1959; the books of accounts of James Mutual reasonably reflect the original cost of the telephone plant in service; on January 1, 1964, the plant in service was \$343,110 and the depreciation reserve was \$42,054; revenue from toll service accounts for 60 percent of James Mutual's total revenue; the exchange rates proposed by James Telephone would produce an estimated exchange revenue of \$41,000 for 1964 which together with the toll and miscellaneous revenue would result in a net operating income of \$24,100 and a rate of return of 7.74 percent based on the staff rate base of \$311,200.

The staff recommended that James Telephone be authorized to issue stock and acquire the assets and assume the liabilities of James Mutual as proposed in the application. The exchange rates proposed by James Telephone are, according to the staff, excessive. The staff recommended a rate of return of 6.5 percent on the staff rate base and suggested an alternative scale of exchange rates that would produce an estimated \$34,000 in exchange revenue and a 6.5 percent return for 1964. The staff did not take exception to the mileage, toll and other miscellaneous charges recommended by James Telephone.

A comparison of the present exchange rates assessed by James Mutual with the exchange rates proposed by James Telephone

and by the Commission staff together with the station count for each class of service on June 30, 1964, is set forth below:

	Number of Services <u>6/30/64</u>	James Mutual <u>Present Rates</u>	<u>Recommended Rates</u>	
			<u>James Telephone</u>	<u>Staff</u>
Business:				
1-Party	62	\$9.50	\$11.50	\$7.75
2-Party	19	7.00	7.50	6.25
4-Party	30	5.00	5.00	5.00
Suburban	10	5.00	5.00	5.75
Extension	173	1.00	1.25	1.25
Residence:				
1-Party	13	9.50	6.00	5.00
2-Party	23	7.00	5.00	4.00
4-Party	276	5.00	3.00	3.25
Suburban	161	5.00	4.00	4.00
Extension	110	1.00	1.00	1.00

After consideration of the evidence, the Commission finds that:

1. Public convenience and necessity require and will require that James Telephone acquire, construct and operate as a public utility telephone corporation the telephone system now operated by James Mutual within the towns of San Joaquin and Tranquillity and the surrounding area of Fresno County as shown on the map in Exhibit 2.

2. James Mutual is now offering telephone service to all within its area of service and, therefore, seeks to operate as a public utility.

3. The transfer of the properties of James Mutual to James Telephone is not adverse to the public interest.

4. James Telephone should be authorized to acquire the assets and assume the liabilities of James Mutual in accordance with the terms and conditions of the agreement dated January 20,

1964, which is set forth in Exhibit B to the application. With respect to the issuance of stock as contemplated by said Exhibit B, James Telephone should be authorized to issue not to exceed 12,672 shares of no par value common stock with a stated value of \$20 per share and an aggregate stated value of \$253,440 to James Mutual; the money, property or labor to be procured or paid for by the issuance of such securities is reasonably required for the purposes set forth in the application herein and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

5. The estimates of operating revenues, expenses, including taxes and depreciation, and the rate base as submitted by the staff in Exhibit 11 as amended by Exhibit 12 in this proceeding for the test year 1964 are reasonable for the purposes of prescribing rates herein.

6. The exchange rates suggested by the staff in Exhibit 12 are just and reasonable.

7. Except as modified by Finding 6 above, the schedules of rates and charges proposed by James Telephone in Exhibit 8 as amended by Exhibit 9 are just and reasonable.

8. Any increases in any rates or charges or more restrictive provisions of any rules which may result from the schedules of rates and charges hereinafter authorized are justified, and existing rates, charges or rules of James Mutual, insofar as they differ from those hereinafter authorized, are, as of the date when James Telephone shall establish its service, unjust and unreasonable.

9. The net operating revenue produced by the rates referred to in Findings 5 and 6 above for the test year 1964 will provide a rate of return of 6.5 percent on the depreciated rate base of \$311,200 estimated by the staff, which rate of return and rate base are just and reasonable.

10. James Telephone should be required to use the straight-line remaining life method for calculating depreciation accruals and to submit depreciation studies to the Commission at intervals of three years or whenever significant changes occur which would affect depreciation rates.

11. James Telephone should be required to maintain its books of account in accordance with the Uniform System of Accounts for Class A and Class B Telephone Companies prescribed by the Commission. Although applicant's revenues estimated by the staff for 1964 would classify it as a Class C company, a modest increase in revenues in the near future would result in its being classified as a Class B company, and the Class A and Class B system of accounts would be appropriate.

Based upon the foregoing findings of fact, the Commission concludes that the application should be granted to the extent hereinafter authorized. In all other respects the application is denied.

The certificate to be issued herein is subject to the following provision of law:

The Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate, or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

In issuing our order herein, we place applicant and its shareholders on notice that the Commission does not regard the number of shares outstanding, the total stated value of the no par shares nor the dividends paid as measuring the return which applicant

should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of value of applicant's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates. Furthermore, James Telephone should be aware that its journal entries used to record the acquisition of the telephone system and properties and assumption of the liabilities of James Mutual may be required to be modified by direction of the Commission.

O R D E R

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to James Telephone Company, a California corporation, authorizing it to acquire, construct and operate a public utility telephone system within the towns of San Joaquin and Tranquillity and the surrounding area of Fresno County as described on the map in Exhibit 2 in this proceeding.
2. On or after the effective date of this order and on or before December 31, 1965, James Telephone Company may acquire the telephone system and properties and assume the liabilities of James Mutual Telephone Company, a California nonprofit corporation, in accordance with the terms and conditions set forth in Exhibit B attached to the application herein.
3. James Telephone Company, on or after the effective date of this order and on or before December 31, 1965, for the purposes hereinabove specified, may issue and sell not to exceed 12,672 shares of its no par value common stock with a stated value of \$20 per share and an aggregate stated value of \$253,440.

4. James Telephone Company, coincidentally with the transfer and sale hereinabove authorized, may enter into an agreement with Automatic Electric Company, a Delaware corporation, successor to Automatic Electric Sales Corporation, to assume all obligations remaining on the long-term note dated December 31, 1961, executed by James Mutual Telephone Company in favor of Automatic Electric Sales Corporation on substantially the terms and conditions and in the manner set forth in Exhibit K to the application herein.

5. James Telephone Company is authorized to file in quadruplicate with this Commission, on or after the effective date of this order, in conformity with the provisions of General Order No. 96-A, maps and the schedules of rates and charges and rules set forth in Appendix A attached to this order, on not less than five days' notice to the public and to the Commission.

6. James Telephone Company in the future shall determine the accruals for depreciation by dividing the original cost of the utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant. Applicant shall review the accruals when major changes in utility plant composition occur and at intervals of not more than three years. Results of these reviews shall be submitted to this Commission.

7. Within sixty days after the acquisition of the telephone system and property herein authorized, James Telephone Company shall file with the Commission a copy of each journal entry used to record the acquisition on its books of account.

8. James Telephone Company shall file with this Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

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

Dated at Los Angeles, California, this 18th day of May, 1965.

Fredrick B. Holdhoff
President

George W. Hoover

Augustine

Commissioners

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

APPENDIX A

Applicant is authorized to publish and file the schedule of rates and charges and rules set forth in Exhibit 8 in this proceeding except as follows:

Applicant shall publish and file the following Individual and Party Line service rates in lieu of those shown in Schedule No. A-1 of Exhibit 8 in this proceeding:

RATES

	<u>Wall, Desk or Hand Set Stations Rate per Month</u>	
	<u>Residence Service</u>	<u>Business Service</u>
Each individual line primary station	\$5.00	\$7.75
Each two-party line primary station	4.00	6.25
Each four-party line primary station	3.25	5.00
Each extension station	1.00	1.25

Applicant shall publish and file the following Suburban Service Rates in lieu of those shown in Schedule No. A-5 of Exhibit 8 in this proceeding:

RATES

	<u>Wall, Desk or Hand Set Stations Rate per Month</u>	
	<u>Residence Service</u>	<u>Business Service</u>
Each six-party primary station	\$4.00	\$5.75
Each extension station, with or without bell ..	1.00	1.25

Applicant shall publish and file the following Employees Service Rates in lieu of those shown in Schedule No. A-22 of Exhibit 8 in this proceeding:

RATES

	<u>Rate per Month</u>
Each employee residence Primary station service	Regular filed rates - less 50%
All other items of service	Regular filed rates
Service Connection, installation, move and change charges	Regular filed rates - less 50%