

ORIGINAL

Decision No. 69634

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
THE PONDEROSA TELEPHONE CO. for)
authority to establish two new)
exchanges to be known as the SHAVER)
EXCHANGE and the BIG CREEK EXCHANGE)
to apply its present rates to the)
proposed exchanges, to establish)
base rate areas, to transfer certain)
areas from one exchange to another,)
to establish toll rate centers in)
such proposed exchanges and to)
relocate its toll rate center in its)
O'NEALS EXCHANGE.)

Application No. 45538
(Filed June 19, 1963;
amended May 1, 1964)

Bacigalupi, Elkus & Salinger by Warren A. Palmer
and Alvin H. Pelavin, for applicant.
Donald R. Pearson, for Sierra National Forest;
William L. Knecht, for Fresno County Farm
Bureau and California Farm Bureau Federation;
and Neal C. Hasbrook, for California Independ-
ent Telephone Association, interested parties.
R. T. Perry and John J. Gibbons, for the
Commission staff.

O P I N I O N

This amended application was heard before Examiner Coffey at Fresno on August 5, 1964. It was submitted on October 8, 1964, upon receipt of applicant's late-filed Exhibit 9.

The amended application, filed without title change, requests authority to increase rates and charges for business and residence individual, party line and suburban service, suburban mileage, semi-public coin box service, private branch exchange service and directory listings. Applicant further seeks authority to withdraw its present toll station service schedule and to withdraw its other line toll service schedule and to substitute therefor direct toll

rates for message toll traffic interchanged with The Pacific Telephone and Telegraph Company (Pacific Telephone) by adoption of appropriate Pacific Telephone schedules.

The Ponderosa Telephone Company provides telephone service in approximately 640 square miles of the eastern portions of Madera and Fresno Counties which lie in the foothills and western mountains of the Sierra. There are six exchange areas in unincorporated areas: Auberry, Big Creek, Friant, North Fork, O'Neals and Shaver; each having a base rate area and a community dial office. Growth has been rapid in this area as indicated by the total number of stations which increased from 279 at the end of 1958 to 1,045 at the end of 1963. An estimated 1,395 stations will be installed by the end of 1964. More than \$1 million of REA loan funds have been used recently to modernize and expand the telephone plant of The Ponderosa Telephone Company. Practically all of the telephone plant has been replaced since 1959. It is modern and capable of expansion to meet expected demands.

By interim Decision No. 65884, August 20, 1963, on the unamended Application No. 45538, applicant's requests were granted, without a hearing, to: (1) establish two new exchanges, Shaver and Big Creek; (2) add territory to its Auberry and North Fork exchanges; (3) transfer certain areas between exchanges; (4) establish base rate areas in Shaver, Big Creek and O'Neals exchanges; and (5) establish toll rate centers in the new exchanges and relocate the toll rate center in the O'Neals exchange.

Applicant also requested authority to apply its presently authorized rates in the new exchanges and additions to exchanges and to apply the rates authorized for its other exchanges to the O'Neals exchange coincident with the conversion of service in the O'Neals exchange to dial operation.

The Commission, in its interim decision, noted that separated results of operation for the year 1961 showed a negative rate of return of 4.64 percent on applicant's extended area service (EAS) operations and a positive rate of return of 33.10 percent on its interchanged toll operations. Comparisons showed that applicant's rates for EAS service are nearly the same as the non-EAS service of Pacific Telephone but are substantially lower than the rates for non-EAS service of the neighboring Sierra Telephone Company. Further, applicant's other line intrastate toll rates are higher than Pacific Telephone's intrastate toll rates as they are additive for calls beyond Clovis.

The Commission further stated that enlarging the extended area might increase the imbalance of earnings and that applicant had not submitted evidence on estimated results of operation upon completion of construction program, upon changed operating conditions resulting therefrom and upon its changed capital structure, and denied the requested rates.

Applicant was ordered to prepare and file an exhibit showing estimated results of operation to reflect its future operating conditions separated between toll and exchange operations and showing expected earnings by exchanges with toll rates on a direct rate basis.

On January 28, 1964, applicant filed the required study which indicated for the estimated year 1964 the rate of return on its interchanged toll would be 7.70 percent and on all other operations would be a negative 2.74 percent. The rates of return for exchange operations other than interchanged toll by exchanges ranged from a negative 3.42 percent to a negative 2.50 percent.

Applicant presented 5 exhibits and testimony by 4 witnesses in support of its amended request for authority to increase its rates

and charges. Two witnesses from the Commission staff presented the results of their studies and investigation of applicant's operations. Two public witnesses testified relative to service problems.

The following table compares applicant's proposed exchange rates and charges with those presently authorized:

Comparison of Present and Proposed
Exchange Rates and Charges

<u>Class and Grade of Service</u>	<u>Monthly Rate</u>	
	<u>Present</u>	<u>Proposed</u>
<u>Business</u>		
1-Party	\$ 7.00	\$ 8.50
2-Party	5.50	6.50
Suburban	5.00	6.00
Extension Station	1.50	1.75
<u>Residence</u>		
1-Party	4.50	5.50
4-Party	3.00	3.50
Suburban	3.50	4.25
Extension Station	1.00	1.25
<u>Coin Box, Semipublic</u>		
Rate per Month	.75	1.00
Minimum per Day	.21	.25
Extension Station	1.50	1.75
<u>Mileage Rates per 1/2-Mile</u>		
1-Party	.50	.60
2-Party	.35	.40
4-Party	.25	.30
PBX Trunk Line	.50	.60
Battery Supply Circuit	.50	.60
Ringling Supply Circuit	.50	.60
<u>Private Branch Exchange Service</u>		
Trunk Line Rate	10.50	12.75
Station Rate	1.50	1.75
<u>Directory Additional Listing Lines of Information</u>		
Business	.50	.60
Residence	.25	.30
Guest of Hotel	.25	.30
Reference to Service of same subscriber	.25	.30
Reference to service of another subscriber	.50	.60
Other Information, each line	.25	.30

Applicant's present and proposed exchange rates are compared with the corresponding rates of contiguous Pacific Telephone and Sierra Telephone Company exchanges in the following tabulation:

<u>Class & Grade of Service</u>	<u>Ponderosa</u>		<u>Pacific Telephone</u>		<u>Sierra Telephone Company</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Fresno- Clovis</u>	<u>EAS Madera</u>	<u>Raymond</u>	<u>Coarsegold</u>
<u>Business</u>						
1-Party	\$7.00	\$8.50	\$10.55	\$7.75	\$7.50	\$8.50
2-Party	5.50	6.50	8.10	6.10	6.60	7.50
Suburban	5.00	6.00	6.00	5.35	6.25	6.75
Extension	1.50	1.75	1.50	1.50	1.75	1.75
<u>Residence</u>						
1-Party	4.50	5.50	5.30	4.65	6.00	6.50
4-Party	3.00	3.50	3.30	3.00	5.00	4.50
Suburban	3.50	4.25	3.80	3.50	4.75	5.00
Extension	1.00	1.25	1.00	1.00	1.25	1.25
<u>Company Stations</u>						
January 1, 1964	-	1,017	141,293	9,492	1,290 (Est.)	
<u>Area, sq. mile</u>						
		640	544	501	381	
<u>Stations per square mile</u>						
		1.6	260	19	3.4	

There are no toll charges for calls between exchanges of applicant. Extended area service with direct dialing is in effect throughout the six exchanges. The intrastate toll charges presently in effect to points outside of applicant's service area are the sum of applicant's toll service charges between its exchanges and Clovis and the applicable charges of the Bell Telephone System from Clovis to the point called. Applicant proposes to discontinue charging separately for toll service between its exchanges and Clovis and to adopt the applicable intrastate tariffs of Pacific Telephone. The following tabulation estimates representative toll charges under

present and proposed rates at the toll rate levels prescribed for Pacific Telephone by Decision No. 69069, dated May 18, 1965, in Case No. 7409:

Comparison of Representative Toll Charges
(3-minute call)

<u>Day Station</u> <u>Service</u>	<u>Clovis</u>		<u>Fresno</u>		<u>Bakersfield</u>		<u>San Diego</u>	
	<u>Pres.</u>	<u>Prop.</u>	<u>Pres.</u>	<u>Prop.</u>	<u>Pres.</u>	<u>Prop.</u>	<u>Pres.</u>	<u>Prop.</u>
Auberry	\$0.70	\$0.30	\$0.80	\$0.35	\$1.45	\$0.75	\$1.85	\$1.10
Big Creek	.70	.45	.80	.55	1.45	.75	1.85	1.10
Friant	.25	.15	.35	.25	1.00	.75	1.40	1.10
North Fork	.70	.35	.80	.45	1.45	.75	1.85	1.15
O'Neals	.45	.30	.55	.35	1.20	.75	1.60	1.10
Shaver Heights	.70	.35	.80	.45	1.45	.75	1.85	1.10

If the Commission authorizes the cancellation of applicant's "other line" toll rates and the charging of direct toll rates for toll telephone traffic interchanged with Pacific Telephone, applicant will request Pacific Telephone to settle with it for such traffic on a cost basis.

The following are material 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.
3. Adequacy of service.

The tabulation which follows is taken from staff Exhibit 4 and compares the estimates made by the staff and by applicant of the results of operation in the test year 1964 under present and proposed rates:

SEPARATED SUMMARY OF EARNINGS
(Year 1964 Estimated)

Item	Total		Toll		Exchange	
	Applicant	Staff	Applicant	Staff	Applicant	Staff
<u>Present Rates</u>						
<u>Revenues</u>						
Local Service	\$ 59,740	\$ 65,258	\$ -	\$ -	\$ 59,740	\$ 65,258
Toll Service	135,800	137,443	135,800	137,443	-	-
Miscellaneous	2,214	1,654	-	-	2,214	1,654
Subtotal	197,754	204,355	135,800	137,443	61,954	66,912
Less Uncollectible	2,967	3,065	2,037	2,061	930	1,004
Total Revenue	194,817	201,290	133,763	135,382	61,054	65,908
<u>Deductions</u>						
Operating Expenses	90,036	97,223	37,610	39,685	52,426	57,538
Depreciation	45,717	50,518	20,119	22,233	25,598	28,285
Operating Taxes	28,822	29,190	12,811	12,976	16,011	16,214
Income Tax	525	161	2,966	2,793	(2,441)	(2,637)
Total Deductions	165,100	177,092	73,506	77,692	91,594	99,400
Net Revenue	29,717	24,198	60,257	57,690	(30,540)	(33,492)
Av. Depr. Rate Base	1,203,561	1,207,053	539,497	539,430	664,064	661,628
Rate of Return	2.47%	2.01%	11.17%	10.69%	(4.60)%	(5.06)%

Proposed Rates

<u>Revenues</u>						
Local Service	\$ 71,771	\$ 78,401	\$ -	\$ -	\$ 71,771	\$ 78,401
Toll Service	143,590	147,624	143,590	147,624	-	-
Miscellaneous	2,214	1,654	-	-	2,214	1,654
Subtotal	217,605	227,679	143,590	147,624	74,025	80,055
Less Uncollectible	3,265	3,415	2,154	2,214	1,111	1,201
Total Revenue	214,340	224,264	141,436	145,410	72,904	78,854
<u>Deductions</u>						
Operating Expenses	90,036	97,223	37,610	39,685	52,426	57,538
Depreciation	45,717	50,518	20,119	22,233	25,598	28,285
Operating Taxes	28,822	29,190	12,811	12,976	16,011	16,214
Income Tax	1,599	1,425	29,355	28,232	(27,756)	(27,557)
Total Deductions	166,174	178,356	99,895	103,876	66,279	74,480
Net Revenue	48,166	45,908	41,541	41,534	6,625	4,374
Av. Depr. Rate Base	1,203,561	1,201,053	539,497	539,430	664,064	661,628
Rate of Return	4.00%	3.82%	7.70%	7.70%	1.00%	0.66%

(Red Figure)

Both applicant and the staff made recommendations as to reasonable rates of return. Applicant's witness testified that a 17.34 percent return on common equity would be equitable, while the staff witness recommended a return of 9.5 percent on common equity. The staff witness stated that his recommendation, which would result in a return of 2.9 percent on the staff rate base, would have the effect of not allowing applicant to earn a return on the book losses resulting from the inclusion in rate base of the undepreciated portion of abandoned telephone plant facilities purchased from the U.S. Forest Service for \$430.15 and recorded on the books at \$34,138.

The estimates presented by applicant and the staff are in substantial agreement inasmuch as they both indicate that the rate of return on applicant's exchange operations under proposed rates will be 1 percent or less and that applicant is in need of exchange rate relief. Applicant's estimate indicates a rate of return on total operations under proposed rates of 4 percent compared with the staff estimate of 3.82 percent.

Although the Commission is jurisdictionally precluded from fixing a return on the interstate portion of applicant's operations, it cannot, on the other hand, ignore the overall results of operations in fixing rates for those services subject to its jurisdiction. To set exchange rates at the level necessary to yield a fair rate of return on the exchange plant investment might have the twofold effect of causing exchange rates to be so high as to discourage all but the most essential use and of providing a rate of return on total operations which would be unreasonably high in light of applicant's low cost R.E.A. financing.

In their toll revenue estimates both applicant and the staff assumed a return of 7.7 percent from settlements with Pacific

Telephone. The record is deficient in that it does not show the estimated return to be realized by applicant on interchanged toll nor does it show what effect recently reduced intrastate rates may have on applicant's earnings.

Although a rate of return of 2.9 percent is considered reasonable for this operation in the future, we will authorize the rates that applicant has requested inasmuch as this Commission, by Decision No. 69069, dated May 18, 1965, ordered reductions in the intrastate toll rates on which the estimates considered herein were based and since about two-thirds of applicant's revenues will be derived from interchanged toll settlements. In this respect it should be noted that the difference in gross revenues between those that would result under the staff recommended rate of return level and under the rates proposed by applicant is about \$11,500, or only about 5 percent of total operating revenues. However, in consideration of the action taken herein we will require applicant to submit the results of the first 12 months of operations under the authorized rates for our review.

The estimates of the staff confirm that applicant is in need of exchange rate relief. The staff estimated that the rate of return for exchange operations of applicant under present rates will be a negative 5.06 percent. Applicant's similar study, with lower estimates of revenues and expenses than those of the staff, indicates a higher rate of return than the staff, a negative 4.60 percent.

Applicant's toll revenue is estimated to increase despite the proposed reduction in toll charges to subscribers. This results from the expectation that Pacific Telephone will agree to change the present settlement agreement for interchanged toll telephone traffic from being based on traffic studies and the number of toll messages detailed by Pacific Telephone for applicant to a cost basis in

which the costs will be separated in accordance with the principles of the NARUC Separations Manual. The authorization relating to toll rates herein granted should not be construed as a statement of policy by this Commission regarding settlement or be regarded as a precedent. For the purpose of this proceeding we assume that applicant has reason to believe that Pacific Telephone will voluntarily grant its request for a cost basis of settlement of interchanged message toll telephone traffic.

In Decision No. 52874, dated April 14, 1959, Application No. 40875, The Ponderosa Telephone Company was directed to determine depreciation accrual rates on the remaining life basis, with review of accrual rates at intervals not to exceed four years, or whenever major changes occur in plant composition, and to submit the results of such reviews to the Commission. The staff testified that the company has disregarded this order despite repeated reminders from the Commission staff. No depreciation accrual study has been made by the company and the annual reports filed with the Commission indicate that straight-line total life depreciation is used.

Applicant's president testified that applicant had intended to comply with the directive of the Commission, but that lack of personnel during a period of rapid growth prevented accomplishing all requirements, and that they will comply with future directives as promptly as possible. Applicant's attention is directed to Sections 2101 through 2113 of the Public Utilities Code which set forth penalties for failing or neglecting to comply with any order, decision, decree, rule, direction, demand, or requirement of this Commission. Applicant is cautioned to file promptly such studies as the Commission may require and to timely request any necessary extensions of time for purposes of compliance. We

find that applicant has not complied with the directive of this Commission regarding depreciation accruals. We will again direct the method and period of determining depreciation rates. Applicant is advised that it should not continue to accrue depreciation for the telephone plant facilities recorded at \$34,138 cost which were purchased from the U. S. Forest Service for \$430.15 and which are presently retired. The amount equivalent to the unrealized depreciation should be transferred to the reserve for depreciation account from the earned surplus account.

The staff witness recommended that applicant be ordered to install an adequate work order system, stating that a "company well over a million dollars in assets should have adequate records and work order systems." The witness further recommended that applicant should endeavor to centralize its accounting functions in its O'Neals office. The present system of submitting basic accounting data periodically to a public accountant located in Fresno, for recording and interpreting into the corporate records, results in considerable time lag in the posting of data to the corporate general ledger and in financial statements not being prepared on schedule. We find that applicant has not been keeping adequate plant records.

Service complaints by subscribers related mainly to: lack of responsiveness of applicant to requests for telephone service, the automatic cutoff feature which limits local calls to periods of eight minutes, slowness of operator response, difficulty in reporting trouble and excessive delay in restoring service.

The automatic cutoff of telephone calls after a predetermined period is applied to small dial offices in sparsely settled

areas, such as served by applicant, to minimize the cost of central office equipment so that the subscriber may obtain service at reasonable and acceptable rates. Applicant's investigation of the feasibility of eliminating the timing of calls from business telephones, indicates that an additional \$80,000 of equipment would be required. Such a revision would not eliminate timing of outgoing calls from residential to business subscribers. To eliminate the timing feature on both business and residential telephone calls would require substantial amounts of additional plant and increased rates which we will not require without a further showing of need.

Applicant has, by direct testimony and Exhibit 9, responded to other service complaints. We will require applicant to report periodically to the Commission the status of held orders and of action taken on subscribers' complaints.

Upon consideration of the evidence the Commission finds that:

1. The foregoing estimates by applicant and the staff of 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 that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable; and
4. Service deficiencies exist as the result of rapid growth and lack of personnel.

The Commission concludes that:

1. This application for increased rates should be granted;

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

3. Applicant should make such periodic studies and reports on operating results, depreciation and service conditions as hereinafter required; and

4. Applicant should install an adequate work order system to record plant additions and maintenance.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, The Ponderosa Telephone Company is authorized to file the revised rate schedules attached to this order as Appendix A; such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be the effective date of this order, or four days after the date of filing, whichever is later. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. Within sixty days after the completion of operation for twelve months under the rates authorized herein, applicant shall report in writing the results of operation for said twelve months, separated between exchange and toll service in the same detail as herein set forth in the comparison of separated summaries of earnings.

3. Applicant shall review its depreciation rate for each depreciable primary plant account at intervals of three years and whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the

original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

4. Within sixty days after August 1, 1965, applicant shall file with this Commission a report setting forth all service complaints received from its subscribers between April 1 and July 1, 1965. Said report shall set forth the action taken to investigate and satisfy each complaint, an explanation of the status of any unresolved complaints, the number of held orders for service on hand on the last day of the reporting period and what steps are being undertaken to render requested service. Six such additional consecutive quarterly reports shall be filed with this Commission within thirty calendar days after January 1, April 1, July 1 and October 1 of each year.

5. Prior to January 1, 1966, applicant shall install a work order system for recording plant additions and maintenance. Copies of the work order forms and a written description of the operation of the proposed work order system shall be filed with this Commission prior to November 1, 1965.

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

Dated at San Francisco, California, this 31ST day of AUGUST, 1965.

[Signature] President
George L. Grover
[Signature]
William L. Brown Commissioners

Commissioner Frederick B. Holoboff, 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 Ponderosa Telephone Company are authorized to be changed to the level and to the extent prescribed in this appendix. If any rates are changed, all authorized rate changes shall be made.

Rate per Month

Schedule No. A-1, Flat Rate Exchange Service

<u>Business Service</u>	
Individual Line	\$8.50
2-Party	6.50
Extension Station	1.75
<u>Residence Service</u>	
Individual Line	5.50
4-Party	3.50
Extension Station	1.25

Schedule No. A-2, Suburban Service

<u>Business Service</u>	
10-Party Line	6.00
Extension Station	1.75
<u>Residence Service</u>	
10-Party Line	4.25
Extension Station	1.25

Schedule No. A-3, Mileage Rates

Each 1/2-mile or Fraction thereof, Airline Measurement

<u>Primary Service</u>	
Individual Line60
2-Party Line40
4-Party Line30
PBX Trunk Line60
Battery Supply Circuit60
Ringling Supply Circuit60

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RATESRate per MonthSchedule No. A-5, Semipublic Coin-Box Service

<u>Individual Line Coin-Box Station</u>	
Rate per Month	\$ 1.00
Each Exchange Message10
Minimum Charge per Day25
Extension Station, Rate per Month	1.75

Schedule No. A-6, Private Branch Exchange Service

Trunk Line Rate	12.75
Station Rate	1.75

Schedule No. A-11, Joint User Service

Each joint user service in connection with business flat rate service	3.25
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Schedule No. B-2, Toll Station Service

This schedule to be withdrawn.

Schedule No. D-1, Directory Listings

<u>Additional Listings and Lines of Information</u>	
Business60
Residence30
Guest of Hotel30
Reference to Service of Same Subscriber30
Reference to Service of Another Subscriber60
Other Information, Each Line30

APPENDIX A
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RATES

Schedule No. B-1, Toll Service

The present Schedule No. B-1 to be canceled in its entirety and replaced by the following:

Schedule No. B-1

MESSAGE TOLL TELEPHONE SERVICE

APPLICABILITY

Applicable to message toll telephone service furnished or made available by this company between its points and points reached over facilities of connecting companies.

TERRITORY

Between points within the State of California where the respective rate centers of such points are located in said State.

RATES

Toll Service Adoption Notice

The Ponderosa Telephone Co. assents to, adopts, and concurs in the tariffs of The Pacific Telephone and Telegraph Company listed below, together with amendments thereto and successive issues thereof, and hereby makes itself a party thereto until this authority is revoked by cancellation of this adoption notice, for the purpose of furnishing all intrastate message toll telephone service thereunder originated or terminated at a point of this company.

1. Schedule Cal. P.U.C. No. _____, Message Toll Telephone Service, Rates and Conditions.
2. Schedule Cal. P.U.C. No. _____, Interexchange Mileage and Rate Guide, Part I and Part II.
3. Schedule Cal. P.U.C. No. _____, Message Toll Telephone Service, Post Route Map.
4. Schedule Cal. P.U.C. No. _____, Message Toll Telephone Service, Toll Rate Guide General Rate Regulations.
5. Schedule Cal. P.U.C. No. _____, Message Toll Telephone Service, Toll Rate Guide for the State of California.
6. Schedule Cal. P.U.C. No. _____, Message Toll Telephone Service, Supplement to Toll Rate Guide for the State of California.
7. Schedule Cal. P.U.C. No. _____, Message Toll Telephone Service, Location of Rate Centers.