

ORIGINALDecision No. 74030

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 ROY MC DONNELL and HAZEL J. MC DONNELL,
 doing business as Hornitos Telephone
 Exchange, a public utility, for auth-
 ority to increase rates and charges
 for telephone service and to borrow
 money.

Application No. 48971
 (Filed November 23, 1966)

Bacigalupi, Elkus, Salinger & Rosenberg, by
William Fleckles, for applicant.
William L. Knecht, for California Farm Bureau
 Federation, and Will Wyre, for Mariposa
 County Farm Bureau, interested parties.
A. L. Carlson, for the Commission staff.

O P I N I O N

Roy and Hazel J. McDonnell,^{1/} doing business as "Hornitos Telephone Exchange", seek authority to increase rates for telephone service to about 144 subscribers in northwest Mariposa County. That portion of this application which requires authority to borrow money has been withdrawn by applicants. After due notice, hearing in this application was held before Examiner Coffey in Merced on March 19, 1968, on which date this matter was submitted.

Operation

The Hornitos Telephone Co. provides telephone service in two exchange areas. The Hornitos exchange area includes the unincorporated town of Hornitos and the subscribers living or working at the site of the Exchequer Dam. The Mt. Bullion exchange

^{1/} Decision No. 73698, dated February 6, 1968, Application No. 49934 authorized applicants to transfer their telephone system and assets to the Hornitos Telephone Co., a corporation, and authorized the corporation to issue stock, establish rates and encumber its properties.

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area includes the unincorporated communities of Mt. Bullion and Bear Valley. The population of these centers is estimated at 250. In addition, an estimated 80 families live outside the population centers. The Hornitos and Mt. Bullion exchange areas cover a total of 223 square miles of hilly and mountainous terrain in the foothills of the Sierra Nevada mountain range.

Telephone service is provided from three separate community dial offices (CDOs). A new 100-line Stromberg-Carlson switch at Hornitos provides service at Hornitos and vicinity. A 60-line North Electric switch at Mt. Bullion serves Mt. Bullion and Bear Valley. A 50-line North Electric switch at Exchequer serves the permanent dam employees and contractors working there.

Each CDO is connected separately with The Pacific Telephone and Telegraph Company at Merced. Pacific provides five trunks each to Mt. Bullion and Exchequer and eight trunks to Hornitos. No direct trunking between the CDOs exists since there is little community of interest between the widely separated communities of Hornitos, Mt. Bullion and Exchequer.

Automatic dial service is provided. Continuous operator service is provided by Pacific operators at Merced, including long distance, information, assistance, emergency, receiving and relaying, intercept, trouble reports and time service.

Trouble reports may be called to the listed Hornitos Telephone Co. trouble call number at any time. If there is no answer, the Pacific operator will receive and relay the call.

Rates

Following is a comparison of applicant's present and proposed rates:

TABLE I
COMPARISON OF MONTHLY EXCHANGE RATES

<u>Class and Grade of Service</u>	<u>Monthly Rate</u>	
	<u>Present</u>	<u>Proposed</u>
<u>Hornitos</u>		
<u>Business</u>		
1-Party	\$5.50	\$10.00
Suburban	4.25	7.50
Extensions	1.25	1.50
<u>Residence</u>		
1-Party	3.55	7.00
2-Party	3.00	6.40
Suburban	2.95	6.00
Extensions	1.25	1.50
<u>Mt. Bullion</u>		
<u>Business</u>		
1-Party	6.50	10.00
Suburban	4.85	7.50
Extensions	1.50	1.50
<u>Residence</u>		
1-Party	4.15	7.00
2-Party	3.35	6.40
4-Party	2.75	5.50
Suburban	3.25	6.00
Extensions	1.00	1.50
<u>Exchequer</u>		
<u>Business</u>		
1-Party	5.50	10.00
Extensions	1.25	1.50
<u>Residence</u>		
1-Party	3.55	7.00
<u>Farmer Lines</u>		
Extensions	.50	1.50
	.50	1.50

Table II, below, compares the present and proposed rates of applicant with corresponding rates of contiguous exchanges of the Mariposa County, Golden State and Pacific Telephone Companies.

TABLE II

	Hornitos		Mariposa County		Golden State		Pacific Tel. and Tel. Co.			
Class and Grade of Service	Mt. Bullion	Mt. Hornitos	Mt. Bullion	Mariposa	Snellville	Coulterville	Extended Area*	Merced	Planada	LeGrand
	Present	Proposed	Present	Proposed	Present	Proposed	Present	Proposed	Present	Proposed
<u>Business</u>										
1-Pty.	\$6.50	\$5.50	\$10.00	\$9.00	\$4.50	\$5.80	\$8.10	\$8.75	\$9.20	
2-Pty.	5.10	4.50	-	7.00	4.00	4.50	6.35	7.00	7.45	
10-Pty.	4.85	4.25	7.50	6.80	3.95	4.45	5.35	6.00	6.45	
Ext.	1.50	1.25	1.50	2.00	1.25	1.50	1.50	1.50	1.50	
<u>Residence</u>										
1-Pty.	4.15	3.55	7.00	6.50	4.00	3.70	4.35	4.70	4.95	
2-Pty.	3.35	3.00	6.40	5.30	3.75	3.00	3.55	3.90	4.15	
4-Pty.	2.75	2.45	-	4.30	3.00	2.45	3.00	3.35	3.60	
10-Pty.	3.25	2.95	6.00	5.00	3.70	2.95	3.50	3.85	4.10	
Ext.	1.00	1.25	1.50	1.30	1.00	1.00	1.00	1.00	1.00	
<u>Farmer Line</u>										
Business	1.30	.50	1.50	1.50	1.75	1.15	2.35	3.00	3.45	
Residence	.80	.50	1.50	1.50	1.75	.70	1.25	1.60	1.85	
<u>Company Telephones</u>										
12/31/66	-	-	167	1,438	214	231	21,440	586	433	

*Extended area calling between Merced and Planada or LeGrand.

Results of Operation

The following table presents a comparison of applicant's and staff's estimated results of operation for the year 1967:

TABLE III

SUMMARY OF EARNINGS
Year 1967 Estimated

<u>Item</u>	<u>Present Rates</u>		<u>Company Proposed Rates</u>	
	<u>Company</u>	<u>CPUC Staff</u>	<u>Company</u>	<u>CPUC Staff</u>
<u>Revenues</u>				
Local Service	\$ 5,747	\$ 6,500	\$10,698	\$12,300
Toll Service	16,686	15,400	16,686	15,400
Miscellaneous	100	100	112	100
Subtotal	22,533	22,000	27,496	27,800
Uncollectibles	30	100	55	100
Total	22,503	21,900	27,441	27,700
<u>Expenses</u>				
Maintenance	11,725	9,980	11,725	9,980
Traffic	53	100	53	100
Local Commercial	5,000	3,800	5,000	3,800
Revenue Accounting	275	300	275	300
General Expense	2,560	1,600	2,560	1,600
Insurance, Rel.Pens.	560	600	560	600
Pole Contacts, Rent	530	700	530	700
Central Office Space Rent	1,220	-	1,220	-
Other Expenses	1,179	1,200	1,179	1,200
Subtotal	23,102	18,280	23,102	18,280
Depreciation Expense	4,626	4,000	4,626	4,000
<u>Taxes</u>				
Payroll	942	900	942	900
Property	965	900	965	900
State and Federal				
Income	-	-	-	600
Subtotal	1,907	1,800	1,907	2,400
Total Opr.Exp. Depr. & Taxes	29,635	24,080	29,635	24,680
Net Operating Income	(7,132)	(2,180)	(2,194)	3,020
Avg. Depr. Rate Base	65,901	72,376	65,901	72,376
Rate of Return	(10.82)%	(3.0)%	(3.33)%	4.2%

(Red Figure)

The principal differences between the two estimates are due to: (1) the actual cents-per-message basis of toll settlement used by the staff and the hypothetical cost basis of settlement used by applicant; (2) the assumption by the staff that the land and buildings used for telephone purposes were owned by applicant rather than rented from the owners; and (3) a \$4,800 reduction of owners' wages.

The staff's estimates, explained and justified in Exhibit No. 1, appear reasonable for the purpose of testing applicant's showing and are adopted herein. The staff recommended that the proposed rates be adopted. Under either showing, the indicated rates of return are appreciably lower than the rates of return generally found to be reasonable for a non-R.E.A. financed small telephone utility.

Service

The Mariposa County Telephone Company (Mariposa) and the Hornitos Telephone Co. exchange areas are contiguous for 12 miles near State Highway 140, which is one of the approaches to Yosemite National Park. The community of Catheys Valley on this road is served partially by applicant and partially by Mariposa. Calls between the telephone companies are toll calls handled by Pacific operators at Merced. The toll rate centers are Hornitos and Mariposa and the three-minute day rate is 20 cents. There are no foreign exchange rates and no direct interconnection between applicant and Mariposa. As a result of this situation, telephone calls between subscribers in close proximity along the exchange area boundaries are toll if they are not in the same exchange area.

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The staff in Exhibit No. 1 recommended that applicant be required to confer with the Mariposa County Telephone Company on establishing foreign exchange service.

At the hearing applicant reported on preliminary favorable negotiations with Mariposa on applicant's plan to request permission to form a new exchange in the Catheys Valley area. The Catheys Valley Exchange would encompass Mariposa service area in the Catheys Valley area. Foreign exchange service would be offered to those subscribers who prefer to have Mariposa service. Under the plan, toll calls from applicant's present subscribers in Catheys Valley to Mariposa would be reduced from 20 cents to 10 cents. Exchange charges for mileage would be reduced, making 1- and 2-party service more economical to the customer. The rate for optional foreign exchange service to Mariposa would be approximately the same as paid by present Mariposa subscribers. Other toll calls under fifty miles would be reduced under the plan. Witness for applicant indicated he expected to be able to define boundaries of the Catheys Valley Exchange within two weeks in order to apply for authority to establish the exchange.

Public witnesses generally approved of the applicant's exchange proposal providing present Mariposa subscribers had the option of continuing Mariposa service. Other public witnesses complained of service outages and delays in obtaining operator response.

Witness for applicant testified that a full-time resident maintenance man now resides in the area and public testimony indicated service improvement under the new management. Applicant expressed willingness to make billing adjustments for service outages.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of additional revenues.
2. The adopted estimates of operating revenues, operating expenses and rate base for the test year 1967 reasonably represent the results of applicant's future operations.
3. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.
4. Applicant's accounts do not conform to the prescribed Uniform System of Accounts and are inadequate.
5. Applicant's present service in the Catheys Valley area is inadequate and unreasonable.

The Commission concludes that the application should be granted as set forth in the order which follows and that applicant should be required to take the actions set forth therein.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant 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 not less than five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. Applicant shall revise and improve its accounting records and procedures to conform with the prescribed Uniform System of Accounts.

3. Applicant shall report in writing to the Commission on or before the tenth of each month after the effective date of this order, the status of its plan to eliminate the subscriber-cross-boundary problem in the Catheys Valley area. This reporting requirement will cease with the filing of an application to solve this problem.

4. Applicant shall determine the accruals for depreciation by dividing the original cost of 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 for each plant account at intervals of not more than three years. Results of these reviews shall be submitted to the Commission.

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

Dated at San Francisco, California, this 27th day of APRIL, 1968.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners

APPENDIX A
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The presently effective rates and charges of the Hornitos Telephone Co. 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.

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

	Rate Per Month	
	<u>Business Service</u>	<u>Residence Service</u>
<u>Hornitos Exchange</u>		
Each individual line primary station	\$10.00	\$7.00
Each two-party line primary station	-	6.40
Each extension station	1.50	1.50
<u>Mt. Bullion Exchange</u>		
Each individual line primary station	10.00	7.00
Each two-party line primary station	-	6.40
Each four-party line primary station	-	5.50
Each extension station	1.50	1.50

Schedule No. A-4, Suburban Service

	Rate Per Month	
	<u>Business Service</u>	<u>Residence Service</u>
<u>Hornitos and Mt. Bullion Exchanges</u>		
Each suburban line primary station	\$7.50	\$6.00
Each extension station	1.50	1.50

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Schedule No. A-6, Farmer Line Service

<u>Hornitos and Mt. Bullion Exchanges</u>	<u>Rate Per Month</u>
Each business or residence station	\$1.50

Schedule No. A-8, Service Connection Charges

<u>Hornitos Exchange</u>	<u>Charge</u>
New Service:	<u>Residence Service</u>
Each individual or party line primary station	\$7.00

<u>(New) Schedule No. A-12, Supplemental Equipment</u>	<u>Rate Per Month</u>
Bells, Large Gong	\$.60
Horns, Klaxon	2.00