

Decision No. 75409**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of KERMAN TELEPHONE COMPANY, a  
California corporation, for an  
order authorizing: withdrawing,  
modifying or adding certain  
services, and also authorizing  
increases and changes in rates  
for services including rates for  
directory advertising.

Application No. 50303  
(Filed June 11, 1968;  
Amended October 22, 1968;  
Amended November 4, 1968)

William G. Sebastian, for Kerman Telephone Company,  
applicant.

Neal C. Hasbrook, for California Independent  
Telephone Association; and William L. Knecht,  
for California Farm Bureau Federation,  
interested parties.

A. L. Carlson and Thomas Lew, for the Commission  
staff.

O P I N I O N

This application was heard before Examiner Coffey at Fresno and submitted on January 14, 1969. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

Applicant presented three exhibits and testimony by two witnesses in support of its request for authority to withdraw, modify or add certain services, and to increase or change rates for services, including those for directory advertising. Two witnesses from the Commission staff presented the results of their studies and investigations of applicant's operations. One public witness protested having to obtain foreign exchange service to Fresno through applicant and the amount of her monthly bill.

Applicant provides 24-hour dial service to about 3,100 subscribers in the incorporated town of Kerman and the surrounding territory, including the unincorporated town of Biola, all situated in Fresno County. The entire area is served as one exchange area with a base rate area at Kerman and a special rate area at Biola. Direct distance dialing with automatic number identification is available through interconnection with The Pacific Telephone and Telegraph Company at Fresno. Assistance on calls is rendered by applicant's own operator service on a 24-hour basis.

Other services provided are time service, mobile telephone, telephone answering, security alarm surveillance, and foreign exchange service to Fresno or the James Telephone Company.

The staff investigation disclosed that applicant is making good progress in placing outside plant underground. This work is being done using company personnel, company-owned trenching equipment and a plow designed and built by applicant pulled by a farm tractor rented at \$5 per hour during actual plowing time. As of November 30, 1968, 34 percent of the sheath miles of cable was underground in conduit or buried.

Applicant services and repairs all telephone equipment with its own personnel as much as is practicable. It is the company practice to purchase and rehabilitate used telephone instruments and central office equipment which results in a relatively low investment in plant for the service provided.

Applicant has exceptionally good plant and accounting records which enable the company to respond quickly and accurately to regulatory requests for information.

In Exhibit F of the application and in Exhibit No. 3 are set forth in detail the present and proposed rates of applicant.

Applicant proposes to upgrade its service by replacing 10-party suburban service with 4-party suburban service as progress in its undergrounding program will permit and by withdrawing 4-party and adding 2-party service in the base rate area.

The present rates and rates proposed by applicant and the staff are compared in the following tabulation:

Comparison of Present and Proposed Rates

<u>Class &amp; Grade of Service</u>	<u>Monthly Rate</u>			
	<u>Present Kerman</u>	<u>Present Biola</u>	<u>Applicant Proposed</u>	<u>Staff Proposed</u>
<u>Business</u>				
1-party	\$5.00	\$7.00	\$ 8.00	\$ 7.00
2-party	4.00	-	6.50	5.75
4-party	3.50	4.50	-	-
4-party Suburban	-	-	5.75	5.10
10-party Suburban	4.00	4.00	-	-
Extension	1.25	1.25	1.75	1.75
PBX Trunk	7.50	-	12.00	12.00
<u>Residence</u>				
1-party	3.50	5.75	5.25	4.75
2-party	-	-	4.00	3.50
4-party	2.50	3.50	-	-
4-party Suburban	-	-	4.50	4.10
10-party Suburban	3.25	3.25	-	-
Extension	1.00	1.00	1.25	1.00

The staff concurred in all other rates proposed by applicant except that directory advertising rates are staff recommended rates for the appropriate circulation group as shown in Exhibit No. 6, and mobile telephone rates were modified by the staff to conform with rates authorized for The Pacific Telephone and Telegraph Company. Applicant accepted the staff suggestion on mobile telephone

rates which would decrease the proposed cumulative time allowance from 35 minutes to 25 minutes and increase the charge for additional minutes of use from 10 cents to 20 cents.

Table III-B, page 41 of Exhibit No. 4, shows a comparison of applicant's present and proposed, and staff proposed directory advertising rates.

The following are issues in this proceeding:

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

Applicant presently is compensated by The Pacific Telephone and Telegraph Company for interconnected toll service by using a cents-per-message toll settlement method. However, both applicant and the staff presented summaries of earnings assuming toll settlement on a cents-per-message basis and on a cost-settlement basis. These summaries are shown in detail in Exhibit No. 4. Since the staff recommendation that applicant negotiate an agreement with The Pacific Telephone and Telegraph Company for settlement on a cost basis is reasonable, we will summarize in detail only the following comparison of estimates which assume toll settlements made on a cost basis and which were made by the staff and by the applicant for the results of operation in the test year 1968 under present and proposed rates.

## SUMMARY OF EARNINGS

(TOLL ON A COST-SETTLEMENT BASIS)

Year 1968 Estimated and Adjusted

Item	Present Rates					
	Company Estimate			CPUC Staff Estimate		
	Toll	Other	Total	Toll	Other	Total
<u>Operating Revenue</u>						
Revenue	\$226,478	\$181,210	\$408,288	\$223,839	\$183,100	\$406,939
Less: Uncollectibles	3,659	604	4,263	2,550	450	3,000
Total	222,819	181,206	404,025	221,289	182,650	403,939
<u>Operating Expenses</u>						
Maintenance	36,541	55,063	91,604	36,539	55,061	91,600
Traffic	32,654	11,058	43,712	34,287	11,613	45,900
Commercial	8,501	15,404	23,905	8,499	15,401	23,900
Rev. Accounting	28,563	7,451	36,014	28,552	7,448	36,000
General	24,640	18,944	43,584	24,647	18,953	43,600
Other	19,590	18,784	38,374	10,830	9,070	19,900
Subtotal	150,489	126,704	277,193	143,354	117,546	260,900
Depreciation	19,172	34,992	54,164	20,848	35,652	56,500
Total	169,661	161,696	331,357	164,202	153,198	317,400
<u>Operating Taxes</u>						
Payroll	6,862	4,619	11,481	6,874	4,626	11,500
Ad Valorem	8,473	14,527	23,000	9,468	16,232	25,700
State Corp. Franchise	2,289	(587)	1,702	2,522	29	2,551
Federal Income	13,420	(10,268)	3,152	15,050	(6,341)	8,709
Other	28	47	75	37	63	100
Total	31,072	8,338	39,410	33,951	14,609	48,560
Total Operating Expenses	200,733	170,034	370,767	198,153	167,807	365,960
Net Operating Income	22,086	11,172	33,258	23,136	14,843	37,979
Avg. Depr. Rate Base	276,076	467,201	743,277	289,262	489,938	779,200
Rate of Return	8.0%	2.4%	4.5%	8.0%	3.0%	4.9%

(Red Figure)

## SUMMARY OF EARNINGS

(TOLL ON A COST-SETTLEMENT BASIS)

Year 1968 Estimated and Adjusted

Item	Proposed Rates					
	Company Estimate			CPUC Staff Estimate		
	Toll	Other	Total	Toll	Other	Total
<u>Operating Revenue</u>						
Revenue	\$226,552	\$239,768	\$466,320	\$225,161	\$240,000	\$465,161
Less: Uncollectibles	3,659	1,243	4,902	2,890	510	3,400
Total	222,893	238,525	461,418	222,271	239,490	461,761
<u>Operating Expenses</u>						
Maintenance	36,541	55,063	91,604	36,539	55,061	91,600
Traffic	32,654	11,058	43,712	34,287	11,613	45,900
Commercial	8,575	18,560	27,135	9,459	17,141	26,600
Rev. Accounting	28,563	7,451	36,014	28,552	7,448	36,000
General	24,640	18,944	43,584	24,647	18,953	43,600
Other	19,590	18,784	38,374	10,830	9,070	19,900
Subtotal	150,563	129,860	280,423	144,314	119,286	263,600
Depreciation	19,172	34,992	54,164	20,848	35,652	56,500
Total	169,735	164,852	334,587	165,162	154,938	320,100
<u>Operating Taxes</u>						
Payroll	6,862	4,619	11,481	6,874	4,626	11,500
Ad Valorem	8,473	14,527	23,000	9,468	16,232	25,700
State Corp. Franchise	2,289	3,204	5,493	2,523	3,886	6,409
Federal Income	13,420	15,645	29,065	15,061	20,715	35,776
Other	28	47	75	37	63	100
Total	31,072	38,042	69,114	33,963	45,522	79,485
Total Operating Expenses	200,807	202,894	403,701	199,125	200,460	399,585
Net Operating Income	22,086	35,631	57,717	23,146	39,030	62,176
Avg. Depr. Rate Base	276,076	467,201	743,277	289,329	490,071	779,400
Rate of Return	8.0%	7.6%	7.8%	8.0%	8.0%	8.0%

The staff estimates of revenues, expenses, and rate base in general verify those of applicant with the exception of the adjustments of other operating expense, depreciation and rate base to reflect use by the utility of properties owned by officers and large stockholders of the utility and rented to the utility for amounts greater than the costs would be if the property were owned by the utility.

We find the staff estimates of revenues, expenses, rate base and rate of return under applicant's present and proposed rates to be reasonable and to reasonably represent the results of operations which might be experienced in the near future under applicant's present and proposed rates.

Witness for applicant in support of its requested rate of return of 7.8 percent testified that the interest rate for short-term money is now 8 percent and that the interest rate for long-term money will be 7-3/4 percent. Applicant had expected to pay 7 or 7-1/2 percent for short-term loans and 7-3/4 percent for long-term loans.

During the years 1963 through 1967 applicant averaged 8.21 percent return on common equity and 6.85 percent in total capital.

The staff recommends that the applicant be allowed to earn a 10.0 percent return on its common stock equity. This percentage, when considered together with the applicant's imbedded costs of long-term debt and preferred stock, would produce a rate of return of 7.2 percent based on its capital structure at June 30, 1968. By applying this rate of return to the staff's 1968 estimated rate

base of \$779,400, it would produce net operating revenues of \$56,117 or an increase of \$18,138 over those at present rates and on the toll-cost settlement basis.

In arriving at this recommendation, the staff gave consideration to the following factors:

- a. The applicant's low net plant investment per station as compared with other California Class A and Class B telephone utilities.
- b. Future debt financing will be at higher interest rates.
- c. The capital structure of the company.
- d. The quality of service rendered as noted by the small number of service complaints and no service order backlog.
- e. The downward trends of experienced earnings on net plant investment and common stock equity.

We will adopt the rate of return recommended by the staff and 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 1968 reasonably represent the results of applicant's operations under staff proposed rates for the purposes of this proceeding.



ADOPTED SUMMARY OF EARNINGS

<u>Item</u>	<u>Toll</u>	<u>Other</u>	<u>Total</u>
<u>Operating Revenue</u>	\$225,161	\$226,198	\$451,359
Less: Uncollectibles	2,890	510	3,400
Total	222,271	225,688	447,959
<u>Opr. Expenses, Depr., Taxes</u>			
Operating Expenses	144,314	119,286	263,600
Depreciation Expenses	20,848	35,652	56,500
<u>Taxes</u>			
Payroll	6,874	4,626	11,500
Ad Valorem	9,468	16,232	25,700
State Franchise	2,523	2,920	5,443
Federal Income	15,061	13,938	28,999
Other Taxes	37	63	100
Total Taxes	33,963	37,779	71,742
Total Opr. Expenses, Depr., Taxes	199,125	192,717	391,842
Return	23,146	32,971	56,117
Avg. Depreciated Rate Base	289,329	490,071	779,400
Rate of Return	8.0%	6.7%	7.2%

It appears that this is a well-managed and efficiently operated telephone utility.

We find that:

1. The foregoing adopted rate of return, operating revenues, expenses, including taxes and depreciation, and rate bases 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. Kerman should negotiate an agreement with The Pacific Telephone and Telegraph Company for settlement of toll revenues on a cost basis.
4. It is reasonable that applicant establish a definite policy with respect to the write-off of uncollectible accounts based on past experience as recommended by the staff.

5. 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 and charges should be granted in part.

2. Applicant should be authorized to file the schedules of rates for telephone service as set forth in Appendix A attached to this order.

The rates and charges herein authorized will increase in Kerman the rate for one-party business service from \$5.00 to \$7.00, an increase of 40 percent, and will increase the rate for one-party residence service from \$3.50 to \$4.75, an increase of 36 percent. In Biola the rate for one-party business service will not change and the one-party residence service will decrease from \$5.75 to \$4.75, a decrease of 17 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 ten days after the effective date of this order.

A. 50303 ds

2. Applicant shall promptly begin negotiations with The Pacific Telephone and Telegraph Company to obtain a settlement of toll revenues on a cost basis and shall report in writing the status and progress of these negotiations on or before June 30, 1969 and on or before March 31, June 30, September 30, and December 31 of each year until the negotiations culminate in an agreement or applicant is relieved of this order.

3. For the year 1969, applicant shall apply the depreciation rates set forth in Table III-E of Exhibit No. 4 in this proceeding. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of three years and whenever a major change in depreciable plant occurs. Any revised depreciation rates 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 the plant. The result of each review shall be submitted promptly to the Commission.

4. On or before June 30, 1969, applicant shall establish a policy on how it will, based on past experience, account for uncollectible accounts and in writing shall inform the Commission of said policy.

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

Dated at San Francisco, California, this 11<sup>th</sup> day of MARCH, 1969.

[Signature]  
President

[Signature]  
Commissioner

Commissioner William Symonds  
-unnecessarily absent. did not participate  
in the disposition of this proceeding.

APPENDIX A  
Page 1 of 5

RATES - KERMAN TELEPHONE COMPANY

The presently effective rates and charges of the Kerman 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.

Schedule No. A-1  
Individual and Party Line Service

<u>Rates</u>	<u>Rate Per Month</u>	
	<u>Residence Service</u>	<u>Business Service</u>
Each individual line primary station	\$ 4.75	\$ 7.00
Each two-party line primary station	3.50	5.75
Each four-party line primary station	2.50(1)	3.50(1)
Each extension station	1.00	1.75

(1) To be withdrawn by December 31, 1969.

Schedule No. A-1(a) (1)  
Individual and Party Line Service - Biola Special Rate Area

<u>Rates</u>	<u>Rate Per Month</u>	
	<u>Residence Service</u>	<u>Business Service</u>
Each individual line primary station	\$ 4.75	\$ 7.00
Each two-party line primary station	3.50	5.75
Each four-party line primary station	3.50(1)	4.50(1)
Each extension station	1.00	1.75

(1) To be withdrawn by December 31, 1969,  
Schedule No. A-1 to be used thereafter.

Schedule No. A-3, Semipublic  
Coin-Box Service  
Individual Line Coin-Box Station

	<u>Rate Per Month</u>
Minimum charge per month	\$ 4.00
Extension Station	1.75

APPENDIX A  
Page 2 of 5

RATES - KERMAN TELEPHONE COMPANY

<u>Schedule No. A-4, Mileage Rates</u>	<u>Rate Per Month</u>
Each One-Quarter Mile or Fraction Thereof, Airline Measurement	
<u>Primary Service</u>	
Individual Line	\$ .75
Two-Party Line	.45
Four-Party Line	.25(1)
PEX or Key System Trunk Line	.60
Battery Supply Circuit	.60
Ringling Supply Circuit	.60

(1) To be withdrawn by December 31, 1969.

<u>Schedule No. A-5, Suburban Service</u>	
<u>Business Service</u>	
Ten-Party Line	4.00(1)
Four-Party Line	5.10
Extension Station	1.75
<u>Residence Service</u>	
Ten-Party Line	3.25(1)
Four-Party Line	4.10
Extension Station	1.00

(1) To be withdrawn by December 31, 1971.

Schedule No. A-7  
Private Branch Exchange Service

<u>Rates - A</u>	<u>Installation Charge</u>	<u>Rate Per Month</u>
Trunk Line Rate		
Each central office trunk line	-	\$ 12.00

Rates - B

Leich Type 40 Equipped for 40 Station Lines, 4 Links and 4 Trunks: Less Stations, PEX Trunks and Attendant's Position First 15 or Less, Station Lines Equipment Connected	\$350.00	\$123.75
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Basic Termination Charge \$5,000.00 reduces 1/60th for each full month the equipment is retained in service at the same premises.  
Note: Present regulations concerning basic termination charges, condition 5(a) or 5(b) shall be withdrawn.

Equipment for each Additional Central Office Trunk	29.00	10.75
Each Additional Link	10.00	3.50

APPENDIX A  
Page 3 of 5

## RATES - KERMAN TELEPHONE COMPANY

<u>Schedule No. A-8, Joint User Service</u>		<u>Rate Per Month</u>
Individual or Party Line -		
Business Service		\$ 2.00
<u>Schedule No. A-10, Key Telephone Service</u>	<u>Installation</u>	<u>Rate Per</u>
	<u>Charge</u>	<u>Month</u>
Per Trunk	\$15.00	\$5.50
Per Nine Station Capacity Dial Intercom	15.00	5.50
Per Key Set Station	15.00	5.50
Two and Three Line Telephone	15.00	5.50
<u>Schedule No. A-12, Secretarial Service</u>	<u>Installation</u>	<u>Rate Per</u>
	<u>Charge</u>	<u>Month</u>
Physicians, Surgeons, Osteopaths		
and Chiropractors	\$ 5.00	\$23.00
Other Subscribers	5.00	20.00
<u>Schedule No. A-14, Directory Listings</u>		<u>Rate Per</u>
<u>Business</u>		<u>Month</u>
Additional Listing		\$ .75
Extra Lines of Information		.35
<u>Residence</u>		
Additional Listing		.35
<u>Schedule No. A-15, Supplemental Equipment</u>	<u>Installation</u>	<u>Rate Per</u>
<u>Bells</u>	<u>Charge</u>	<u>Month</u>
Ordinary Ringing	\$ 5.00	\$ .50
Loud Ringing	5.00	1.00
<u>Keys</u>		
Two Way	5.00	.25
Three Way	5.00	.50
<u>Booths</u>	40.00	5.00
<u>Cords</u>		
Each 10-Foot Cord	5.00	-
Each 15-Foot Cord	5.00	-
Each 25-Foot Cord	7.50	-
Retractable Type Cord	5.00	-
<u>Jack and Plug Installations</u>		
Each Two, Three or Four Contact Jack	10.00	-
Each Eight-Contact Jack	25.00	-
<u>Industrial Signal</u>	5.00	1.00
<u>Holding Equipment</u>	5.00	.50
<u>Intercommunicating Line Equipment</u>		
Local Talking Circuit Including Battery and		
50 feet of wire	5.00	.50
Each additional 50 feet or less	2.00	-
<u>Automatic Dialing Unit - "Magically"</u>		
Directory Tape Entries Installed by Serviceman	5.00	-

APPENDIX A  
Page 4 of 5

## RATES - KERMAN TELEPHONE COMPANY

<u>Schedule No. A-16, Service Connection Charges</u>		<u>Service Connection Charge</u>
Business Primary Station		\$15.00
Residence Primary Station		8.50
Extension Station		
Business		6.00
Residence		5.00
<u>Instrumentalities in Place</u>		
Business		15.00
Residence		8.50
<u>Schedule No. A-17, Move and Change and Restoration Charges</u>		
<u>Move on Same Premises</u>		<u>Service Connection Charge</u>
Business		\$ 6.00
Residence		5.00
<u>Change in Type or Style</u>		
Business		6.00
Residence		5.00
<u>Change Between Manual and Dial</u>		Withdraw
<u>Private Branch Exchange Station-Moving From One Location to Another</u>		
Same Room		5.00
One Room to Another		6.00
<u>Schedule No. A-19, Foreign Exchange Service</u>		
<u>Primary Fresno Service in Kerman Area</u>		<u>Rate Per Month</u>
Each Residence Individual Line Primary Station		\$ 6.35
Each Residence Suburban Line Primary Station		5.30
<u>Primary James Telephone Company Service in The Kerman Area</u>		
Each Business Individual Line Primary Station, Message Rate, Including 200 Local Messages per Month		19.50
Each Residence Individual Line Primary Station		6.35
Each Residence Suburban Line Primary Station		5.35
<u>Mileage Rates</u>		
Each Residence Suburban Line Primary Station; Each One Quarter mile or fraction thereof		.75

APPENDIX A  
Page 5 of 5

RATES - KERMAN TELEPHONE COMPANY

Schedule No. D-1, Classified Telephone Directory  
Advertising Service

Directory advertising rates as shown for rate group 3 (2,501-3,500) in Exhibit No. 6 are authorized. Kerman is authorized to file the Directory Advertising Rate Table shown in Exhibit No. 6 to provide for rate changes related to future circulation changes.

Schedule No. L-1, Mobile Telephone Service  
General Service

	<u>Installation Charge</u>	<u>Rate Per Month</u>
For 25 Minutes of Use Cumulative Time, Involving a Mobile or Fixed Unit	\$ 6.00	\$10.00
Each Additional Minute Over 25		.20
<u>Equipment</u>		
Each Additional Radio Channel up to a Maximum of 5 Channels	10.00	3.00