

ORIGINAL

Decision No. 76178

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
REDWOOD RADIOTELEPHONE CORPORATION)
and REDWOOD RADIOTELEPHONE)
CORPORATION-MARIN for Authority to)
Increase Rates and Charges for Two-)
Way Mobile Service and One-Way)
Paging and Signalling Service.)

Application No. 50852
(Filed January 31, 1969)

Berol, Loughran & Geernaert, by Bruce R. Geernaert and Frank Loughran, for applicants.
Janice E. Kerr, Counsel, for the Commission staff.

O P I N I O N

By this application Redwood Radiotelephone Corporation and Redwood Radiotelephone Corporation-Marin jointly seek authority to increase rates and charges for two-way mobile service and one-way paging and signalling service. The two utilities have common ownership, officers and personnel.

After due notice, public hearings in the matter were held before Examiner Emerson on April 21, April 28, July 15 and July 16, 1969 at San Francisco. The matter was submitted upon the filing of Exhibit No. 8, on July 25, 1969 and is now ready for decision.

Applicants provide two-way mobile service and paging service, via radio, in the San Francisco-East Bay, Marin County and Sonoma County areas, with message centers in Oakland, San Rafael, Richmond and Santa Rosa. Access from San Francisco to the Oakland and to San Rafael message centers are by means of foreign-exchange telephone lines of The Pacific Telephone and Telegraph Company. Applicants

A. 50852 Mjo

have radio transmitters in or near San Rafael, Santa Rosa, Richmond and Oakland. Installation, removal, maintenance and other equipment service is performed for applicants by service shops in San Rafael, San Francisco, Santa Rosa, Oakland and El Cerrito, such shops being under contract to applicants. The message centers consist of non-affiliated telephone answering bureaus under contract with applicants for dispatching and operators' services. In 1968 applicants served approximately 165 subscribers who used 161 two-way mobile transceivers and 85 paging receivers.

Applicants allege in their application that their combined operations produced an actual operating loss of \$49,833 during the year 1967. They also allege that based on accounting records for such year, under present service rates, the loss would total \$55,043. The rate increases which they propose would increase yearly revenue from \$53,000 at present to \$72,000. They represent that they would still have a combined annual loss of \$40,291, based on their combined operating statement for 1967, even if their proposed increases in rates were authorized.

The basic accounting records of applicants are maintained by an employee who acts as bookkeeper, office manager and secretary to the president and are kept in the general office of the companies. A firm of independent public accountants is retained for other accounting services, including the preparation of income tax returns. General accounting records are kept on a cash, rather than an accrual, basis. In this proceeding applicants' evidence was presented through two accountants from the accounting firm, by applicants' bookkeeper and by applicants' president. The documents presented by applicants consisted of 4 exhibits attached to their application, 4 exhibits

A. 50852 Mjo

presented by the accounting firm, 2 exhibits presented by their bookkeeper and one late-filed exhibit. Of these documents, those prepared by the accounting firm consisted of "pro-forma" schedules pertaining to combined operations of the applicants for the years 1967 and 1968. In each instance these documents were prefaced by statements to the effect that the historical data on which they were based were not examined in accordance with generally accepted auditing standards and, further, with respect to the documents pertaining to future projections, their accuracy was not vouched for and the accounting firm would take no responsibility therefor. Cross-examination respecting these documents revealed an overstatement (an error) of \$10,000 pertaining to salaries and wages as set forth in the "pro-forma" statements prepared by this firm and numerous instances wherein the chief accounting witness was woefully uninformed respecting details of the items contained in his exhibits. The exhibits presented by applicants' bookkeeper, on the other hand, proved to be accurate, prepared in detail and supported by a well-informed witness. For reasons which escape us, this witness's exhibit pertaining to 1968 operations, and which clearly sets forth revenue requirements, was not placed in evidence by applicants' counsel. The late-filed exhibit, filed at the direction of the Examiner, shows that the accounting firm has billed the applicants \$6,100 for the services performed in connection with this rate proceeding. In the light of applicants' precarious financial condition, hereinafter illustrated, we question the wisdom of undertaking expenses of this magnitude.

As is customary in rate increase proceedings, the accounting and engineering staffs of the Commission undertook a joint study of applicants' operations and presented, through two witnesses, an

A. 50852 Mjo

exhibit showing their determinations as to the operations and earnings of the applicants for the year 1968. A brief summary of the earnings positions of applicants, under present and proposed rates, as determined by the staff, is as follows:

Summary of Operations
Year 1968

AT PRESENT RATES

Revenues	\$ 82,948
Operating Expenses	135,902
Depreciation Expense	3,074
Taxes	4,248
Net Revenue (Loss)	(60,276)

AT PROPOSED RATES

Revenues	\$107,971
Operating Expenses	135,902
Depreciation Expense	3,074
Taxes	4,248
Net Revenue (Loss)	(35,253)

The evidence is clear, as the foregoing tabulation illustrates, that applicants are operating at a substantial loss and, absent a sizable increase in the number of patrons, would continue to do so even with the increased rates which it seeks. The conclusion is inescapable that applicants are in need of increased revenues if they are to survive.

Applicants have been offering radiotelephone utility services since December 1964. In each year since, they have been operating at a loss. Their president and sole stockholder, who has through personal funds carried these losses, anticipated that such would be the case and testified that when looking to the future he can continue to sustain operating losses for another five years. In mid-year 1966 a radiotelephone system in Oakland (known as the Watson system) was purchased and the operations merged with those of applicants. When

taken over, this system was making a small profit (\$5,000 per year, according to applicants' president) but this portion of applicants' system is also now operating at a loss.

In this proceeding the staff made a number of helpful suggestions which if adopted, we believe would tend to increase revenues and decrease expenses. Not only were these suggestions ill received by applicants but cross-examination obviously sought to discredit the staff witnesses by an attempt to show these valuable suggestions as worthless and unworkable. Applicants objected not only to experimenting with staff suggestions but also to making a study of what might be involved in implementing them. This negative attitude did little to assist the Commission in reaching an early decision.

We are constrained to point out that applicants' services have not yet become public necessities but, rather are elements of convenience. Applicants operate under certificates issued by this Commission which, on behalf of the people of this State, have extended to them the privilege of serving the public and the opportunity to make a reasonable return on their investment. No guarantee of profit has been extended to them, nor can it be under the law. Neither can they be forced to operate at a loss. No present user need go without service, for there are other entities ready to supply it, as the testimony of applicants' president respecting "competition" makes clear.

Applicants' rate request will be granted but applicants are placed on notice that such rates appear to be all that the traffic can reasonably bear and that no further increase in rates should be expected.

In view of the evidence, the Commission makes the following findings:

1. After due notice, public hearings have been held in this matter, evidence has been adduced and the matter stands submitted.

2. Under existing rates for their services, applicants' operations during 1968 produced a net revenue loss of \$60,276.

3. Under applicants' proposed rates, the net revenue loss in 1968 would have been \$35,253.

4. Increases in rates so as to produce the gross revenues sought by applicants for the test year 1968 are justified by the record herein.

The Commission concludes:

1. The application herein should be granted.

2. The increases in rates and charges authorized herein are justified.

3. Insofar as existing rates differ from those herein authorized, such existing rates are for the future unjust and unreasonable.

ORDER

IT IS ORDERED that applicants herein are authorized to file with this Commission, on or after the effective date of this order and in conformance with the provisions of General Order No. 96-A, tariffs revised to reflect therein the rates and charges set forth in the "schedule of proposed rates" attached to the application herein and,

A. 50852 Mjo

on not less than five days' notice to the public and to this Commission, to make said revised tariffs effective for service rendered on and after October 10, 1969.

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

Dated at San Francisco, California, this 16th day of SEPTEMBER, 1969.

William J. Quinn
President
James J. Quinn
Thomas J. Quinn
Vernon L. Stinson
Commissioners