

Decision 83 08 050 AUG 17 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of
HAPPY VALLEY TELEPHONE COMPANY for
authorization to establish a new
telephone exchange to be designated
MINERSVILLE EXCHANGE, Trinity County,
California.

Application 83-03-41
(Filed March 14, 1983;
amended July 15, 1983)

O P I N I O N

On March 14, 1983, Happy Valley Telephone Company (Happy Valley) filed this application for authority to establish a new telephone exchange, to be designated the Minersville exchange, in a previously unfiled territory in Trinity County, and to establish tariffs and rates for services in that exchange. An amendment to the application was filed July 15, 1983.

Summary

In this opinion the Commission finds that there is need for the proposed local telephone service and that Happy Valley's plan for providing service and its proposed rates and charges are appropriate and reasonable. The Commission determines that Happy Valley's present customers should not be burdened with costs associated with the proposed extension of service. We also find that the sale to Happy Valley by another telephone company of existing cable facilities is an essential element of Happy Valley's service plan and should be authorized even though the other telephone company has not applied for such authorization. The order which follows authorizes Happy Valley to establish the proposed service and approves the required sale of public utility property.

Background

Happy Valley was formed in May 1909 by a purchase from Sunset Telephone Company and had 48 subscribers in service. Today

the company serves about 3,000 customers in the northern Sacramento Valley and the Coast Range southwest of Redding in Shasta and Tehama Counties.

Happy Valley's present serving area is about 35 air miles south of the proposed Minersville exchange, about 1½ hours' driving time. The company provides telephone service in its Olinda and Platina exchanges through a modern digital central office switch in Olinda and step-by-step switches in Igo and Platina. Customers in the Olinda and Igo areas have extended area service to Redding, Anderson, and Cottonwood.

Happy Valley is a wholly owned subsidiary of National Telephone and Telegraph Company, located in Stockton, California. National also owns Hornitos Telephone Company, serving 500 customers in the towns of Hornitos, Mount Bullion, and Cathey's Valley in Mariposa County.

Happy Valley's business office and repair center are located at Olinda in the Olinda exchange. The Olinda office also serves as the business office and repair center for Hornitos Telephone Company and would handle all business office and repair center functions for the proposed Minersville exchange. Operator services for Happy Valley's present operations are provided under contract by The Pacific Telephone and Telegraph Company (Pacific) out of Redding. Happy Valley has 15 employees.

Like most other small independent telephone companies in California and other states, Happy Valley finances most of its capital investments through the Rural Electrification Administration (REA), an agency of the federal government which provides funds to extend telephone service to rural America. As of December 31, 1982 Happy Valley had \$5,999,774 of plant in service, a depreciation reserve of \$1,275,475, net plant of \$4,765,811 and \$4,647,570 in REA loans outstanding. For the 12 months ending December 31, 1982 Happy Valley had \$280,982 in local exchange revenues, \$614,485 in intrastate toll revenues, and total intrastate revenues of \$1,212,757.

Happy Valley is one of 20 independent telephone companies in California eligible to seek general rate increases through the informal General Order 96-A advice letter process. Happy Valley's last general rate increase was in 1971.

The Proposed Service

Establishment of the proposed exchange is intended to meet the present and future demands for exchange telephone service in a sparsely populated area of approximately 138 square miles bordering Clair Engle Lake and including portions of Trinity National Forest and the Trinity National Recreation Area. Happy Valley estimates that the Minersville exchange will have 75 potential subscribers at the end of the first year of operations and 175 potential subscribers at the end of five years.

Service would be provided through an unattended central office housed in a trailer in the town of Covington Mills. Happy Valley has arranged to purchase 15 miles of existing aerial cable facilities between Covington Mills and Ridgeville (Bushy Trail Campground) from Continental Telephone Company of California (Continental). Continental also has agreed to provide toll trunking to Weaverville, using an existing microwave station at Ridgeville as a point of connection. Continental also stands ready to provide toll ticketing and operator services for Happy Valley from Continental's Weaverville Office.

Happy Valley estimates the first-year plant investment required to establish service for the Minersville exchange at \$199,100, including \$100,000 for purchase of Continental's aerial cable, \$34,100 for a 200-line Stromberg-Carlson central office installation, \$29,000 for 4.5 miles of buried and aerial cable, and \$21,000 to purchase space for the central office. The company asserts and the balance sheet attached to its application substantiates that it has adequate equity funds available to place the exchange in operation.

In its revised Exhibit C, the company has incorrectly calculated the income tax and omitted the deferred tax reserve for

its first-year results of operations. Our Communications Division staff, working with applicant's accountants, has prepared the corrected version attached as Appendix A to this decision.

Appendix A projects the first-year intrastate results of operations as generating total operating revenue of \$60,501 (\$41,781 in toll, \$18,720 in local revenue) and net operating income of \$9,994, producing a 5.95% rate of return on a first-year total intrastate rate base of \$167,832.

These revenue projections are based on Happy Valley's proposed rates and charges as set forth in revised Exhibit B to the application. The proposed rates for individual and party-line service in the Minersville base rate area are substantially higher than existing rates in Happy Valley's Platina and Olinda exchanges. The proposed monthly rate for each residential access line in the Minersville area is \$22.00, compared to \$5.50 and \$6.50 for the residential line primary station in the existing exchanges. In addition, the Minersville rate does not include a telephone set, which is covered by the current rates. Similarly, the Minersville rate for a business access line would be \$25.00, compared to rates of \$8.75 and \$10.50 in the present exchanges. Also, the proposed premises visit charge for the new exchange is \$48.25, as compared to \$30.00 for the present service area. These relatively high rates and charges for the Minersville exchange are intended to ensure against burdening present customers with any portion of the costs of existing service to the new exchange. Happy Valley agrees with Communications Division staff that any shortfall in meeting the revenue requirements of the new service area should not be met by increasing rates to current customers, at least "until such time as the projected number of subscribers has been reached."

Happy Valley alleges that the proposed exchange and service will not compete with any public utility, corporation, or person. The only telephone service presently available in the Minersville area is from public and semi-public toll stations maintained by

Continental, which provide only toll service via Continental's Weaverville office. Happy Valley plans to acquire those stations from Continental and to integrate them into the local exchange network. Toll service would continue to be provided via Continental's Weaverville office.

Copies of this application have been provided to other telephone utilities and to county authorities for Happy Valley's existing and proposed service areas. In addition, notice of the application has been published in a local newspaper of general circulation in the vicinity of Happy Valley's present service area. No protests have been received. A letter has been received from Assemblyman Stan Statham, who represents the area to be served, urging early approval of Happy Valley's application and noting that potential subscribers have been seeking telephone service for the past two years.

Happy Valley states that it possesses all necessary franchise rights and private rights of way for the proposed telephone exchange service, and that service can be provided to subscribers within three months after receipt of a Commission order granting the requested authority, subject to possible delay for Continental to provide the necessary toll connections. For service to be available soon construction would have to be completed before the winter snows begin.

Discussion of Issues

The central issues in this proceeding are (a) whether public convenience and necessity require the establishment of exchange telephone service in the Minersville area and (b) what exchange rates and other charges should be authorized. A subsidiary issue is whether to authorize the transfer of existing telephone facilities from Continental to Happy Valley.

Public Convenience and Necessity

In the absence of any competing proposal to offer telephone service to potential subscribers in the Minersville area, the issue

of public convenience and necessity presents the straightforward question of whether the public interest will be served by an extension of exchange telephone service to this sparsely populated area. In this regard it is appropriate to consider the interests of three distinct segments of the public: potential subscribers in the Minersville area, present subscribers to Happy Valley's service, and the general body of telephone ratepayers in California.

Two recent instances in which the Commission authorized establishment of telephone service in previously unserved rural areas involved potential subscriber populations approximating that which Happy Valley expects to serve in the Minersville exchange. Thus, in 1977 we authorized Pacific to expand its Julian exchange to include 59 square miles in the Anza-Borrego area of northern San Diego County to serve an estimated 80 subscribers in the first year. (Pacific Tel. & Tel. Co. D.87508 (1977) 82 CPUC 47, 52.) Later that year we authorized Ducor Telephone Company to establish a Rancho Tehama exchange in Tehama County to serve an estimated 81 first-year subscribers. (Ducor Tel. Co. D.87960 (1977) 82 CPUC 708, 711.) In both cases the Commission based its decisions to authorize institution of telephone service on the needs of public health, safety, and convenience for the local population. (82 CPUC at 59, 714.) In the present case the number of potential subscribers is comparable to the prior instances, with the added feature that the proposed Minersville exchange would serve a predominantly recreational area in which water sports are a major activity, which can only enhance the need for local telephone service in the interest of public safety.

On the other hand, extension of service to sparsely settled areas generally requires a subsidy from other ratepayers, particularly through existing toll settlement procedures, because telephone usage will be predominantly toll. This fact was noted in Decision (D.) 87508, cited above. (82 CPUC at 59.) It is uncertain at this time to what degree such subsidy will be available under the

future system of exchange access charges which will replace the toll settlements process under the antitrust reorganization of American Telephone and Telegraph Company. In any event new developments in telecommunications, such as cellular radio, may ultimately offer less costly alternative means of serving rural customers in such areas as the Minersville exchange.

These uncertainties should not prevent us from pursuing our long-standing policy of "encouraging the upgrading of service in remote areas." (Ducor Tel. Co., supra, 82 CPUC at 717.) They do, however, suggest that it is appropriate to provide potential Minersville subscribers a reasonably accurate signal of the cost of extending service to them. This concern will be addressed in relation to Happy Valley's tariff proposals for the Minersville exchange. In any event, we will find that there is need for local telephone service in the Minersville area.

Exchange Rates and Charges

As noted above, Happy Valley proposes monthly rates for local service in the Minersville exchange substantially higher than for its existing Platina and Olinda exchanges. These proposed rates, moreover, would apply only to customers within a narrowly defined base rate area comprising one square mile in the vicinity of the Covington Mills central office. Most potential subscribers are located within the base rate area. Those subscribers beyond its boundaries would be required to pay local mileage rates in addition to the relatively high monthly rates stated above.

The purpose of such high local rates for the Minersville exchange is to enable Happy Valley to earn a positive rate of return, estimated at 5.95%, on its investment in this service in the first year, without requiring any support from customers of its present service. Once the five-year goal of 175 subscribers is reached the proposed rates should be fully adequate to provide a reasonable rate of return. Of course, Happy Valley's calculation of its revenue requirement for the proposed Minersville service presumes a

substantial contribution from toll settlements. As noted previously, toll revenue is projected to comprise nearly \$42,000 of the \$60,000 in intrastate operating revenue for the first year's operations of the Minersville exchange. Still, Happy Valley agrees that any shortfall in meeting the revenue requirements of the new service area should not be met by increasing rates to current customers, at least until the projected 175 new subscribers are being served.

In view of the geographic isolation of the Minersville area in relation to Happy Valley's present service area, it is uncertain at this time whether the new service will provide significant economies of scale rendering Happy Valley's service more efficient overall. Therefore, it is appropriate that the new service should bear its own weight.

Appendix A appears to have accurately calculated the first-year costs of operations and expected revenues for the Minersville exchange. The 5.95% projected rate of return is not excessive, but is fully adequate for the first year's operation of a new exchange with the expectation of a growing subscriber base. We therefore will find the proposed rates and charges just and reasonable. If it eventually appears that expansion of Happy Valley's operations to include the Minersville service has enhanced its overall operating efficiency to the benefit of other service areas, the Commission may find it appropriate to approve rates for the Minersville exchange more closely approximating those for the Platina and Olinda exchanges.

Transfer of Existing Facilities

An essential element of Happy Valley's plan to provide exchange telephone service to the Minersville area is its intention to purchase 15 miles of existing cable facilities between Covington Mills and Ridgeville (Bushy Trail Campground) from Continental at an estimated price of \$100,000. It appears that Happy Valley's service proposal could not be implemented economically if such purchase of existing facilities were not permitted.

Public Utilities Code § 851 prohibits any telephone company from selling or otherwise disposing of any property necessary or useful in the performance of its duties to the public without first having secured from this Commission an order authorizing it to do so. Any such sale or disposition made other than in accordance with the Commission's order is void. Rules 35 and 36 of the Commission's Rules of Practice and Procedure specify the data to be contained in applications for authority to sell public utility property pursuant to § 851.

It appears that the cable facilities Happy Valley intends to purchase from Continental constitute public utility property within the scope of § 851. Strict conformity with our rules would require that Continental have applied to us for authorization to sell these cable facilities to Happy Valley before we would authorize that transaction. However, our Rule 87 provides for liberal construction of our rules "to secure just, speedy, and inexpensive determination of the issues presented," and permits deviations from the rules in special cases and for good cause. Public Utilities Code § 851 does not expressly require that an application be filed as a precondition to a Commission grant of authorization under it.

Our consideration of this problem is influenced by the minimal importance of the property in question, both as to its value and its use, from the point of view of Continental's ratepayers outside the Minersville area. We also note that this property will continue to be devoted to public utility service in the same location where it is presently employed and as part of a service plan expressly authorized pursuant to Happy Valley's application. We further recognize that potential Minersville subscribers would suffer continued lack of service, probably at least until 1984, if approval of Happy Valley's application were conditioned on filing and processing of an application by Continental. Based upon these considerations, we will find that good cause exists for authorizing Continental to sell the property in question to Happy Valley even

absent formal application for such authorization. We will, however, condition this authorization upon Continental's commitment to provide pertinent records to Happy Valley and to adjust its books of account to reflect the sale of the property in question in accordance with the provisions of the Uniform System of Accounts for Class A and Class B Telephone Companies.

Findings of Fact

1. Public convenience and necessity require the provision of local telephone service in the proposed Minersville exchange, encompassing 138 square miles of previously unfiled territory in Trinity County.

2. Happy Valley's plan for providing local telephone service in the proposed Minersville exchange is appropriate and reasonable.

3. An essential element of Happy Valley's plan for providing local telephone service in the proposed Minersville exchange is the sale by Continental to Happy Valley of 15 miles of existing cable facilities at an estimated price of \$100,000.

4. The proposed sale of existing cable facilities by Continental to Happy Valley is in the public interest.

5. Good cause exists for authorizing Continental to sell existing cable facilities in the Minersville area to Happy Valley even absent formal application for such authorization, subject to Continental committing to adjust its books of account appropriately.

6. It is appropriate that Happy Valley's current subscribers not be required to support the extension of service to the Minersville area.

7. Due to the high costs of establishing and providing service to the Minersville area, the differences between the rates and charges proposed for the proposed Minersville exchange and those in force in Happy Valley's present service area do not constitute unreasonable discrimination.

8. A rate of return on investment of 5.95% for the first year of Happy Valley's operations in the proposed Minersville exchange would be just and reasonable.

9. The rates and charges proposed for service in the proposed Minersville exchange are just and reasonable.

10. It can be seen with certainty that there is no possibility that the establishment of local exchange telephone service in the proposed Minersville exchange may have a significant effect on the environment.

11. No protest of this application has been received; a public hearing is not necessary.

12. Prompt issuance of the requested authority is necessary if construction of exchange facilities is to be completed prior to the onset of winter snows.

Conclusions of Law

1. Based on the above findings, Happy Valley's application should be granted to the extent set forth in the following order.

2. Continental should be authorized to sell existing cable facilities in the Minersville area to Happy Valley.

3. The following order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. Happy Valley Telephone Company (Happy Valley) is authorized to establish an exchange designated as Minersville exchange, to include the approximately 138 square miles of territory set forth at page 15 of revised Exhibit B of its amended application, and to provide telephone service within that exchange.

2. Happy Valley is authorized to establish a Minersville Base Rate Area as set forth at page 16 of revised Exhibit B of its amended application, as the basis for determining the limit within which local mileage charges will or will not be imposed.

3. Happy Valley is authorized to file with this Commission after the effective date of this order, and in conformity with General Order 96-A, the schedule of rates and charges and other proposed tariff pages attached to the amendment to its application as

revised Exhibit B and, upon not less than five days' notice to the Commission and to the public, to make such rates and charges effective coincident with the establishment of service in the Minersville exchange.

4. Happy Valley shall file quarterly General Order 133 "Standards of Telephone Service" reports on its new Minersville exchange after service is established.

5. Happy Valley shall submit to the Commission staff a separated results of operations study on the Minersville exchange for the second full calendar year after service is established, such study to be based on actual investment, expenses, and revenues.

6. Continental Telephone Company of California (Continental) is authorized to sell to Happy Valley those 15 miles of existing cable facilities described in Happy Valley's application, subject to the condition that Continental comply with Ordering Paragraphs 7 and 8, infra.

7. Continental shall, upon completion of the sale authorized in the preceding paragraph, transfer to Happy Valley its pertinent records, memoranda, and documents pertaining to the facilities sold.

8. Continental and Happy Valley shall account for the sale of existing cable facilities in accordance with the provisions of the Uniform System of Accounts for Class A and Class B Telephone Companies and, within 60 days after completion of the sale, each shall file with the Commission staff a copy of each journal entry used to record the sale or purchase on its books. The Director of the Communications Division of the staff will be responsible for including these materials in the formal file in this proceeding.

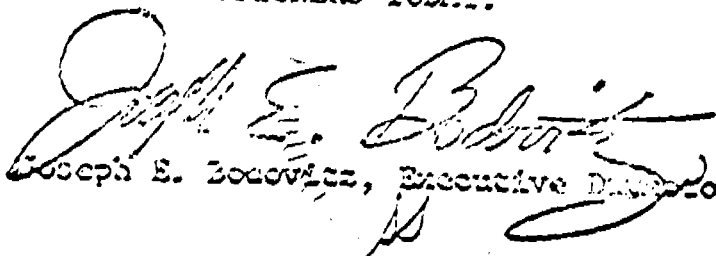
This order is effective today.

Dated AUG 17 1983, at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Leonard M. Grimes, Jr.,
being necessarily absent, did not
participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Zbovitz, Executive Director

APPENDIX A

HAPPY VALLEY TELEPHONE COMPANY
MINERSVILLE EXCHANGE

Separated Results of Operations

	<u>Estimated 1983</u>	<u>Interstate</u>	<u>State</u>
<u>OPERATING REVENUES:</u>			
Local Service	\$ 18,720		\$ 18,720
Toll	<u>52,291</u>	<u>\$ 10,510</u>	<u>41,781</u>
Total Operating Revenues	<u>71,011</u>	<u>10,510</u>	<u>60,501</u>
<u>OPERATING EXPENSES:</u>			
Maintenance	15,591	2,329	13,262
Traffic	405	53	352
Commercial	3,596	468	3,128
General Office	13,203	1,871	11,332
Other Operating Expense	7,437	1,118	6,319
Depreciation Expense	<u>13,383</u>	<u>1,958</u>	<u>11,425</u>
Total Operating Expenses	<u>53,615</u>	<u>7,797</u>	<u>45,818</u>
<u>OPERATING TAXES:</u>			
Payroll	1,317	190	1,127
Property	2,079	300	1,779
State Income	950	157	793
Federal Income	<u>1,186</u>	<u>196</u>	<u>990</u>
Total Taxes	<u>5,532</u>	<u>843</u>	<u>4,689</u>
Total Operating Expenses & Taxes	<u>59,147</u>	<u>8,640</u>	<u>50,507</u>
Net Operating Income	<u>\$ 11,864</u>	<u>\$ 1,870</u>	<u>\$ 9,994</u>
Interest Expense	<u>\$ 4,100</u>	<u>\$ 586</u>	<u>\$ 3,514</u>
<u>RATE BASE:</u>			
100-1 Telephone Plant in Service	\$ 199,100	\$ 28,491	\$ 170,609
122 Materials and Supplies	1,000	155	845
171 Depreciation Reserve (Credit)	(6,692)	(962)	(5,730)
176 Deferred Taxes (Credit)	(1,186)	(196)	(990)
Working Cash	<u>4,174</u>	<u>1,076</u>	<u>3,098</u>
Total Rate Base	<u>\$ 196,396</u>	<u>\$ 28,564</u>	<u>\$ 167,832</u>
Rate of Return	<u>6.04%</u>	<u>6.55%</u>	<u>5.95%</u>

(END OF APPENDIX A)