

Decision No. 40437

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation (inclusive of its wholly-owned subsidiary, Southern California Telephone Company, a corporation), for authority to increase certain intrastate rates and charges applicable to service furnished within the State of California.

ORIGINAL

Application No. 28211

Pillsbury, Madison and Sutro, by Felix T. Smith, John A. Sutro and Arthur T. George for Applicants; John J. O'Toole, Dion R. Holm and Paul L. Beck for the City and County of San Francisco; J. J. Deuel and Edson Abel for California Farm Bureau Federation; Roger Arnebergh, K. Charles Bean, and T. M. Chubb for the City of Los Angeles; Joseph A. Bonacina and Dr. L. Melvin Pollard for the City of Sunnyvale; F. Bert Fernhoff, J. Kerwin Rooney, and Archer Bowden for the City of Oakland; Robert T. Anderson for the City of Berkeley; C. M. Ozias for the City of Fresno; Mrs. Kathie Zahn, interested party; Byron E. Harding, James K. MacIntosh, and Charles M. Dinneen for the United States of America; Russell Zaches for the City of Monterey; A. H. Rolfes for the El Nido Telephone Company; William L. Hudson for the City of Carmel; Wesley W. Kergan for Monterey Chamber of Commerce; Reginald E. Foster for the City of Pacific Grove; Philip Eden for Local 120 of American Communications Association, et al; Samuel Vickers for the City of Vallejo; Theodore Smith for San Lorenzo Valley Property Owners Association, Ben Lomond; Henry McClerman and John H. Lauten for the City of Glendale; H. Burton Noble and Frank L. Kostlan for the City of Pasadena; Frank V. Rhodes for California Independent Telephone Association; Everett L. Parker for Municipal League of Los Angeles and also representing James L. Doherty for Utility Workers Union of America; Richard C. Waltz for the City of Beverly Hills; George W. Irving for the City of Burbank; Theodore K. Resmey in propria persona and for California Progressives; Earl C. Craig for the Public Affairs Forum, Los Angeles; Lawrence L. Cardwell in propria persona; Joy A. Winans for the People's Lobby of California; Emmett H. Tompkins for the City of Alhambra; B. Guy Cornyn for the City of Arcadia; William D. Libby for the Arcadia Chamber of Commerce; Eneul J. Forman and E. A. Hosmer for the Cities of Alhambra, Beverly Hills, Burbank, Culver City, El Monte, El Segundo, Glendale, Hawthorne, Inglewood, Pasadena, South Pasadena, and South Gate; Clyde W. Woodworth for the Cities of Inglewood, El Segundo, and South Gate; Robert A. Schwamb for the City of Montebello; M. Tellefson for the City of Culver City; L. L. Drouet in propria persona; Erzeme E. Gigas for the City of South Pasadena; and M. Anderson Thomas for the San Francisco Council of Churches and the Northern California and Western Nevada Council of Churches.

HULS, MITTELSTAEDT, Commissioners:

INTERIM OPINION

An application was filed by The Pacific Telephone and Telegraph Company (inclusive of Southern California Telephone Company) on February 14, 1947, which

requested an increase in certain rates and charges applicable to California intra-state operations in the amount of \$20,195,000 annually. Subsequently, the Commission authorized the merger of The Pacific Telephone and Telegraph Company and Southern California Telephone Company, which was effected on March 31, 1947, the Pacific Company being the surviving corporation. The Pacific Telephone and Telegraph Company is a subsidiary of the American Telephone and Telegraph Company.

Hearings on Application No. 28211 were held on March 10, 11, 12, 13, 14, 24, 25, 26; May 12, 13, 14, 15, 16, 19, 21, 22, 23; and June 2, 4, 5, and 23, 1947. During the course of these hearings, testimony was introduced by The Pacific Telephone and Telegraph Company in support of its application, and most of its witnesses were extensively cross-examined by the interested parties and the Commission's staff.

The evidence as to earnings presented by the company is related basically to the results for the six months ending December 31, 1946 equated to an annual basis. These results are:

Operations	Total Revenues	Total Expenses	Balance Net Revenue	Avg. Net Plant and Working Capital	per Cent Return
Total Calif. Intrastate	\$182,902,600	\$172,659,700	\$10,242,900	\$334,624,300	3.06%
Intrastate Toll	56,318,600	53,923,600	2,395,000	70,774,000	3.38
Total Exchange	126,584,000	118,736,100	7,847,900	263,850,300	2.97
S.F.-E.B. Ext'd. Area	38,747,400	37,624,100	1,123,300	77,316,100	1.45
L.A. Ext'd. Area	64,662,400	56,009,100	8,653,300	127,623,300	6.73
San Diego Ext'd. Area	5,239,100	4,859,200	379,900	12,600,100	3.02
Other Exchanges:					
Northern Calif.	14,687,600	15,981,700	<u>(1,294,100)</u>	35,928,700	<u>(3.60)</u>
Southern Calif.	3,247,500	4,262,000	<u>(1,014,500)</u>	10,382,100	<u>(9.77)</u>

(Red Figure)

The average net plant is arrived at by deducting the recorded straight line depreciation reserve from the total telephone plant. Straight line depreciation expense is included in total expenses.

In May of this year the company entered into agreements resulting in wage and salary increases to its employees amounting to in excess of \$12,000,000. It estimates the annual increase in expense applicable to California intrastate operations, resulting from these wage increases, is in the amount of \$10,235,000 including associated pension and social security charges. Since this item of expense was

not known to the company at the time of filing its application, and was not included in any of the exhibits introduced prior to the hearing on June 5, 1947, it is the company's position that the increases requested in its original application must be revised to reflect the additional wage costs. At the hearing of June 5th the Applicant presented evidence to show that with the additional wage costs the per cent return on average net plant and working capital for California intrastate operations, for the six months ended December 31, 1946, expressed on an annual basis, is reduced from 3.06% to 1.23%.

Pending the time that Applicant is able to revise its rate proposals and complete the presentation of evidence in the case in chief, Applicant points to the emergency confronting its management in the way of substantially reduced earnings, at a time when it requires large sums of money to carry forward its construction program. Applicant, therefore, on June 17, 1947 filed an amendment to its application and a request for emergency increase in rates and charges in the amount of \$10,501,000, in order approximately to offset the effect on California intrastate operations of the recently granted wage increases. Such an increase will serve to maintain Applicant's earning position at approximately the same level as before the wage increase, pending further action of the Commission.

Therefore, the Applicant on June 5th had moved for an emergency increase to be accomplished by a surcharge of 6.3% on all bills in order to obtain approximately \$10,500,000 of added revenue. Objection to this method was voiced by the representatives of Los Angeles, San Francisco, and a number of other cities on the ground that it produced an inequitable distribution of charges and did not take into account the relative earnings position of various areas of the state. The company in its amendment of June 17th withdrew the motion above referred to and substituted a schedule of rates including increases principally in the exchanges where the rates in general have not been changed since 1919, and where the earnings are particularly low. In addition, since the toll earnings also are low, and since toll rates have been reduced in recent years, an increase in the toll rates has been included. Increases in the service connection charges are also included because of increased labor costs incident to the work of installation.

The basic rate changes applicable in all exchanges throughout the state, except in the Los Angeles, San Diego and San Francisco-East Bay extended areas, are based on an increase of \$1.00 per month for one-party business service, \$.75 per month for two-party business service, \$.50 per month for one-party and two-party residence service, and \$.25 per month for four-party residence service, with a maximum rate of \$3.00 per month for two-party residence service. Within the extended areas all local and extended flat rate business services are increased by the same amounts, but no increase is made in basic rates for residence service.

Message toll telephone rates are changed by decreasing the initial period for 5, 10, 15, 20 and 25 cent station-to-station calls from 5 minutes to 3 minutes. Likewise, person-to-person charges are increased by 5 cents in the short hauls. The rates for longer-haul calls are also increased for the station-to-station classification by 5 cents, beginning at about 130 miles and tapering off so as to reduce the excessive differentials between the intrastate and interstate rate levels beyond 540 miles. Rates for person-to-person calls are increased by a somewhat greater amount, the over-all message toll increase being approximately \$3,840,000 a year.

Increases in service connection and move and change charges are estimated at \$1,500,000, on an annual basis, including increases for installation of business stations from \$3.50 to \$6.00, residence stations from \$3.00 to \$5.00, and extension stations and move and change charges from \$1.50 to \$2.50. Extension, P.B.X., and private line station rates are increased \$.25 a month, except those in the Los Angeles exchange and those in connection with extended services in the Los Angeles extended area, the total amount of increase being \$1,262,000.

Farmer line rates are increased, beginning January 1, 1948, by \$.25 per month, and the annual payment plan and its associated discount of 10% are discontinued.

A number of other increases are made, including rates for teletypewriter connections, private line interexchange rates, certain foreign exchange rates, message telegram rates, and the guarantee for semi-public coin-box stations, together with miscellaneous charges for switchboards outside of San Francisco-East Bay and Los Angeles exchanges, and other miscellaneous items.

It should be understood that although cross-examination of many of the company witnesses has been completed, on evidence so far introduced, the Applicant's direct presentation is not yet complete, nor have the other parties or the staff of the Commission as yet presented evidence. Therefore, while company figures are shown herein, it should be understood the Commission is not necessarily accepting these figures except as information in connection with this interim proceeding.

From the facts recited herein, however, the Commission is of the opinion and finds that the Applicant herein is in urgent need of the interim relief sought. This relief is necessary in order to maintain Applicant in a reasonably sound financial condition. Accordingly, it follows that such relief should be made effective as soon as possible, but consistent, however, with protecting the rights of any party to petition for a rehearing of this decision in accordance with law. Therefore, we find that the public interest requires that this decision become effective ten days from the date hereof. Applicant will be authorized to file its tariffs reflecting the increase in rates granted herein and to make the same effective upon one day's notice to the Commission and to the public.

We recommend the following form of Order:

INTERIM ORDER

The Pacific Telephone and Telegraph Company having filed an amendment to its application requesting authority to place into effect increased rates on an interim basis, and it appearing from the showing made in the record so far in this proceeding and the Commission hereby finding that the increases requested are justified and should be authorized, therefore,

IT IS ORDERED that The Pacific Telephone and Telegraph Company is authorized to file and publish, in accordance with General Order No. 96, the schedule of rates and conditions set forth in Attachment "A" (as amended by withdrawal of Page 171) to the amendment of the application in this matter filed June 17, 1947.

and, after not less than one (1) day's notice to the Commission and to the public, make said rates and conditions effective by billing periods on and after July 6, 1947, for bills covering service furnished on and after July 6, 1947, except rates and conditions applicable to message toll telephone service, message telegram service, teletypewriter connections, service connection charges, move and change charges and installation charges, which may be made effective on July 6, 1947, and except rates and conditions applicable to farmer line service, which may be made effective on January 1, 1948.

IT IS ORDERED that Application No. 28211 is continued to permit the holding of such further hearings and receipt of such additional evidence as may be deemed appropriate before final determination of said application is made.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Public Utilities Commission of the State of California.

This Order shall become effective ten (10) days after the date hereof.

Dated at San Francisco, California, this 24th day of June,
1947.

Harold P. Hills
Justin J. Calver
Frank Powell
A. J. Johnson
Samuel P. Potter
Commissioners.