

Decision No. 40655

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. Dimoen for the United States of America; Russell Zaches for the City of Monterey; A. H. Rolfe 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 McClernan 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; Braeme 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; Taubner G. Hamma for the City of Stockton; Everett M. Glenn for the City of Sacramento; Robert E. Cassin for the City of San Jose; Mrs. Richard Werthimer for Noe Valley Shoppers Club and other shopper groups of the city of San Francisco; Kenneth Tjoflat for San Francisco Chapter, Progressive Citizens of America.

HULS, MITTELSTAEDT, Commissioners:

SECOND INTERIM OPINION

The interim order entered in this proceeding recited the initial filing of this application by The Pacific Telephone and Telegraph Company on February 14, 1947, the presentation of evidence by Applicant, and cross-examination of Applicant's witnesses over a total of 20 days extending from March 10 to June 5, the filing of an amended application on June 17, a further hearing on June 23 and the issuance of the interim order authorizing rate increases of \$10,500,000 a year on June 24 effective July 6, 1947.

Applicant on August 6 filed a further amendment to its application seeking an increase of \$20,090,000 in addition to said interim increase of \$10,500,000. Hearings were held August 20, 21 and 22 at San Francisco, at which time Applicant presented additional evidence on rate of return, earnings and proposed rate changes, completing its presentation, and the proceeding was adjourned to September 29 at Los Angeles for purposes of further cross-examination of Applicant's witnesses.

Applicant's Vice President and Comptroller S. W. Campbell on August 22 testified that earnings had progressively become poorer since March. The nationwide telephone strike occurred in April and May and accounted for the decline in these months. With resumption of operation, earnings, instead of regaining the level of the first quarter, continued to decline with the result that net revenue of the company in July was insufficient to cover bond interest, let alone preferred or common stock dividends. The California earnings (state and interstate combined) dropped from 3.86% prior to the strike to 3.02% for the average of June and July on an annual basis. The separation of the latter figure as between interstate and intrastate operations is not yet available.

Based on this evidence, counsel for Applicant moved on August 22 that the Commission immediately grant the increases in toll rates sought in its supplemental application of August 6 totalling \$10,926,000. To clarify certain questions arising as to this motion, Applicant submitted a revised statement on August 25, requesting said toll rate increases, modified to include the Los Angeles and San Diego extended

areas, but excluding the proposed increase of all 5¢ toll routes to 10¢. The estimated increase in intrastate toll revenues contemplated by this revised plan is \$10,476,000, and is based on:

- (a) A general increase of 5¢ per message, for day station rates from 30 miles to 140 miles.
- (b) A readjustment of relationships of night station and day and night person rates, some initial period rates being raised as much as 40¢.
- (c) An increase in overtime rates from the basis of one-quarter of initial period rates to one-third of initial period rates.

Representatives of the cities generally opposed the increases at this time, and an inquiry as to the reasonableness of present expense levels was suggested by the representative of one group of cities.

We are impressed by the financial emergency confronting the company, and are of the opinion that prompt action within our jurisdiction should be taken to maintain the earnings at some semblance of reasonableness during the time necessary properly to develop a complete record and fix permanent rates. The Applicant, recognizing the protests made by a number of cities as to the proposed increases in exchange rates, has limited its motion for relief at this time to toll rates. The motion therefore makes it unnecessary to discuss details of the exchange rates proposed. The evidence submitted by Applicant as to earnings of the intrastate toll operations for the test period July 1, 1946 to December 31, 1946 plus twice January 1, 1947 to March 31, 1947 adjusted for wage increases effective in May, 1947 and for toll rate increases effective July 6, 1947 shows the following result:

Gross Revenues	\$59,385,000
Operating Expense and Taxes	<u>56,959,000</u>
Net Revenue	2,426,000
Net Plant and Working Capital	73,910,000
Rate of Return	3.28%

The evidence further shows that revisions in allocation methods will reduce these net earnings by an amount presently undetermined, with a corresponding improvement in exchange earnings, but which may be in the order of the same magnitude as the interstate adjustment or some \$450,000 net after taxes.

Applicant is unable as yet to allocate the California earnings for June and July, 1947 between state and interstate, but its witness is of the opinion the intrastate earnings have declined as compared with the test period.

The interstate toll rate schedule is lower than the intrastate schedule. If Applicant's proposal is accepted, this difference as measured in dollars would be increased in amount by more than ten millions of dollars annually, and differences in individual charges for comparable distances will be substantially increased in numerous instances.

While complete uniformity is not essential, the public interest requires that careful consideration be given the enlargement of the differentials as sought. We may take notice that a joint committee of the State Commissions and Federal Communications Commission is engaged in a study of this very problem, and of the separation of the toll line cost as between jurisdictions for rate fixing purposes.

We are also impressed by the suggestion of certain counsel that operating expenses have risen unduly. A check of the reports of the company indicates a cost for operating expense for the state, exclusive of taxes and depreciation, of \$14,926,000, for July compared with an average of \$12,495,000 a month, during the first quarter of the year, a difference of \$2,431,000. The wage increase and associated costs of May, 1947 are approximately \$945,000 monthly. The remaining difference of \$1,486,000 is so large as to lend considerable credence to the opinion of Applicant's witness that July costs probably include some elements of expense which are an aftermath of the strike. It appears there is room for the intensive review and control of these items of cost in an effort by Applicant's management to improve its own financial situation.

Because of the present differentials existing as between state and interstate toll rates, we are reluctant further to increase these differentials. We believe that relief can be granted by appropriate adjustment in the person-to-person rates and overtime rates, leaving initial period station-to-station rates unchanged. By this change the overtime rates will be based on one-third of the initial rate instead of one-fourth as at present and the person day rates based on 140% of the station day rates.

The increases in initial period person day rates range from zero to a maximum of 15¢. No increases will result for person initial period calls less than 41 miles, nor over 430 miles, and also at some intermediate points. The maximum increase of 15¢ occurs from 101 to 120 miles. Certain increases are also made in the night and Sunday person service to bring said rates to approximately 80% of the respective day rates.

As an example, of the change in overtime practice, station day rates between San Francisco and Los Angeles would be changed as follows:

	<u>Station-to-Station Day Rates</u>		
	<u>3 min.</u>	<u>6 min.</u>	<u>10 min.</u>
Present	\$1.40	\$2.45	\$3.85
Proposed	<u>1.40</u>	<u>2.75</u>	<u>4.55</u>
Increase	0	.30	.70

These changes applied on a proportionate basis to person and station messages throughout the state will produce an increase in gross revenue of some \$5,500,000 a year. This increase will be granted. Coupled with the increase of directory advertising rates authorized in December, 1946, of some \$700,000 and the interim rates of \$10,500,000 in June, 1947, the present increase gives a grand total increase of \$16,700,000 annually authorized by this Commission in the past eight months.

It should be understood that while the company's direct evidence has been completed, cross-examination is not completed, nor have the other parties or Commission's staff as yet presented evidence. Therefore, to the extent company figures are shown herein, it should be understood the Commission is not necessarily accepting these as final figures.

It appears that this change will not result in increases in any

exchange rates, nor in any station-to-station toll messages completed within the initial three-minute period. Furthermore, no toll messages of less than 41 miles will be increased, even as to overtime.

The Commission realizes that a large part of the area of California is served by Independent Telephone Companies. In most instances toll calls from one independent company exchange to another independent or Pacific Company exchange are carried over the toll lines of the Pacific Company at the rates established herein. The Commission will expect that the Pacific Company will review its settlements where necessary to assure the Independent Companies adequate compensation for their costs incurred in rendering toll service in conjunction with the Pacific Company.

We submit the following form of Order:

SECOND INTERIM ORDER

Motion having been made on August 22, 1947 by Applicant for an interim order authorizing increases in toll rates, the Commission hereby finds as a fact that increases in toll rates described herein are justified and should be made effective ten days from the date hereof, therefore,

IT IS HEREBY ORDERED that Applicant is authorized to file on not less than one (1) day's notice to the Commission and to the public, and make effective on or after September 6, 1947 revised toll rates as set forth on Exhibit A attached hereto.

IT IS HEREBY FURTHER ORDERED that the motion be denied without prejudice in all other respects.

IT IS HEREBY FURTHER ORDERED that Application No. 28211 is continued to permit the holding of such further hearings and the receipt of such further 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 26 day of August 1947.

Harold S. Hull
Justice J. C. Wheeler
Walter K. Powell
R. F. Jones
W. H. Potter
 Commissioners.

EXHIBIT A
THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY
CALIFORNIA INTRASTATE MESSAGE TOLL TELEPHONE SERVICE

Day, Night and Sunday					
Station-to-Station				Person-to-Person	
Paid				Paid and Collect	
Initial		Overtime		First	Each Addl. Min.
Initial		Overtime		3 Min.	First 3 After 3

-	\$.05-3 min.	\$.05-3 min.	Not Quoted	Not Quoted			
0-12	.10-3 min.	.05-2 min.	\$.20-3 min.	\$.05-1 min.	\$.20	\$.05	\$.05
13-18	.15-3 min.	.05-1 min.	.25-3 min.	.05-1 min.	.25	.05	.05
19-24	.20-3 min.	.05-1 min.	.25-3 min.	.05-1 min.	.30	.10	.05
25-32	.25-3 min.	.05-1 min.	.25-3 min.	.05-1 min.	.35	.10	.05

Paid and Collect

Day (Except Sunday)						Night and Sunday					
Station-to-Station			Person-to-Person			Station-to-Station			Person-to-Person		
First	Each Addl.	First	Each Addl.	First	Each Addl.	First	Each Addl.	First	Each Addl.	First	Each Addl.
3 Min.	Min.	3 Min.	Over 3	3 Min.	Over 3	3 Min.	Min.	3 Min.	First 3	Over 3	3

33-40	\$.30	\$.10	\$.40	\$.10	\$.10	\$.30	\$.10	\$.40	\$.10	\$.10
41-48	.35	.10	.50	.15	.10	.35	.10	.50	.15	.10
49-56	.40	.10	.55	.15	.10	.35	.10	.50	.15	.10
57-64	.45	.15	.65	.20	.15	.35	.10	.55	.15	.10
65-72	.50	.15	.70	.20	.15	.35	.10	.60	.20	.10
73-80	.55	.15	.75	.25	.15	.35	.10	.65	.20	.15
81-90	.60	.20	.85	.25	.20	.35	.10	.75	.25	.15
91-100	.65	.20	.90	.30	.20	.35	.10	.75	.25	.15
101-110	.70	.20	1.00	.30	.20	.35	.10	.85	.25	.15
111-120	.75	.25	1.05	.35	.25	.40	.10	.90	.30	.20
121-130	.80	.25	1.10	.35	.25	.45	.15	.95	.30	.20
131-140	.85	.25	1.20	.40	.25	.50	.15	1.05	.35	.20
141-150	.90	.30	1.25	.40	.30	.55	.15	1.05	.35	.20
151-170	.95	.30	1.35	.45	.30	.60	.20	1.15	.35	.25
171-190	1.00	.30	1.40	.45	.30	.65	.20	1.20	.40	.25
191-210	1.05	.35	1.45	.45	.35	.70	.20	1.25	.40	.25
211-230	1.10	.35	1.55	.50	.35	.75	.25	1.35	.45	.30
231-250	1.15	.35	1.60	.50	.35	.75	.25	1.35	.45	.30
251-270	1.20	.40	1.70	.55	.40	.80	.25	1.45	.45	.30
271-300	1.25	.40	1.75	.55	.40	.85	.25	1.50	.50	.30
301-330	1.30	.40	1.80	.60	.40	.90	.30	1.55	.50	.35
331-360	1.35	.45	1.90	.60	.45	.95	.30	1.65	.55	.35
361-390	1.40	.45	1.95	.65	.45	1.00	.30	1.65	.55	.35
391-430	1.45	.45	2.05	.65	.45	1.05	.35	1.75	.55	.35
431-470	1.50	.50	2.10	.70	.50	1.10	.35	1.80	.60	.40
471-510	1.55	.50	2.15	.70	.50	1.15	.35	1.85	.60	.40
511-550	1.60	.50	2.25	.75	.50	1.20	.40	1.95	.65	.40
551-590	1.65	.55	2.30	.75	.55	1.25	.40	1.95	.65	.40
591-630	1.70	.55	2.40	.80	.55	1.30	.40	2.05	.65	.45
631-685	1.75	.55	2.45	.80	.55	1.35	.45	2.10	.70	.45
686-740	1.80	.60	2.50	.80	.60	1.40	.45	2.15	.70	.45
741-795	1.85	.60	2.60	.85	.60	1.45	.45	2.25	.75	.50
796-850	1.90	.60	2.65	.85	.60	1.50	.50	2.25	.75	.50
851-905	1.95	.65	2.75	.90	.65	1.55	.50	2.35	.75	.50