

Decision No. 42530**ORIGINAL**

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, for authority to increase
 certain intrastate rates and charges
 applicable to telephone service furnished
 within the State of California.

Application No. 29854

(Appearances are shown on sheet attached to this decision.)

INTERIM OPINION

By the above-entitled application, filed November 29, 1948, The Pacific Telephone and Telegraph Company seeks an increase of \$33,655,000 in telephone rates and charges.

Public hearings were held at Los Angeles on January 10 and 11, and at San Francisco January 12, 13, and 14, and on January 17 and 21, 1949 before Commissioner Huls and Examiner Howard. During the first five days of hearings, the applicant made its showing in support of its application. On January 14, upon completion of its direct presentation of evidence, applicant moved that an interim rate increase be granted. Evidence by the Commission's staff as related to this motion was presented on January 17 and 21. The entire record in the former rate proceeding (Application No. 28211) was ordered made a part of this record, including the record in the Order to Show Cause Proceeding relating to the so-called license contract. Thus, in effect, the consolidated record comprises 8,070 pages of transcript of 66 days of hearings at which numerous witnesses were heard and 428 exhibits received. Applicant's motion for interim rates was argued before the Commission in bank at San Francisco on February 2 and 3, 1949 at which time the motion was taken under advisement and the proceedings removed from the calendar.

Representatives of a number of cities and other organizations opposed the granting of any interim increase. They pointed out that there had been no opportunity for them to present evidence or to cross-examine company witnesses, and urged that the Commission withhold judgment until all parties had been accorded a hearing. There was also criticism of the service rendered by applicant in its rural territory and in certain cities.

Certain of the interested parties appearing in this proceeding have questioned the jurisdiction and authority of this Commission to grant an interim rate increase. The argument in support of this position is that there is nothing specific in the Public Utilities Act that authorizes the grant by the Commission of that type of rate relief. It is an elementary rule of law that the power to grant a particular relief carries with it all the incidental, necessary and reasonable authority to grant that which is less. It is apparent that the authority delegated to this Commission by the Public Utilities Act to award rate relief to a public utility carries with it the incidental and implied power to grant interim rate relief, if the facts warrant such summary relief. Of course, there must be a prima facie showing of an emergency condition before the Commission would be justified in granting rate relief on an interim basis. The Supreme Court of this State has held in the case of Saunby v. Railroad Commission, 191 Cal. 226, that this Commission may issue an interim or emergency rate reduction order based upon a summary showing. If this Commission may thus summarily reduce the rates of a public utility, it logically follows that it may, in an emergency, grant interim rate relief to a public utility.

It may here be pointed out that the action taken by this Commission in the Saunby case was far more summary than any contemplated interim rate relief action by this Commission in this proceeding could be. Any contention that may be made that an interim rate relief

order is unlawful because it may not be reviewed by the courts, is without merit because it is not a correct statement of the law.

The United States Supreme Court has held in the case of Prendergast v. New York Telephone Company, 262 U.S. 43, 48-51; 67 L. ed. 853, 857-858, that an interim rate order may be reviewed by the courts if, as a matter of fact, the order results in confiscation or violation of constitutional rights. We conclude that this Commission has ample power and authority to grant an interim rate increase in this proceeding, provided that the record thus far developed discloses a state of facts warranting such relief. Therefore, the sole question before the Commission on this motion for an interim rate increase is whether or not the record discloses an emergency condition that warrants the granting to this utility of immediate relief. We find from the evidence in this proceeding that the earnings of applicant are such that it now finds itself in a serious financial position, which constitutes an emergency that must be relieved. Accordingly, interim rate relief will be accorded to applicant.

Due to the fact that certain issues were considered fully by the Commission in its Decision No. 41416 of April 6, 1948 in Application No. 28211, it is not necessary at this time to review and cover these again in detail. The failure of applicant to submit a plan in reference to the license fee has subsequently been fully explored in the Order to Show Cause Proceeding instituted in Application No. 28211.

October Wage Increases

Perhaps the most important change in operating expenses since the issuance of Decision No. 41416 has been the over-all wage increase program resulting from the wage offers of October 1, 1948. These offers have been for the most part accepted and placed in effect, but at varying dates. However, in some cases, these offers have not been accepted.

The wage program totaled \$11,638,000 applicable to California on an annual basis, including both the effective and the offered but not effective increases, and covered all pay rolls, including construction. The operating portion allocable to California intrastate operations, plus an allowance for associated pension and social security costs, is approximately \$9,400,000 of which substantially \$8,300,000 had as of January 17, 1949 been negotiated and placed in effect.

Trend of Earnings

While the net earnings in California have been increasing, the company is not realizing the 5.6% rate of return found reasonable in Decision No. 41416. Applicant's evidence shows rate of return for its California intrastate operations by periods as follows, assuming the present rate levels had been in effect in the earlier periods and that wage levels in effect prior to October 1, 1948 had been effective throughout the latest period:

Five months ending December 31, 1947	5.5%
Six months ending June 30, 1948	5.2
Four months ending October 31, 1948	5.1

Exhibits introduced by the Commission's staff for the four months ending October 31, 1948 compare with applicant's exhibit for the same period as follows:

	<u>Applicant</u>	<u>Staff</u>
Rate Base	\$527,846,000	\$517,057,000
Net Revenue	26,844,000	27,466,000
Per Cent Return	5.1%	5.31%

The staff prepared its rate base and net revenue computations in accordance with the basis of the findings of the Commission in Decision No. 41416, including directory advertising rates recently authorized and the license service charges based on the treatment recommended by the testimony of the staff. The separation data as prepared by the company was used, subject to subsequent review.

After adjusting for the effect of the wage program, these figures become:

	<u>Applicant</u>	<u>Staff</u>
Rate Base	\$528,603,000	\$517,057,000
Net Revenue	21,302,000	21,924,000
Per Cent Return	4.0%	4.24%

Applicant, in addition, submitted an estimate for the first six months of 1949, showing its estimated rate of return at 4.6% before wage increases, or 3.7% after considering the wage increases, on a net plant rate base of about \$594,000,000. While the staff has not yet had an opportunity to prepare an estimate, it presented two charts showing mathematical projections supporting the applicant's estimated increase in net plant, but indicating earnings of about 5.2% on the staff basis and 5.0% on the company basis, rather than the 4.6% estimated by applicant.

Earnings by Areas

Both the staff and applicant presented earnings by exchange groupings and for intrastate toll for the four months ending October 31, 1948. The applicant also estimated such earnings for the first six months of 1949. The rates of return, adjusted in all cases to the new wage levels, including offered but not accepted wages, are as follows:

<u>Categories</u>	Four Mos. End. 10-31-48 (Staff)	First 6 Mos. 1949 - Estd. (Applicant)
Exchange:		
San Francisco-East Bay Extended Area	3.45%	3.2%
Los Angeles Extended Area	6.10	5.6
San Diego Extended Area	5.80	5.6
Other Exchanges - Northern California	2.06	2.1
Other Exchanges - Southern California	(.70)	(1.2)
Total Exchange	4.51	4.1
Intrastate Toll	3.15	1.8
Total Intrastate Operations	4.24	3.7

(Red Figure)

The effect of the wage program is significant. The following table sets forth certain data and relationships in the various categories:

<u>Categories</u>	<u>Oct. 1948 Wage Increases as % of Present Revenues</u>	<u>Per Cent Decrease in Rate of Return</u>
Exchange:		
San Francisco-East Bay Extended Area	4.1%	1.0%
Los Angeles Extended Area	3.0	.8
San Diego Extended Area	2.1	.5
Other Exchanges - Northern California	3.6	.9
Other Exchanges - Southern California	<u>3.1</u>	<u>.7</u>
Total Exchange	3.4	.9
Intrastate Toll	<u>4.8</u>	<u>1.9</u>
Total Intrastate Operations	3.8	1.1

It thus appears that the wage increase bears heaviest on the toll earnings because of the large percentage of manual operations, while the San Diego area shows the least effect because of the large amount of dial operation in that area.

Interim Increase

The evidence shows that a downward trend in earnings exists, but not to the degree indicated by the company's estimates. It is in the public interest to adjust applicant's rate structure on an interim basis to the extent that it has not earned the return specified in the final decision (No. 41416) in Application No. 26211. The Commission also recognizes that wages have been negotiated and placed in effect since October 1, 1948, totaling \$8,300,000 for California intrastate operations, including related pension and social security charges. It is not regarded as proper, however, to increase rates because of wages offered, but not effective, under the uncertainties shown. Therefore, we should authorize increases to compensate for the decline in earnings and the wage increases granted, but at the same time giving consideration to the situation resulting from the relationship between applicant and the Western Electric Company.

Western Electric Company

In Decision No. 41416, the Commission noted that study of Western Electric costs by an MARUC-FCC committee⁽¹⁾ was under way and no specific evidence was considered at that time. The Commission did state, however, that the Pacific Company should take steps to obtain relief from the American Company, among other things, as follows:

"Reduce Western Electric Company prices to the very minimum during the entire dial conversion program, including a review of past charges."

The company introduced evidence showing Western Electric prices to be lower than those of independent manufacturers for comparable items. Comparability of manufacturers was not established and, inasmuch as the record shows that Western Electric manufactures over 90% of all telephone apparatus and equipment, while the independent manufacturers compete for the remaining business, little weight can be given these price comparisons in judging the reasonableness of the Western Electric Company's prices.

Western contends its earnings are less than those of the 50 largest manufacturing corporations of the nation. This, likewise, is no criterion. It is the cost to Western that is essential.

Some evidence as to 1948 operations of Western Electric, based on the earnings of the first three quarters of the year, is now in this record. The evidence shows that Western Electric earnings are the highest in its history, and the percentage return nearly the highest. This is in extreme contrast to the objective mentioned in Decision No. 41416, as quoted.

In Decision No. 21766 on November 7, 1929 (33 CRC 737), this Commission applied to the applicant with respect to its purchases from Western the principle that a manufacturing and construction company

(1) Special Committee of the National Association of Railroad and Utilities Commissioners cooperating with the Federal Communications Commission in studies of Telephone Regulatory Problems.

should not be permitted to profit at the expense of a public utility when the construction company controls the public utility or is owned and controlled by the same interests which own or control the public utility. We believe the principle to be as necessary of application here today as it was then. So applied, Pacific Company would have paid Western some \$4,300,000 less for 1948 purchases applicable to its California operations. Although Commission staff studies for prior years were not completed in time for presentation in the interim showing, the company's own figures show earnings of 7.1% applicable to Pacific Company on purchases for the 32 years prior to 1948, and it therefore is obvious that a further deduction would be justified on the principle cited, if the years prior to 1948 were studied. The annual expense and return effect of the 1948 adjustment alone is estimated at \$964,000 for California operations, of which about \$900,000 would be applicable to intrastate operations.

This Commission must carefully consider the propriety of this method of raising Pacific Company expenses by Western simply increasing its prices to the higher levels, which brought about Western's high earnings in 1948. The treatment we have accorded the relationship existing between the applicant, on the one hand, and the Western Electric Company and the American Telephone and Telegraph Company, on the other hand, is based upon well recognized rules of law and equity.

American Telephone and Telegraph Company owns 99.8% of the stock of Western Electric, and 87.93% of the capital stock of applicant. Western is, in fact, the manufacturing department of the Bell System, as was so pertinently and well pointed out by the Supreme Court of the United States in the case of Smith v. Illinois Bell Telephone Company, 282 U.S. 133, 152-153; 75 L. ed. 255, 265. Obviously, the American Company, lawfully, may not, through the corporate device of the Western Electric Company, realize a profit from the transactions between

Western and applicant, which, in turn, is capitalized by applicant or charged by it to operating expense, thus subjecting applicant's rate payers to the burden of paying a profit upon a profit. This sort of practice should not be condoned. It is just such practices that rate-fixing authorities should be vigilant to detect. (American Telephone and Telegraph Company v. U.S., 299 U.S. 232, 246; 81 L. ed. 143, 153). As a general rule, a dominating holding company is not entitled to realize a profit at the expense of one of its operating subsidiaries. (U.S. v. New York Telephone Company, 326 U.S. 638, 654; 90 L. ed. 371, 381. San Diego v. San Diego etc. Company, 39 C.R.C. 261, 277). The same rule applies as between affiliates. (San Diego v. San Diego etc. Company, supra, p. 277). If any claimed profit between affiliates would disappear when placed in a system-wide profit and loss statement, such claimed profit should not be recognized. (U.S. v. New York Telephone Company, supra, at p. 654, U.S. Report).

Western Electric, in its relationship to applicant and other operating subsidiaries of the Bell System, is not at all comparable to an independent manufacturing concern. This fundamental difference and distinction was pointed out by the Supreme Court of the United States in the Illinois Bell Telephone Company case at pages 152-153 of the U.S. Report. We will not elaborate on such an obvious fact but merely will point to this decision of the Supreme Court.

We hold that Western Electric is entitled to no greater return on its sales to applicant than applicant is entitled to as against its rate payers, which we have found to be not over 5.6%. We, therefore, reduce the contemplated interim rate increase by \$900,000 and will reserve further consideration until the final decision herein.

The staff offered certain testimony on earnings of Western Electric, based on the recent joint NARUC-FCC Subcommittee report on Western Electric operations. Counsel for applicant objected to receipt in evidence of recent data on Western Electric Company operations received through the NARUC-FCC cooperative committee, insisting that:

"If there is some specific information which is desired with reference to Western's operations which can have some legitimate bearing to matters before this Commission in this rate case, material which is pertinent to the determination of reasonable rates and reasonably so, we can undertake to obtain it, . . ."

While the staff withdrew its offer after the objection noted in order to expedite the completion of the interim showing, this Commission feels impelled, in view of applicant's position, to require the furnishing of necessary detailed reports on Western, in order that it will be fully informed in the future.

Rates

In reaching a conclusion as to the over-all increase as measured by revenues, we have considered, first the wage increases actually effective as shown by the record, second the need to raise the return on rate base to not exceed 5.6%, and third the adjustment because of the Western Electric costs.. We conclude that an increase in rates of \$13,000,000 annually should be granted on an interim basis.. This is an increase of 5.1% above applicant's estimate of total intrastate revenues for the first half of 1947 extended to an annual basis..

Clearly the evidence indicates the greatest decline in earnings has occurred in the intrastate toll classification.. The objective expressed in Decision No. 41416 was an earning level for toll in excess of the exchange earnings, with the particular toll schedule ordered expected to earn about 7.5% return. Actually, the results, after considering the wage increases, show an earning of only about 3% and applicant estimates a further decline, computed on its basis, to 1.8%.. Without subscribing to the latter figure, it is apparent that a substantial increase in toll rates now is justified,.

and the order will prescribe the message toll schedule as set forth in Exhibit 21. This schedule in general increases station day rates up to 90 miles by 5¢ or 10¢ depending upon the mileage in certain intervals, except that there are a number of intervals without increases. Person rates are increased 5¢ to 20¢ over the entire schedule, and night and Sunday discounts are reduced. The special 5¢ rate between exchanges less than six miles apart is cancelled. Private line and TWX services are increased. The over-all revenue increase from these changes is about \$9,368,000 per annum.

With these increases, the divergence between the state and interstate schedules is increased. This problem is under study by the NARUC-FCC cooperative committee on telephone regulatory problems. It appears that the disparity between intrastate toll charges and the lower interstate toll charges results in part from the license contract payments on a revenue basis from this applicant and other operating subsidiaries to the American Telephone and Telegraph Company thus tending to keep in effect lower interstate toll rates than would otherwise result.

Exchange earnings have held up considerably better than the toll earnings, and it appears that the earnings of the San Francisco-East Bay and San Diego extended areas are close to the levels contemplated in Decision No. 41416. The Los Angeles extended area earnings, while still the highest, have declined somewhat. However, the earnings of the outside exchanges both in Northern California and in Southern California have declined in greater degree.

It appears to the Commission that an increase in flat rate business service rates is justified to bring the rates in the outside exchanges more in harmony with the message rates effective in San Francisco-East Bay and Los Angeles exchanges. Likewise, the San Francisco-East Bay exchange and Los Angeles exchange residence rates are based on a differential of \$1.00 between one- and two-party

service, which is substantially greater than in other exchanges in the state and an increase of 25¢ in the other exchanges appears reasonable. The order, therefore, will provide for a state-wide increase, as follows:

	<u>Per Month</u>
Individual line flat rate business service	
(exchanges over 4,000 stations)	75¢
(exchanges 4,000 stations or less)	50
Two-party flat rate business service	
(exchanges over 500 stations)	50
(exchanges 500 stations or less)	25
Suburban party-line business service	25
Individual line flat rate residence service	25

The basic rates in San Francisco-East Bay exchange and in Los Angeles exchange are not increased by this order. Such rates in general are on a higher level than the rates in the remaining exchanges in the state. The increases authorized herein for the outside exchanges still leave local rates at a lower level in most instances than the San Francisco-East Bay exchange and the Los Angeles exchange rates. The above schedule of increases will apply generally to other exchanges in the extended areas and throughout the state, although individual line flat rate business rates in certain extended area exchanges are increased by 75¢ instead of 50¢ per month.

Under this plan, rates for residence service of two-party, four-party, and suburban grades in the state are not increased, nor are farmer line rates increased. The business message rates remain unchanged, except in the extended area exchanges surrounding the Los Angeles exchange where the rates are out of line with the Los Angeles exchange rate and an increase of 25¢ per month is provided in such rates.

Other miscellaneous changes authorized include increases in PBX switchboard monthly rates and installation charges, increases in rates for features in connection with key telephone service, certain foreign exchange rates, joint user schedules, and a general increase

in semipublic coin-box guarantees, and provision for the conversion of local semipublic coin-box service in the San Francisco-East Bay extended area to extended service. The closure of local service schedules covering one-, two-, and four-party and commercial and residence PBX service in the Los Angeles extended area to new customers, except as to applications presently on file, as set forth in Exhibit 26 but permitting supersedure, is provided in the order.

A suggested rate of 10¢ for local messages from public coin-box stations is worthy of serious consideration if collection problems can be solved. The record on this point is not complete.

The over-all revenue effect of the changes in exchange rates authorized is estimated at \$3,632,000 annually. Applicant shall keep accurate and appropriate records of all exchange service customers so that any refund, which may be due any of such customers, may be readily ascertained. In case any individual rate or charge herein authorized shall prove to be greater than that ultimately determined upon, such charge shall be refunded at such time and in such manner as determined by the Commission in the final decision, herein.

License Fee

In the Order to Show Cause Proceeding instituted by this Commission in Application No. 28211 concerning the license contract existing between applicant and the American Telephone and Telegraph Company, we prescribed a regulation applicable to said contract and ordered applicant to conform to such regulation. The record in said Order to Show Cause Proceeding was made a part of this proceeding by order of the Commission and the record in the rate proceeding in Application No. 28211 was also made a part of this proceeding by order of the Commission. In light of the fact that we are here granting to applicant an interim rate increase, which will result in increased gross revenues upon which the percentage of gross revenues payments provided for by said license contract would operate, we hereby find that it is in the public interest, the interest of the

rate-payers, the minority stockholders of applicant and applicant, itself, to prescribe said regulation in this decision as a condition to the granting to applicant of this interim rate increase. Also, we find that the prescription herein of this regulation will not prejudice in any way the lawful interests of the American Telephone and Telegraph Company. The record in the Order to Show Cause Proceeding and the record thus far developed in this proceeding constitute more than a sufficient record upon which to base said regulation in this proceeding exclusive of the record in Application No. 28211. Accordingly, said regulation will be embodied in the order of this decision.

The record shows the California intrastate payment on the present percentage basis, after allowing for the interim increase authorized herein, is at the rate of approximately \$2,500,000 on an annual basis, based on applicant's estimate of revenues for the first half of 1949. The evidence in this record shows that, as applied to its California intrastate operations, \$2,250,000 is a proper amount for applicant to charge, at this time, to operating expenses, on an annual basis, for services rendered to it pursuant to said license contract and we hereby find said amount to be the reasonable value of said services and the reasonable cost for performing the same. The order contained in this decision will prescribe such requirement as a part of the regulation, which will be promulgated in said order. Any increase of the amount of \$2,250,000 must receive the prior approval of the Commission before applicant may pay such increase. Of course, if said services should fall either in reasonable value or in reasonable cost below the amount of \$2,250,000, applicant will be required to conform its payments to such facts and reduce said amount accordingly.

General

Complaints as to service were voiced at the hearing by representatives of the cities of Santa Cruz and Richmond and the California Farm Bureau Federation. The Commission expects applicant to investigate the situations mentioned and submit reports to the Commission.

The representatives of Richmond, Santa Cruz and San Lorenzo Valley also brought specific rate problems to the attention of the Commission.

The Richmond representatives pointed out that under the proposed toll schedule, the rate for initial period station calls between Richmond and Berkeley is increased from 10¢ to 15¢, although in some instances the message is between stations only a few blocks or less apart. The Commission will in this order provide that the proposed toll rate of 15¢ not be applied between Richmond and Berkeley, and that this charge be held at the present rate of 10¢ pending further study.

The representatives of San Lorenzo Valley pointed out that this Commission had recently, by Decision No. 42129, approved an extended service plan for that area and had prescribed new rates. This is the fact, and a similar order is outstanding as to the Monterey-Carmel area. Inasmuch as these plans will not be effective for some months, it appears probable that further hearings in this proceeding will be held prior thereto: the question of rates for extended service will be considered at that time. In the meantime,

of course, the rate changes authorized herein will apply to the local service. We do not in this order increase the individual line business rates at Felton and Boulder Creek to \$5.75 as sought, but retain the same classification as at present. The rate ordered herein is \$5.25 for each of the three communities in San Lorenzo Valley, including Ben Lomond.

Attention was also called to the fact that the base rate area in the Santa Cruz exchange has not been expanded for some time, with the result that built-up areas are served by suburban lines. The Commission will expect the applicant, within 45 days, to file reports on the service and rate matters referred to, and the Commission also requests a review of base rate areas generally, looking toward reasonable expansion thereof as areas grow in size.

It will be understood that this proceeding has not as yet been completed, and that the Commission is not necessarily accepting and using figures quoted herein except for the purpose of this interim order. All motions inconsistent with this order are denied without prejudice. The Commission believes it essential that the relief afforded by this order be granted and placed in effect promptly, so that the part of the operations over which this Commission has jurisdiction may earn its equitable proportion of the financial requirements of applicant. By the same token, this Commission must look to the interests of the telephone-using public and the minority stockholders, to be certain that unjustified payments not be made to the controlling company, the American Telephone and Telegraph Company.

INTERIM ORDER

The Pacific Telephone and Telegraph Company having applied to this Commission for an order authorizing certain increases in rates and charges and for such other or further relief as may be proper in the premises, public hearings having been held, a motion having been made and argued for a grant of an interim rate increase pending a completion of the entire proceeding, and it appearing to this Commission that certain increases are proper on an interim basis,

IT IS HEREBY FOUND AS A FACT that the increases in rates, rules and conditions authorized herein are justified; therefore,

IT IS HEREBY ORDERED as follows:

1. That applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedules of rates, rules and conditions shown in Exhibit A attached hereto, and, after not less than five (5) days' notice to the Commission and to the public to make such rates effective by billing periods on and after March 21, 1949 for bills covering service furnished on and after March 21, 1949, excepting that rates, rules and conditions applicable to message toll telephone service shall be made effective March 21, 1949, and excepting further that increases in installation charges shall be effective on applications received by applicant on and after March 21, 1949.
2. That applicant shall keep accurate and appropriate records of all exchange service customers. In case any individual rate or charge herein authorized shall prove to be greater than that ultimately determined upon, the difference between such charges shall be refunded at such time and in such manner as determined by the Commission in the final decision, herein.
3. That applicant shall file a verified statement monthly within forty (40) days of the close of each month, covering Western Electric Company operations in substantially the form shown by Exhibit B attached hereto, the first report to be for the month of December, 1948 and the reports for December, 1948 and January, 1949 to be filed within forty (40) days from the date hereof; shall file a verified statement annually, within ninety (90) days following the close of each year, the first report to be for the calendar year 1948, covering the earnings by product classes of Western Electric Company in substantially the form shown by Exhibit C attached hereto; shall file, within thirty (30) days from the date hereof, a copy of the Western Electric Company's currently effective published price list applicable to the applicant company, such price list to cover items of Western Electric Company manufacture and supplies furnished to The Pacific Telephone and Telegraph Company, for which the Western Electric Company normally issues the price

list, and shall, within five (5) days of the receipt by applicant, file a copy of all additions, changes, and corrections to said price list as made from time to time.

As a condition to the granting of the herein interim rate increase, IT IS HEREBY FURTHER ORDERED that, as applied to its California intrastate operations, applicant, The Pacific Telephone and Telegraph Company, hereafter, shall pay to the American Telephone and Telegraph Company, for services rendered by it or any of its affiliates to applicant, no more than the reasonable cost incurred in the rendition of such services or the reasonable value of said services, whichever is the lesser. That in determining the reasonable value of any service rendered, consideration shall be given, among other things, to what it would reasonably cost applicant to perform such service with its own organization. Services rendered to applicant, which, in the judgment of the Commission, are not reasonably required by applicant shall not be paid for by applicant. Neither applicant nor any officer, agent or servant of applicant, by any device whatsoever or under any pretense or guise, directly or indirectly, shall commit any act or engage in any conduct which shall be calculated to circumvent or evade the intent of this order.

IT IS HEREBY FURTHER ORDERED that applicant shall file with this Commission, bimonthly, a verified report showing for the immediately preceding two-calendar-month period all payments made by applicant to the American Telephone and Telegraph Company for services rendered to applicant by said American Telephone and Telegraph Company and/or any of its affiliates, together with an itemization of said services and the amount paid by applicant for each type of service rendered, such report to be filed not later than forty (40) days after the close of the period which it covers. Said verified report shall show, for each type of service rendered, the total cost incurred by the American Telephone and Telegraph Company or its affiliates in the

rendition of said service to applicant, and the payment therefor by applicant on an allocated basis, segregated as to company-wide, total California and California intrastate operations. The first report shall be for the months of January and February, 1949 and shall be filed on or before April 9, 1949.

IT IS HEREBY FURTHER ORDERED that, as applied to its California intrastate operations, the amount of \$2,250,000, on an annual basis, shall be adopted by applicant as the base and starting point for the program and procedure prescribed by this order and applicant shall be entitled to pay, on an annual basis, to American Telephone and Telegraph Company said amount for services rendered to applicant by American Telephone and Telegraph Company and/or its affiliates pursuant to the license contract; provided, however, that said amount shall be adjusted to a lesser or greater amount as the facts and circumstances may warrant, but, in no event, shall applicant pay more than \$2,250,000, on an annual basis, without first seeking and receiving the authority of this Commission so to do.

The effective date of this order shall be twenty (20) days after the date hereof..

Dated at San Francisco, California, this 23rd day of February, 1949.

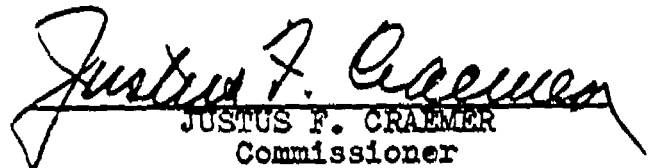
R. F. [Signature]
Harold P. Kula
Herbert [Signature]

Commissioners.

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I concur in the majority order granting to The Pacific Telephone and Telegraph Company an interim increase in rates, but believe such increase should be granted without the condition in the order.

I do not deem it necessary to attach the provisions of Decision No. 42529 to this rate order in the light of applicant's letter of July 1st, 1948, which concedes that the Commission in the exercise of its rate making functions may, when justified by the evidence, disallow as an operating expense any part of a payment under the license contract.


JUSTUS F. CRAEMER
Commissioner

Application No. 29854

I concur only in that part of the foregoing order contained in the first two paragraphs thereof, prescribing rates on an interim basis. I dissent from other parts of the order.


IRA H. ROWELL, Commissioner.

A P P E A R A N C E S

Arthur T. George, Eugene D. Bennett, Dudley Zinke, and Oscar Lawler, for applicant; Roger Arnebergh, K. C. Bean, and T. M. Chubb, for the City of Los Angeles; Archie L. Walters and George W. Irving, for the City of Burbank; Irving M. Smith and Joseph B. Lamb, for the City of Long Beach; Everett M. Glenn, for the City of Sacramento; Woodward M. Taylor, for the City of San Marino; C. M. Ozias, for the Cities of Fresno and Coalinga; A. L. Hildebrand, for the City of Fresno; Edson Abel and J. J. Deuel, for the California Farm Bureau Federation; Joseph D. Holmes and John C. Packard, for the Communications Workers of America; E. A. Hosmer, for the Director of the State Department of Finance, State of California; John J. O'Toole, Dion R. Holm, and Paul L. Beck, for the City and County of San Francisco; Emuel J. Forman, for the Cities of Burbank, Glendale, Pasadena, Beverly Hills, Inglewood, El Segundo, South Gate, South Pasadena, Culver City, El Monte, Arcadia, and Gardena; Frank V. Rhodes, for the California Independent Telephone Association; Emmet H. Tomkins, for the City of Alhambra; Theodore K. Rasmev, in propria persona; Harold M. Sawyer, Howard C. Ellis, and Morris Lowenthal, for Elinor Kahn; John W. Collier, Archer Bowden, and Loren A. East, for the City of Oakland; A. R. Linn, for the Cities of Antioch, Concord, Martinez, Danville, Lafayette, Rodeo, San Pablo, Walnut Creek, for the County of Contra Costa, for the Chambers of Commerce of Antioch, Concord, Contra Costa County, and for the Improvement Associations of Lafayette and Pleasant Hills; J. Marcus Hardin, for the City of Piedmont; Samuel Vickers for the City of Vallejo; Frank O. Ball, for Solano County; Edgar Millhauser, for the Glen Park Property Owners; Taubner G. Hamma, for the City of Stockton; Donald H. Smith, for the Cities of Soledad and Gonzales; N. B. Smith, for the City of Santa Cruz; Mrs. B. B. Wilder, for the San Lorenzo Chamber of Commerce; Lee Roberts, for the City of Richmond.

INTERIM RATES

The presently effective rates and conditions are changed only as specifically set forth in this Exhibit.

Service in San Francisco - East Bay Extended Area

Extended Service Rates - Each Primary Station

Group	Residence Flat	Business Flat		Extended
	Rate Service	Rate Service		Semipublic
	Monthly Rate	Monthly Rates		Min. Charge
	One-Party	One-Pty.	Two-Pty.	Per Day
1	\$ 4.00	\$ 6.00	\$ 5.25	\$0.20
2	4.25	7.00	6.25 (1)	.22
3	4.25	7.75	7.00	.24
4	4.25	8.25	7.50	.24
5	4.25	8.75	8.00	.24
6	4.25	-	8.00	.24
7	4.25	-	-	.25

(1) Not offered in Lafayette and Walnut Creek.

San Francisco - East Bay Exchange Service Rates

Semipublic coin-box service:

Minimum charge per day \$0.25

Local Service Rates - Each Primary Station

<u>Group</u>	<u>Residence Flat</u>	<u>Business Flat</u>		<u>Subn.</u>
	<u>Rate Service</u>	<u>Rate Service</u>		
	<u>Monthly Rate</u>	<u>Monthly Rates</u>		
	<u>One-Party</u>	<u>One-Pty.</u>	<u>Two-Pty.</u>	
A	\$ 3.50	\$5.25	\$4.25	\$4.00
B	3.75	5.75	4.75	4.25
C	3.75	6.50	5.25	4.25
D	3.75	7.00	5.75	4.25
E	4.00	7.50	6.25	4.50

Rates for local semipublic coin-box service are authorized to be cancelled.

Rate Grouping

Exchange	Local	Extended	Exchange	Local	Extended
Alvarado	A	2	Orinda	B*	7
Belvedere	B	2	Palo Alto	E	4
Campbell	B	5	Redwood City	C	4
Centerville	A	1	Richmond	E	6
Corte Madera	B	3	San Carlos-Belmont	B	4
Decoto	A	2	San Jose	E	5
Hayward	C	6	San Mateo	E	4
Irvington	A	1	San Rafael	D	3
Lafayette	B	2	Saratoga	B	5
Los Altos	B	4	Sausalito	B	2
Millbrae	B	4	Sharp Park	A	6
Mill Valley	B	3	South San Francisco	C	6
Mission San Jose	A	1	Sunnyvale	B	5
Moraga	A	7	Walnut Creek	B	2
Mountain View	B	4	Warm Springs	A	1
Newark	A	1	Woodside	B	4
Niles	A	1			

* Suburban service not offered.

Service in Los Angeles Extended Area

Extended Service Rates - Each Primary Station

Group	Residence Flat	Business Flat	Business Msg.	Extended
	Rate Service	Rate Service	Rate Service	Semipublic
	Monthly Rate	Monthly Rate	Monthly Rate	Min. Charge
	One-Party	One-Party	One-Party	Per Day
1	\$ 3.50	\$ 6.75	\$ -	\$0.22
2	3.50	8.25	-	.22
3	3.50	-	4.25(70)	.22
4	3.75	-	4.50(75)	.23
5	4.00	-	4.75(80)	.24

Los Angeles Exchange Service Rates

Semipublic coin-box service:

Minimum charge per day \$0.25

Local Service Rates - Each Primary Station

Group	Residence Flat	Business Flat		
	Rate Service	Rate Service		
	Monthly Rate	Monthly Rates		
	One-Party	One-Pty. Two-Pty.	Subn.	
A	\$ 3.00	\$5.50 \$4.50	\$4.00 (1)	
B	3.00	6.00 4.75	-	
C	3.25	7.00 5.75	4.25 (2)	
D	3.25	8.25 6.75	4.50	

(1) Canoga Park and El Segundo only.

(2) Compton and Van Nuys only.

Add the following condition to Schedule No. 5-T, Individual and Party Line Service - Southern California:

The rates and conditions for local service in this schedule, other than suburban service, apply only to services established or applied for prior to March 21, 1949, furnished to the same subscriber, either on the same premises or as moved to a different address of the same subscriber within the same exchange, provided there is no change in class of service. Regrades of service, additions to the service, and supersedures of service are permitted under this condition.

Rate Grouping

Exchange	Local	Extended	Exchange	Local	Extended
Alhambra	C	5	Glendale	C	5
Arcadia	B	4	Hawthorne	B	3
Beverly Hills	C	5	Inglewood	C	4
Burbank-Charleston D.A.	C	4	Lomita	A	3
Burbank-Chase D.A.	C	2	Montebello	B	4
Canoga Park	A	1	North Hollywood	C	4
Compton-Menlo D.A.	C	4	Pasadena-Sycamore D.A.	D	4
Compton-Newmark D.A.	C	5	Pasadena-Sylvan D.A.	D	4
Crescenta	B	2	Reseda	A	1
Culver City	C	5	San Pedro	C	4
El Monte	B	2	Torrance	A	3
El Segundo	A	3	Van Nuys	C	4

D.A. - District Area.

Service in San Diego Extended Area

Extended Service Rates - Each Primary Station

	Residence Flat	Business Flat		Extended
	Rate Service	Rate Service		Semipublic
	Monthly Rate	Monthly Rate		Min. Charge
	One-Party	One-Pty.	Subn.	Per Day
San Diego	\$ 4.25	\$11.25	\$4.75	\$0.23
Other *	4.00	10.75	4.50	.22

* Chula Vista, Coronado, El Cajon, La Jolla, La Mesa, National City, and Pacific Beach.

Service in Exchanges Outside Extended Areas

Local Service Rates - Each Primary Station

Group	Station	Residence Flat	Business Flat			Semipublic
	Range	Rate Service	Rate Service			Minimum
	Co.Sts.	Monthly Rate	Monthly Rates			Charge
	12/31/46	One-Party	One-Pty.	Two-Pty.	Subn.	Per Day
<u>Single Office Exchanges</u>						
L	Ltd.Hrs.*	\$ 3.25	\$4.75	\$4.00	\$3.75	\$0.17
A	0- 500	3.50	5.25	4.25	4.00	.18
B	501-4,000	3.75	5.75	4.75	4.25	.20
C	4,001-8,000	3.75	6.50	5.25	4.25	.22
D	Over 8,000	3.75	7.00	5.75	4.25	.24

* Exchanges where less than 24-hr. service was furnished as of April 26, 1948.

Multi-Office Exchanges

Bakersfield	\$ 4.00	\$7.50	\$6.25	\$4.50	\$0.24
Fresno	4.00	7.50	6.25	4.50	.24
Monterey	3.75	7.00	5.75	4.25	.24
Newport Beach	3.75	6.50	5.25	4.25	.22
Riverside	4.00	8.50	7.00	4.50	.24
Sacramento	4.00	8.50	7.00	4.50	.24
Salinas	3.75	7.00	5.75	4.25	.24
Santa Ana	4.00	7.50	6.25	4.50	.24
Stockton	4.00	7.50	6.25	4.50	.24
Vallejo	4.00	7.50	6.25	4.50	.24

Exchange Service Schedule No. 11-T

Public Telephone Service

Modify Condition 1 to provide for the furnishing of public telephone service on an extended service basis in all exchanges and zones within the San Francisco-East Bay extended area.

Exchange Service Schedule No. 12-T

Private Branch Exchange Service

<u>Exchanges Where Offered</u>	<u>Installation Charge</u>	<u>Monthly Rate</u>
<u>Manual Equipment per Position</u>		
Cordless Type Switchboard:		
3 Trunks and 7 stations	\$ 50.00	\$ 6.00
5 Trunks and 12 stations	80.00	9.00
Cord Type Switchboard:		
Non-multiple:		
40 lines or less	120.00	15.00
41 to 80 lines	180.00	19.00
Over 80 lines	250.00	25.00
Multiple	600.00	35.00

The above installation charges apply to applications received on or after March 21, 1949.

Exchange Service Schedule No. 13-T

Private Branch Exchange Trunk Line Service - Northern California

Exchanges Where Offered

Trunk Rate:

Flat Rate Service:

Each trunk line - 150% of the individual line primary station flat rate rounded to the lower 25¢ multiple.

Exchange Service Schedule No. 14-T

Private Branch Exchange Trunk Line Service - Southern California

Exchanges Where Offered

Trunk Rate:

Flat Rate Service:

Each trunk line - 150% of the individual line primary station flat rate rounded to the lower 25¢ multiple.

Message Rate Service, except Hotel:

First two trunk lines - business individual line message primary station rate with no message allowance.

Each additional trunk line - 50% of rate for first two trunk lines rounded to the lower 25¢ multiple.

Add the following condition:

The rates and conditions for local service in this schedule, other than hotel service, apply only to services established or applied for prior to March 21, 1949, furnished to the same subscriber, either on the same premises or as moved to a different address of the same subscriber within the same exchange, provided there is no change in class of service. Regrades of service, additions to the service, and supersedures of service are permitted under this condition.

Exchange Service Schedule No. 18-T

Intercommunicating System Service

Exchanges Where Offered

Trunk Rate:

Flat Rate Service:

Each trunk line - 150% of the individual line primary station flat rate rounded to the lower 25¢ multiple.

Exchange Service Schedules Nos. 20-T and 21-T

Joint User Service

Rates for joint user service are authorized in exchanges where the service is offered as follows:

		<u>Rate per Month</u> <u>Each Joint User Service</u>	
<u>Joint User Service in Connection with:</u>			
1. Business individual line message rate service		\$ 1.50	
2. Semipublic service		1.50	
3. Flat Rate Service:			
		<u>Rate per Month</u> <u>Each Joint User Service</u> <u>In Connection With:</u>	
<u>Where the Business Individual</u> <u>Line Flat Rate Is:</u>	<u>Business In-</u> <u>dividual Line</u> <u>or Party Line</u> <u>Flat Rate Serv.</u>	<u>PBX, Order Re-</u> <u>ceiving Equipment</u> <u>or I.C.S.</u> <u>Flat Rate Service</u>	
\$ 4.75	\$ 1.50	\$ 2.50	
5.25	1.50	2.50	
5.50	1.50	2.50	
5.75	1.50	3.00	
6.00	1.50	3.00	
6.50	1.50	3.00	
6.75	1.50	3.00	
7.00	2.00	4.00	
7.50	2.00	4.00	
7.75	2.00	4.00	
8.25	2.00	4.00	
8.50	2.00	4.00	
8.75	2.00	4.00	
10.75	2.50	5.00	
11.25	2.50	5.00	

Exchange Service Schedule No. 22-T

Key Equipment Service

<u>(1) Key Equipment Arrangements:</u>	<u>Rate per Month</u>
<u>Cutoff:</u>	
Each station arranged for manual cutoff of one or more lines, each line cutoff	\$0.25
<u>Holding:</u>	
Each line arranged to be held by one or more stations	.45
Each station arranged to hold one or more lines	.35
<u>Pickup:</u>	
Each station arranged to pick up one or more lines, each line picked up	.30

Exchange Service Schedule No. 34-T

Foreign Exchange Service - Northern California

Primary rates for foreign exchange local and extended services are adjusted to the extent required by changes in the basic individual line, party-line, and PBX trunk rates.

Listed Routes Between Contiguous Exchanges

Joint User Service Where Offered:

East Bay Zone Business Service in Hayward and Richmond and
San Francisco Zone Business Service in South San Francisco

Rate per Month

Each joint user in connection with:
Individual line business message rate service

\$ 4.00

Foreign Exchange Mileage Rate:

Rate for each 1/2
Mile or Fraction
Thereof per Month

Business Service:

Each individual line primary station
Each foreign exchange business trunk

\$ 3.50
3.50

Rate for each 1/4 Mile or Fraction Thereof per Month	
First one- half Mile Zone	Beyond First One-half Mile Zone

Residence Service:

Each individual line residence primary station
Each two-party line residence primary station:
Extended flat rate
Extended message rate
Local flat rate
East Bay Zone flat rate
Each four-party line residence primary station
Each suburban line residence primary station
Each foreign exchange residence trunk

\$ 1.75	\$ 1.75
1.25	Not quoted
1.00	Not quoted
1.25	1.50
1.25	1.50
1.00	1.25
.50	.75
1.75	1.75

Listed Routes Between Noncontiguous Exchanges

All listed routes, except San Francisco service in
Pinole and in Sausalito.

Foreign Exchange Mileage Rate:

Rate per Month

Each individual line primary station or each
PBX trunk:
Each mile or fraction thereof

\$ 7.00

Exchange Service Schedule No. 35-T

Foreign Exchange Service - Southern California

Primary rates for foreign exchange local and extended services are adjusted to the extent required by changes in the basic individual line, party-line, and PBX trunk rates.

Los Angeles Service in Continuous Exchanges and District Areas:

<u>Business Message Rate Service:</u>	<u>Exch.</u>	<u>Rate per Month</u>			<u>Each</u>
	<u>Message</u>	<u>Rate Area</u>			<u>Add'l.</u>
	<u>Allowance</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>Exch. Mess.</u>
Individual Line Rate:					
Each individual line station	200	\$12.00	\$13.25	\$14.50	5¢
Private Branch Exchange Trunk Rate					
First trunk line	300	18.75	20.00	21.25	5¢
Each additional trunk line	-	3.75	5.00	6.25	5¢

Residence Message Rate Service:

Each two-party line station	60	3.25	4.00	-	5¢
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Joint User Service:

Each joint user in connection with business message rate service:

Individual line service	\$ 4.00
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Los Angeles Service in Noncontiguous Exchanges and District Areas within the Los Angeles Extended Area:

<u>Business Message Rate Service:</u>		<u>Rate per Month</u>
Individual Line Rate:		
Each individual line station	200	\$14.50 - 5¢
Private Branch Exchange Trunk Rate:		
First trunk line	300	\$21.25 - 5¢
Each additional trunk line		6.25

Foreign Exchange Mileage Rate:

Where offered, except Reseda exchange

	<u>Rate per Month</u>	
	<u>First One-half Mile</u>	<u>Each add'l. 1/4 Mile or Fraction Thereof</u>
Each individual line primary station and each PBX trunk line	\$ 3.00	\$ 1.50

Each mile or
fraction thereof
per month

Reseda exchange:

Each individual line primary station and each PBX trunk line

\$ 7.00

Joint User Service:

Rate per Month

Each joint user in connection with business message rate service:

Individual line service	\$ 4.00
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Joint user service not offered in Reseda exchange

Exchange Service Schedule No. 35-T (Cont'd.)

Foreign Exchange Service - Southern California

Los Angeles Service in Noncontiguous Exchanges
Outside Los Angeles Extended Area

Where Offered

Business Message Rate Service:

Each individual line station
First trunk line
Each additional trunk line

Rate per Month

200 - \$10.75 - 5¢
300 - 17.50 - 5¢
2.50

Each Mile or Fraction Thereof

Foreign Exchange Mileage Rate:

Each individual line primary station
and each PBX trunk line

\$ 7.00

Listed Routes Between Contiguous Exchanges

Primary rates for foreign exchange local and extended services are adjusted to the extent required by changes in the basic individual line, party-line, and PBX trunk rates.

Foreign Exchange Mileage Rate:

Where both the foreign exchange and local
exchange are within the Los Angeles Extended Area:

Business and Residence Foreign
Exchange Service:

Rate for each 1/4 Mile
or Fraction Thereof
per Month

Each individual line primary station
and each PBX trunk
Each two-party line primary station:
Extended flat rate
Extended message rate
Local flat rate
Each four-party line primary station
Each suburban line primary station

First One-half Mile Zone	Beyond First One-half Mile Zone
\$ 1.50	\$1.50
1.25	-
1.00	-
1.25	1.25
1.00	1.00
.50	.75

Where either the foreign exchange or local
exchange or both are outside the Los Angeles
Extended Area:

Business Foreign Exchange Service:

Rate for each 1/2 Mile
or Fraction Thereof
per Month

Each Individual Line Primary Station
and Each PBX Trunk:

San Bernardino service in Colton
Redlands " in Highland
San Bernardino " in Colton
Corona " in Riverside
Other business foreign exchange services

First Mile	Second Mile	Over Two Miles
\$3.50	\$6.50	\$9.50
3.50	6.50	9.50
3.50	6.50	9.50
3.50	3.50	3.50
3.50	3.50	3.50

Exchange Service Schedule No. 35-T (Cont'd.)

Foreign Exchange Service - Southern California

Listed Routes Between Contiguous Exchanges

Foreign Exchange Mileage Rate:

Residence Foreign Exchange Service:

Rate for each 1/4 Mile
or Fraction Thereof
per Month

Each individual line primary station
and each PBX trunk
Each two-party line primary station
Each four-party line primary station
Each suburban line station

First One-half Mile Zone	Beyond First One-half Mile Zone
\$ 1.75	\$ 1.75
1.25	1.50
1.00	1.25
.50	.75

Joint User Service:

Where Offered:

The joint user rate is one-half of the business individual line rate before any message increment is added, plus the joint user rate for individual line or PBX in the serving exchange, as set forth in Schedule No. 21-T, rounded to the lower 50¢ multiple.

Listed Routes Between Noncontiguous Exchanges

Primary rates for foreign exchange local service are adjusted to the extent required by changes in the basic individual line and PBX trunk rates.

Foreign Exchange Mileage Rate:

Each Mile or Fraction
Thereof - per Month

Each individual line primary station and
each PBX trunk

\$ 7.00

Teletypewriter Exchange Service Schedule No. 43-T

Rates for TWX connections are authorized to be increased by 12%.

Private Line Telephone Service Schedule No. 45-T

Rates for interexchange private line telephone service are authorized to be increased from \$5.00 to \$5.60 per airline mile per month.

Private Line Teletypewriter and Morse Schedule No. 46-T

The basic rate used in deriving the interexchange private line teletypewriter and Morse channel rates is authorized to be increased from \$2.00 to \$2.25 per airline mile per month.

Toll Service Schedule No. 53-T

Message Toll Telephone Service

		Station Service				Person Service			
		Paid and Collect a				Paid and Collect			
Mileage		Day Exc. Sund.	Night and Sunday	Day (Except Sunday)	Night and Sunday	Day (Except Sunday)	Night and Sunday	Day (Except Sunday)	Night and Sunday
	Up to:	First:	Each:	First:	Each:	First:	Each:	First:	Each:
	and:	3:	Addl.:	3:	Addl.:	3:	Addl.:	3:	Addl.:
Over:	Incl.:	Mins.:	Min.:	Mins.:	Min.:	Mins.:	Min.:	Mins.:	Min.:
0	10	\$0.10	\$0.05 ^b	Same as day rate	\$0.30	\$0.10	\$0.05	Same as day rate	
10	15	.15	.05	Same as day rate	.35	.10	.05	Same as day rate	
15	20	.20	.05	Same as day rate	.40	.10	.05	Same as day rate	
20	25	.25	.05	Same as day rate	.45	.15	.05	Same as day rate	
25	30	.30	.10	Same as day rate	.50	.15	.10	Same as day rate	
30	35	.35	.10	Same as day rate	.55	.15	.10	Same as day rate	
35	40	.40	.10	Same as day rate	.60	.20	.10	Same as day rate	
40	50	.45	.15	Same as day rate	.65	.20	.15	Same as day rate	
50	60	.50	.15	Same as day rate	.75	.25	.15	Same as day rate	
60	70	.55	.15	\$0.50	\$0.15	.80	.25	.15	\$0.75 \$0.25 \$0.15
70	85	.60	.20	.50	.15	.90	.30	.20	.80 .25 .15
85	100	.65	.20	.55	.15	.95	.30	.20	.85 .25 .15
100	115	.70	.20	.60	.20	1.05	.35	.20	.95 .30 .20
115	130	.75	.25	.65	.20	1.10	.35	.25	1.00 .30 .20
130	150	.80	.25	.70	.20	1.20	.40	.25	1.10 .35 .20
150	175	.85	.25	.70	.20	1.25	.40	.25	1.10 .35 .20
175	200	.90	.30	.75	.25	1.35	.45	.30	1.20 .40 .25
200	225	.95	.30	.80	.25	1.40	.45	.30	1.25 .40 .25
225	250	1.00	.30	.85	.25	1.50	.50	.30	1.35 .45 .25
250	275	1.05	.35	.90	.30	1.55	.50	.35	1.40 .45 .30
275	300	1.10	.35	.95	.30	1.65	.55	.35	1.50 .50 .30
300	330	1.15	.35	1.00	.30	1.70	.55	.35	1.55 .50 .30
330	360	1.20	.40	1.00	.30	1.80	.60	.40	1.60 .50 .30
360	395	1.25	.40	1.05	.35	1.85	.60	.40	1.65 .55 .35
395	430	1.30	.40	1.10	.35	1.95	.65	.40	1.75 .55 .35
430	470	1.35	.45	1.15	.35	2.00	.65	.45	1.80 .60 .35
470	510	1.40	.45	1.20	.40	2.10	.70	.45	1.90 .60 .40
510	550	1.45	.45	1.25	.40	2.15	.70	.45	1.95 .65 .40
550	590	1.50	.50	1.25	.40	2.25	.75	.50	2.00 .65 .40
590	630	1.55	.50	1.30	.40	2.30	.75	.50	2.05 .65 .40
630	685	1.60	.50	1.35	.45	2.40	.80	.50	2.15 .70 .45
685	740	1.65	.55	1.40	.45	2.45	.80	.55	2.20 .70 .45
740	795	1.70	.55	1.45	.45	2.55	.85	.55	2.30 .75 .45
795	850	1.75	.55	1.50	.50	2.60	.85	.55	2.35 .75 .50
850	905	1.80	.60	1.55	.50	2.70	.90	.60	2.45 .80 .50

- a The minimum charge for a station service collect call is \$0.30 for the first 3 minutes, \$0.10 for each minute for the first three minutes of overtime and \$0.05 for each minute over the first three minutes of overtime.
- b \$0.05 for each 2 minutes of overtime.

The toll rates which apply from an exchange to a contiguous district area of a zone of an exchange are those shown above for 0-10 miles.

WESTERN ELECTRIC CO., INC.

INCOME STATEMENT
(Dollars in Thousands)

		: Change from:	: Change from:
		: Previous	: Year to
		: Month	: Same Period
		: Date	: Prev. Year
	<u>GROSS INCOME</u>		
	Sales		
1	Switchboards		
2	Station Apparatus		
3	Protection & Outside Plant		
4	Radio Telephone Products		
5	Repairs and Services		
6	Specialty Products		
7	Total Apparatus and Equipment		
8	Lead Covered Cable		
9	Rubber Covered Wire		
10	Line Wire		
11	Total Lead Covered Cable & Wire		
12	Supplies		
13	Total Sales		
	Other Income, Including Equity in		
14	Earnings of Subsidiaries		
15	Total Gross Income		
	<u>COSTS</u>		
16	Wages and Salaries		
17	Payments to Trustee of Pension Fund		
18	Social Security Taxes		
19	Provision for Force Adjustment		
20	Other Employment Costs		
21	Total Employment Costs		
22	Development & Eng'r. Services B.T.L.		
23	Materials & Other Services Purchased		
24	Federal Income Taxes		
25	Other Taxes		
26	Total Taxes		
27	Provision for Depreciation of Plant		
28	Provision for Equalization of Development		
29	Provision for Plant Recon. and Deferred		
	Maintenance		
30	Total Cost		
31	Increase in Merchandise Inventory		
32	Cost of Plant Manufactured		
33	Force Adjustment Charged to Reserve		
34	Plant Recon. & Deferred Maintenance		
	Charged to Reserve		
35	Other Deferred War Costs Charged to Res.		
36	Total Cost Applicable to Gross Income		
37	<u>INCOME AVAILABLE FOR INTEREST & DIVIDENDS</u>		
38	<u>INTEREST ON BORROWINGS</u>		
39	<u>NET INCOME</u>		
40	<u>NET INVESTMENT</u>		
41	<u>PER CENT RETURN ON NET INVEST. (ANNUAL BASIS)</u>	XXXXX	XXXXX
42	<u>NET INCOME PER SHARE OF STOCK (ANNUAL BASIS)</u>	XXXXX	XXXXX

Subject to Interim and Year-end Adjustments.

WESTERN ELECTRIC CO., INC.

STATEMENT OF FINANCIAL POSITION
(Dollars in Thousands)

		Change From End of	
	End of	Previous	Previous
	Month	Month	Year

CURRENT ASSETS

- 1 Cash and Marketable Securities
- 2 Receivables from Bell Telephone Cos.
- 3 Receivables from Others
- 4 Total Receivables
- 5 Completed Merchandise-Manufactures
- 6 Completed Merchandise-Supplies
- 7 In Process Merchandise
- 8 Raw Material and Expense Supplies-Mdse..
- 9 Merchandise-Inventory Valuation
- 10 Net Merchandise Inventory
- 11 Total Current Assets

CURRENT LIABILITIES

- 12 Payable to Suppliers, Employees & Others
- 13 Federal, State & Municipal Taxes Payable
- 14 Total Current Liabilities

15 NET CURRENT ASSETS (Working Capital)

16 RENT, INSURANCE, & OTHER PREPAID COSTS

INVESTMENTS

- 17 Investments in Subsidiary Cos., (at Equity Value)
- 18 Investments in Bell Labs. (at Cost)
- 19 Other Investments
- 20 Total Investments

PLANT

- 21 Land
- 22 Buildings, Service Equip. & Machinery
- 23 Small Tools, Furniture and Fixtures
- 24 Total Plant at Cost

25 TOTAL ASSETS LESS CURRENT LIABILITIES

RESERVES FOR

- 26 Depreciation of Plant
- 27 Equalization of Development
- 28 Force Adjustments
- 29 Plant Reconversion and Deferred Mainten.
- 30 Self Insured Risks
- 31 Total Reserves

32 NET ASSETS

Subject to Interim and Year-end Adjustments.

WESTERN ELECTRIC CO., INC.

REANALYSIS OF CERTAIN ITEMS IN INCOME STATEMENT AND
STATEMENT OF FINANCIAL POSITION
(Dollars in Thousands)

	: Change from:	: Change from:
	: Previous	: Year to
:Month:	Month	Date
		: Same Period
		: Prev. Year

SALES BY CUSTOMERS

- 1 Bell Telephone Companies
- 2 U.S. Government
- 3 Graybar Electric Company
- 4 Subsidiary & Associated Companies
- 5 Other Customers
- 6 Total Sales

EXPENSES

- 7 Development
- 8 Bell Telephone Laboratories, Inc.
- 9 Standardization of Equipmt.
Specifications
- 10 Patent
- 11 Other
- 12 Total Development Expense
- 13 Special Engineering
- 14 Total Merchandising Expense (Net)
- 15 Total General Expense (Net)
- 16 Total Expenses (Excl. Fed. Inc. Taxes)

	: Change From End of
: End of	: Previous
: Month	: Month
	: Previous
	: Year

MEASURE OF NET ASSETS

- 17 Notes Payable to Banks
- 18 Capital at Stated Value
- 19 Cumulative Net Income Remaining Invested
in the Business
- 20 Total

Subject to Interim and Year-end Adjustments.

WESTERN ELECTRIC CO., INC.
NET PROFITS BY CUSTOMER GROUPS

YEAR _____

	Profits	Net	Per Cent
	After	Invest-	Return on
Sales	Taxes	ment	Net Invest.

BELL TELEPHONE COMPANIES

TELEPHONE PRODUCTS

SWITCHBOARDS

- 1 W.E. Manufactures except:
- 2 Electronics Shop Products
- 3 Switchboard Transmission
- 4 Switchboard Cables & Wires
- 5 Not W.E. Manufactures (W.E.Design)
- 6 Equipment Specifications
- 7 Installation
- 8 Total Switchboards

STATION APPARATUS

- 9 W.E. Manufactures except:
- 10 Telephone Booths & Parts
- 11 Total Station Apparatus

PROTECTION AND OUTSIDE PLANT

- 12 W.E. Manufactures except:
- 13 Clearing Products
- 14 Hardware
- 15 Steel Wire and Strand
- 16 Total Prot.& Outside Plant

RADIO TELEPHONE PRODUCTS

REPAIRS AND SERVICES

- 17 D.H.Repairs, Mfrs., and Services
- 18 H.H.Repairs
- 19 Other
- 20 Total Repairs and Services
- 21 Total Telephone Products

SPECIALTY PRODUCTS

- 22 Total Apparatus and Equipment
- 23 LEAD COVERED CABLE
- 24 RUBBER COVERED WIRE
- 25 LINE WIRE
- 26 Total Lead Covered Cable & Wire

SUPPLIES

- 27 Total Operations

OTHER INCOME (NET)

- 28 Total

XXXXXX

XXXXXX

U.S. GOVERNMENT

TELEPHONE PRODUCTS

SWITCHBOARDS

- 1 W.E. Manufactures except:
- 2 Electronics Shop Products
- 3 Switchboard Transmission
- 4 Switchboard Cables & Wires
- 5 Not W.E. Manufactures (W.E.Design)
- 6 Equipment Specifications
- 7 Installation
- 8 Total Switchboards

STATION APPARATUS

- 9 W.E. Manufactures except:
- 10 Telephone Booths & Parts
- 11 Total Station Apparatus

EXHIBIT C

Page 1

WESTERN ELECTRIC CO., INC.
NET PROFITS BY CUSTOMER GROUPS
YEAR _____

	Profits	Net	Per Cent
	After	Invest-	Return on
Sales	Taxes	ment	Net Invest.

U.S. GOVERNMENT CONT'D.

<u>PROTECTION AND OUTSIDE PLANT</u>			
12	W.E. Manufactures except:		
	Clearing Products		
13	Hardware		
14	Steel Wire and Strand		
15	Total Prot. & Outside Plant		
16	<u>RADIO TELEPHONE PRODUCTS</u>		
	<u>REPAIRS AND SERVICES</u>		
17	D.H.Repairs, Mfrs., and Services		
18	H.H.Repairs		
19	Other		
20	Total Repairs and Services		
21	Total Telephone Products		
22	<u>SPECIALTY PRODUCTS</u>		
23	Total Apparatus and Equipment		
24	LEAD COVERED CABLE		
25	RUBBER COVERED WIRE		
26	LINE WIRE		
27	Total Lead Covered Cable & Wire		
28	<u>SUPPLIES</u>		
29	Total Operations		
30	<u>OTHER INCOME (NET)</u>	xxxxxx	
31	Total	xxxxxx	

BELL TELEPHONE LABORATORIES, DIRECTLY OWNED SUBSIDIARY COS., AND EMPLOYEES
TELEPHONE PRODUCTS

<u>SWITCHBOARDS</u>			
1	W.E. Manufactures except:		
2	Electronics Shop Products		
3	Switchboard Transmission		
4	Switchboard Cables & Wires		
5	Not W.E.Manufactures (W.E.Design)		
6	Equipment Specifications		
7	Installation		
8	Total Switchboards		
9	<u>STATION APPARATUS</u>		
10	W.E.Manufactures except:		
11	Telephone Booths & Parts		
12	Total Station Apparatus		
13	<u>PROTECTION AND OUTSIDE PLANT</u>		
14	W.E.Manufactures except:		
15	Clearing Products		
16	Hardware		
17	Steel Wire and Strand		
18	Total Prot. & Outside Plant		
19	<u>RADIO TELEPHONE PRODUCTS</u>		
20	<u>REPAIRS AND SERVICES</u>		
21	D.H.Repairs, Mfrs., and Services		
22	H.H.Repairs		
23	Other		
24	Total Repairs and Services		
25	Total Telephone Products		
26	<u>SPECIALTY PRODUCTS</u>		
27	Total Apparatus and Equipment		

WESTERN ELECTRIC CO., INC.
NET PROFITS BY CUSTOMER GROUPS
YEAR _____

	Profits	Net	Per Cent
	After	Invest-	Return on
Sales	Taxes	month	Net Invest.

TOTAL NON-BELL CUSTOMERS

TELEPHONE PRODUCTS

SWITCHBOARDS

- 1 W.E.Manufactures except:
- 2 Electronics Shop Products
- 3 Switchboard Transmission
- 4 Switchboard Cables & Wires
- 5 Not W.E.Manufactures (W.E.Design)
- 6 Equipment Specifications
- 7 Installation
- 8 Total Switchboards

STATION APPARATUS

- 9 W.E.Manufactures except:
- 10 Telephone Booths & Parts
- 11 Total Station Apparatus

PROTECTION AND OUTSIDE PLANT

- 12 W.E.Manufactures except:
- Clearing Products
- 13 Hardware
- 14 Steel Wire and Strand
- 15 Total Prot. & Outside Plant

RADIO TELEPHONE PRODUCTS

REPAIRS AND SERVICES

- 17 D.H.Repairs, Mfrs., and Services
- 18 H.H.Repairs
- 19 Other
- 20 Total Repairs and Services

21 Total Telephone Products

22 SPECIALTY PRODUCTS

- 23 Total Apparatus and Equipment
- 24 LEAD COVERED CABLE
- 25 RUBBER COVERED WIRE
- 26 LINE WIRE
- 27 Total Lead Covered Cable & Wire

28 SUPPLIES

- 29 Total Operations

30 OTHER INCOME (NET)

- 31 Total

xxxxxx

xxxxxx

WESTERN ELECTRIC CO., INC.
NET PROFITS BY CUSTOMER GROUPS
YEAR _____

	Profits	Net	Per Cent
	After	Invest-	Return on
Sales	Taxes	ment	Net Invest.

ALL CUSTOMERS

TELEPHONE PRODUCTS

SWITCHBOARDS

- 1 W.E.Manufactures except:
- 2 Electronics Shop Products
- 3 Switchboard Transmission
- 4 Switchboard Cables & Wires
- 5 Not W.E.Manufactures (W.E.Design)
- 6 Equipment Specifications
- 7 Installation
- 8 Total Switchboards

STATION APPARATUS

- 9 W.E.Manufactures except:
- 10 Telephone Booths & Parts
- 11 Total Station Apparatus

PROTECTION AND OUTSIDE PLANT

- 12 W.E.Manufactures except:
- 13 Clearing Products
- 14 Hardware
- 15 Steel Wire and Strand
- 16 Total Prot. & Outside Plant

RADIO TELEPHONE PRODUCTS

REPAIRS AND SERVICES

- 17 D.H.Repairs, Mfrs., and Services
- 18 H.H.Repairs
- 19 Other
- 20 Total Repairs and Services
- 21 Total Telephone Products

SPECIALTY PRODUCTS

- 22 Total Apparatus and Equipment
- 23 LEAD COVERED CABLE
- 24 RUBBER COVERED WIRE
- 25 LINE WIRE
- 26 Total Lead Covered Cable & Wire

SUPPLIES

- 27 Total Operations

- 30 OTHER INCOME (NET)

- 31 Total

XXXXXX
XXXXXX