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Original

Decision No. 42445

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 in this proceeding are listed in an appendix.)

O P I N I O N

By the above-entitled application, filed November 29, 1948, The Pacific Telephone and Telegraph Company sought an increase of $33,655,000 annually in intrastate telephone rates and charges. Counsel for applicant during argument requested that the amount be increased to $38,500,000.

After seven days of hearings and after argument, the Commission acted on the company's motion for a grant of interim rates. An interim rate increase totaling $13,000,000 on an annual basis was authorized by Decision No. 42530 in this proceeding, issued February 23, 1949. The toll rates and installation charges authorized were effective March 21, and the exchange rates were effective by billing rounds beginning as of that date.

Further hearings thereafter were held before Commissioner Huls and Examiner Howard, both at San Francisco and Los Angeles, and the matter submitted after oral argument. The entire record in the

earlier rate increase proceeding (Application No. 28211), including the record in the Order to Show Cause Proceeding, which related to the license fee payments to the American Telephone and Telegraph Company, was ordered made a part of the record herein by reference. The record in the present proceeding comprises 3,491 pages of transcript of 30 days of hearings at which 58 witnesses[1] were heard and 185 exhibits received in evidence. The arguments were heard before the Commission in bank at San Francisco on June 20 and 21, 1949, and the matter submitted for decision on the latter date.

The evidence considered herein is reviewed in the following sections:

I	Issues as to Present Earnings
II	Western Electric Company
III	Service Pension Costs
IV	Other Factors Affecting Earnings
V	Conclusions as to Present Earnings
VI	Cost of Money and Fair Rate of Return
VII	Amount and Distribution of Rate Increase
VIII	Toll Timing Practices
IX	Specific Service and Rate Issues

In reviewing the evidence, we shall not repeat all that has been set forth in the several decisions[2] in Application No. 28211 and in the interim opinion and order (Decision No. 42530 dated February 23, 1949) in this present proceeding, and this opinion and order should be read as though said decisions were incorporated herein as modified to the extent warranted by the additional evidence now before the Commission.

1/ A list of the witnesses in this proceeding is attached as an appendix.

2/ Interim Decision No. 40437 of June 24, 1947; Second Interm Decision No. 40655 of August 26, 1947; Third Interim Decision No. 41021 of December 17, 1947; Final Decision No. 41416 of April 6, 1948; and Decision No. 42529 of February 23, 1949.

I - Issues as to Present Earnings

The record contains actual and estimated earnings data for California intrastate operations for several test periods. The resulting rates of return, as determined by applicant and by the Commission's staff, are as follows:

Test Period	Company Rate of Return	Company Source	Comm. Staff Rate of Return	Comm. Staff Source
Results Based on Actual Operations				
4 Mos. Ended 10-31-48	5.5%	Ex. 59		
4 Mos. Ended 2-28-49	4.6	Ex. 59	4.7%	Ex.101
4 Mos. Ended 4-30-49	4.5	Ex.181		
Estimated Results for First 6 Mos. of 1949				
Original Estimate	4.9%	Ex. 59	5.0%	Ex.100
Final View of Witness Kietzman on 6-17-49	4.5	Testimony		

Results of intrastate operations, separated to the various categories of operation, both on the company basis and as adjusted by the Commission staff, are available for the estimated first six months of 1949 and the actual four months ended February 28, 1949. The resulting rates of return are as follows:

Categories	Estimated First 6 Months of 1949		Actual 4 Months Ending February 28,1949	
	Est. by Applicant Ex.59,p.4	Adj. by Staff Ex.100	Applicant Ex.59,p.7	Staff Ex.101
Exchange:				
S.F.-E.B. Extended Area	3.5%	3.6%	2.9%	3.1%
L.A. Extended Area	5.8	6.1	5.3	5.6
San Diego Extended Area	6.2	6.4	5.1	5.3
Other Exchanges -No. Calif.	2.9	2.8	2.5	2.6
Other Exchanges -So. Calif.	(0.5)	(0.4)	(1.0)	(0.8)
Total Exchange	4.5	4.7	3.9	4.2
Intrastate Toll	6.5	6.3	7.1	6.9
Total Intrastate Operations	4.9	5.0	4.6	4.7
Interstate Toll	6.0	#	5.2	#
Total State Operations	5.0	#	4.6	#

(Red Figure)

Not calculated.

In the preceding tabulation, the company and Commission staff rates of return reflect different treatment of a number of items as follows:

Item	Company	Staff
Directory advertising rate increases	Realized increases included	Full-year effect included
Allowance for base rate area revisions	Not included	Included
Proposed change in toll timing to ten-second allowance basis	Not included	Included
General services and licenses	1% of revenue	Allocated cost basis
Excess Western Electric Company charges	Included	Not included
Lunch room losses	Included	Not included
Pension accruals charged to Account 323	Included	Not included

Taxes have been determined on a basis consistent with the revenues and expenses by both company and staff.

All of the above earnings are adjusted in all cases to reflect present rate levels, to reflect the effect of the interim rates authorized by Decision No. 42530 of February 23, 1949, and to reflect certain changes in the rates for pension accruals and social security taxes recently effective.

The results for the four months ended April 30, 1949, have been separated only as between northern California and southern California. The rates of return on the company basis are: northern California 3.6%, southern California 5.3%.

The separation of plant, revenue and expense as between state and interstate operations and to various categories within the state have been made in accordance with the principles set forth in the Separations Manual jointly prepared by the NARUC-FCC Cooperative Committee.[3/]

3/ The Separations Manual, as revised in October, 1947, was jointly prepared by a committee of staff members of the Federal Communications Commission and state regulatory commissions acting through the National Association of Railroad and Utilities Commissioners and in conference with representatives of the Bell System and the Independent Telephone Industry.

II - Western Electric Company

By Decision No. 41416 in Application No. 28211, the Commission directed attention to the costs of conversion from manual to dial operation, and reviewed the system policies which led to the scrapping of step-by-step installations of independent companies acquired by the Pacific Company. In the present proceeding, applicant has presented evidence to show that in most instances the offices acquired by the Pacific Company were manually operated at the time of installation, and that where the independents assumed the consolidated operation, only Santa Monica was dial at the time of consolidation. The evidence shows that at certain exchanges where the Pacific Company assumed the consolidated operations, namely, San Francisco, Los Angeles, and Riverside, the step-by-step equipment had been installed by independent companies. After consolidation, the step-by-step equipment providing for customer dialing at San Francisco and Riverside was removed. On the other hand, the City of Los Angeles, by Ordinance No. 39909 enacted during March, 1920, provided that:

> "In the installation of subscriber stations, the Southern California Telephone Company shall have the right to determine whether each installation shall be automatic or manual in accordance with the best or most efficient use of the systems, provided, however, that no policy of making installation shall be pursued which will interfere with or prevent the eventual making of said system into a complete automatic system, and provided further that said company shall have no power to arbitrarily remove any automatic telephones theretofore installed."

The Los Angeles exchange is now operated entirely with the step-by-step type of automatic switching and no local manual operation remains.

The Commission expressed the opinion in Decision No. 41416 that Pacific should take steps to obtain relief from the American Company immediately in the following respect among others:

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

In response, the company reviewed its reasons for considering Western's prices reasonable. However, the Commission notes that Western's earnings in 1948 from the manufacture of switchboards, by its

own calculations, amounted to over 16% return on its net investment, while it earned 9.9% return on the installation of switchboards and 13.4% on the equipment specifications. Station apparatus was sold to Bell Companies at a return of 18.9% during the year. Over-all earnings on all sales allocated to Pacific Company for California operations were 12.6%.

In its initial showing in the present proceeding, applicant virtually duplicated the exhibits in Application No. 28211 showing that (a) Western's charges to Bell Customers were substantially less than costs to independent companies from independent manufacturing companies for similar equipment, and (b) Western earned less over a period of years than the average of 50 large manufacturers.

It is a fact that Western found only 20% or 344 out of the total of 1,688 items of its station apparatus, protectors and rubber covered wire could be compared with the independents; in central office and private branch exchange apparatus, only 40% was found comparable.

The showing in comparison with independent manufacturers included a special study of the purchases of the Associated Telephone Company, Ltd. This exhibit states:

> "The Associated Telephone Company, Ltd., operated 16 telephone exchanges with 112,000 stations in southern California as of December 31, 1939. Among the larger of the exchanges are those at Long Beach, Santa Monica, and West Los Angeles. A large proportion of the Associated Telephone Company's exchanges are in the multi-office Los Angeles area and connect with the exchanges of the Southern California (Bell) Telephone Company, so that the general needs of these two companies for telephone material are reasonably similar."

The record made by applicant was not complete as to a comparison of installation costs, engineering and fundamental development costs. The staff presented a comparison of exchange rates for comparable sized exchanges of the Associated Telephone Company, Ltd., including the six largest independently owned and operated exchanges in California, all using step-by-step dial automatic equipment. The Commission makes no finding on either the applicant's or staff's evidence as to this particular item of comparative costs and attaches no weight thereto.

The staff, in presenting evidence as to earnings, followed the previous decisions of the Commission in considering Western as a manufacturing and construction department controlled by an affiliated company, and made adjustments for 1948 and 1949 to reflect earnings of Western in harmony with those allowed applicant. The staff did not make an adjustment for purchases made prior to 1948, although it made a study of purchases made prior to 1948 to be certain that such an adjustment would not tend to increase charges to plant and expense for prior years. On cross-examination of the staff witness, applicant endeavored to challenge this conclusion because the excess profits tax factors had not been applied in the years 1941-1946. However, the record shows that the staff witness considered the whole period and concluded that his use of a tax factor based upon the normal and surtax alone was justified because of the fact that the period during which the excess profits tax applied included years of low earnings and of losses from Western's Bell business. He testified that he could not see how there would be a full effect of the excess profits tax in these years. Applicant's counsel submitted Exhibit 159, for which no proper foundation was laid, and on which no testimony was adduced by applicant. The pending motion of the staff that the document not be received in evidence, remaining unanswered by applicant, is hereby granted.

Applicant called two experts, Dr. Joel Dean and Dr. J. Hugh Jackson, who both testified to the effect that Western's earnings could not be compared with those of a utility because of the greater volatility of the manufacturing industry as measured by fluctuations of sales and profits.

Dr. Dean compared Western with four groups of manufacturers for the period 1925-1947, as follows:

(a) 70 Durable Goods Manufacturers.
(b) 9 Suppliers of Electric Utilities.
(c) 30 Electric Products Manufacturers.
(d) 22 Auto Parts Manufacturers.

The record shows that none of the 70 durable goods manufacturers acts as sole purchasing agent for the companies to whom they supply equipment. The Pacific Telephone and Telegraph Company does not have a purchasing agent except in so far as Western acts as its purchasing agent. This circumstance, in our opinion, detracts from the weight to be accorded to such comparison.

Dr. Dean used an "inter-quartile" method of measuring volatility of earnings of these companies as compared with Western. We do not find it necessary to discuss all of the ramifications of this study. However, little weight should be given the variations of Western's earnings in the past because of changes in accounting and reserve accumulation policies in recent years which inherently will give greater stability to its earnings in future periods.

Before leaving the analysis by Dr. Dean, however, it is appropriate to discuss certain phases of the study. Dr. Dean used only the large prosperous companies in each group. He gave consideration only to companies having a continuous public record of earnings. As it is not unreasonable to assume that under competitive pricing conditions some disparity of earnings will result, ranging from companies in a very favorable profit position through the successful to the less successful and the failures, it appears to this Commission improper to select only certain successful companies for comparison.

Dr. Dean selected 22 auto parts companies for comparison because he thought these companies would yield earnings comparable to earnings of potential competitive telephone manufacturing companies. He felt the buying pressure of a group of large telephone operating companies would be similar to the buying pressure brought by the large automobile manufacturers on the parts manufacturers. The record shows there are thousands of parts manufacturing companies in the United States. Even more important, in our opinion, is the competitive

pressure, in the competition for survival of these companies, to find means for lowering costs of production as compared to competitors, so that earnings may be improved and survival made that much more certain. Western is under no such pressure, and Dr. Dean's assumption that cost comparisons (as distinguished from earnings) may be considered equal may be far from correct. Another important element is that Western, by December 31, 1947, by accruals charged to expenses had accumulated special reserves (other than depreciation) amounting to 9.3% of the net investment exclusive of such reserves, whereas the 22 auto parts companies had similar reserves averaging only 3.5% of the corresponding net investment. By April 30, 1949, Western's reserve ratio had grown to 12.4%.

Finally, it should be pointed out that Western operates a supply department quite separate from its manufacturing department, and also performs specifications engineering and central office equipment installation functions.

Earnings of the various segments of Western's over-all operations for the period 1925-1947 and 1948 as compared with per cent of net profit to sales are as follows:

	% Net Profit to Net Investment		% Net Profit to Sales	
	1925 to 1947	1948	1925 to 1947	1948
Bell Business:				
Mfg. of Apparatus and Equipment	8.1%	14.8%	6.0%	7.4%
Mfg. of Cables and Wires	8.4	4.3	5.4	1.9
Equipment Specifications	(1.0)	13.4	(0.4)	4.7
Installation	9.8	9.9	1.9	1.2
Supplies	4.0	11.5	0.9	2.0
Total Sales - Bell Customers	7.7	12.5	4.1	4.7
Other Income	2.2	10.8	-	-
Total Bell Business	6.8	12.4	4.1	4.7
Non Bell Business	7.3	6.3	2.2	1.4
Grand Total	7.0	11.6	3.5	4.4

(Red Figure)

In 1948, Western changed its method of determining cost for inventory purposes on its books from the "first-in-first-out" to a modified "last-in-first-out" method. For income tax purposes, however, the former method is continued. The adoption of this accounting change reduced the net income of Western in 1948 by $9,400,000. Dr. Jackson testified that this method would tend to reduce fluctuation of earnings by reducing earnings in a high cost year such as 1948 and tend to increase earnings in future years as prices decline, citing two large companies which had made this accounting change toward the close of World War I with a resultant stabilization of their earnings in the postwar period.

In recent years Western also has accumulated several special reserves other than depreciation. Balances in reserves other than depreciation, as of December 31, 1948, are as follows:

Equalization of Development	$38,374,000
Force Adjustments	11,946,000
Plant Reconversion	10,673,000
Deferred Maintenance	2,923,000
Self-Insured Risks	631,000
Total Special Reserves	$64,547,000

The reserve accruals are not deductible for income tax purposes. Income tax deductions will be taken as the expenditures actually are made in the future. Thus, if prices are based on a specified rate of return, for example in 1948, and the same procedure is followed in future years, these reserves are more of a hedge against future charges than would appear from the books. For instance, at present tax rates and assuming existence of taxable income, the present reserves of approximately $65,000,000 would permit charges up to $105,000,000 in future years, assuming maintenance of a constant return.

Dr. Dean presented a study on "real economic earnings" related to 1935 price levels as a base. He determined the deflated profit for each year as the difference between the beginning and end of year deflated net investment, after taking into consideration the dividends, interest charges and changes in capital during the year. This study shows General Electric Company and Radio Corporation of America with better earnings over the period 1935 to 1947 than Western, with Westinghouse Electric Corporation showing poorer earnings. The study shows Western's earnings as a loss of $25,000,000 in 1947 instead of the profits of over $32,000,000 actually earned. Dr. Dean, upon being confronted with the fact that over 50% of Western's plant was installed at price levels of 1945 to 1948, declined to commit himself as to whether he would accept the "real economic earnings" theory as related to plant and depreciation at that price level if prices declined in the future.

The record shows that Westinghouse, whose "real economic earnings" over the period 1935 to 1947 were less than Western's, is in a sound financial position, is about the same size as Western, increased its plant investment since the war in about the same amount as Western, and was able to finance with preferred stocks at rates of 3.5% to 3.8%. Its bonds are rated by Moody's as Aa, and its common stock is selling near its book value.

Western's actual weighted average earnings from its apparatus and equipment manufacturing, and over-all earnings during 1925-1947 (the period used by Dr. Dean for analysis of actual earnings) as compared to Westinghouse are as follows:

	% Net Profit to Net Investment
Westinghouse	6.5%
Western (Apparatus and Equipment) (Bell)	8.0
Western (Total Business)	7.0

General Cable Corporation, although burdened with an inflated capital structure until recently, compares with Western as follows in respect to earnings for the same period:

	% Net Profit to Net Investment
General Cable	4.6%
Western (Cable and Wire) (Bell)	8.4
Western (Total Business)	7.0

Western's over-all earnings during the period 1935 to 1947 were 7.5% as compared to the 7.0% earnings over the longer period 1925-1947.

In our interim Decision No. 42530, herein, we held that Western Electric was entitled to no greater return on its sales to applicant than applicant was entitled to as against its rate payers, which was found to be 5.6%. Accordingly, in said decision we reduced the contemplated interim rate increase by $900,000 and reserved further consideration of that subject until the final decision herein. The record in this proceeding, now complete, convinces us all the more of the correctness of our view on this subject stated in said decision.

It must be kept in mind that Western Electric manufactures over 90% of all telephone apparatus and equipment, while the independent manufacturers compete for the remaining business. In such circumstances, little weight can be given to price comparisons between Western's prices and the prices charged by these independent manufacturers. There is no realistic or rational basis for comparison because of the monopolistic position occupied by Western. Absence of competition, unless there be strict governmental regulation, tends to increase prices because the seller, being in a monopolistic position, may control the price of his product.

The testimony of Dr. Dean, witness for the applicant, to the effect that Western's prices are reasonable and that applicant is not overcharged in sales made to it by Western, does not impress us for the reason that it is contrary to generally accepted economic laws relating to competition and price levels, which free competition controls.

The Supreme Court of the United States, in two well considered decisions, has held that Western Electric was organized by and is controlled by American Telephone and Telegraph Company. (Smith v. Illinois Bell Telephone Company, 282 U.S. 133, 152-153, 75 L. ed. 255, 265; Lindheimer v. Illinois Bell Telephone Company, 292 U.S. 151, 156, 78 L. ed. 1182, 1187.) Also, we have held in Decision No. 41416, (48 Cal. P.U.C. 1, 14) and Decision No. 42529, (48 Cal. P.U.C. _____), both rendered in Application No. 28211, that applicant is dominated and controlled by American Telephone and Telegraph Company. In other words, Western and applicant are arms of the same corporate combine in the Bell System. As a general rule of law, an affiliate is not entitled to realize a profit at the expense of a sister affiliate. (California Oregon Power Company v. Federal Power Commission, 150 Fed (2d) 25, 27-28 - certiorari by Supreme Court denied, 326 U.S. 781, 90 L. ed. 473; Alabama Power Company v. McNinch, 68 App. D.C. 132, 94 Fed. (2d) 601, 618-621; Niagara Falls Power Company v. Federal Power Commission, C.C.A.(2d), 137 Fed.(2d) 787, 793; Alabama Power Company v. Federal Power Commission, C.C.A.(5th), 134 Fed.(2d) 602, 609; Puget Sound Power and Light Company v. Federal Power Commission, 78 App. D.C. 143, 137 Fed.(2d) 701, 702-703; Pennsylvania Power and Light Company v. Federal Power Commission, C.C.A.(3rd), 139 Fed.(2d) 445, 453.)

The California Oregon Power Company case, supra, involved a situation similar to the one here presented. That utility was a subsidiary of Standard Gas and Electric Company. Also, the Byllesby Engineering & Management Corporation was a subsidiary of Standard.

The Court held that it was proper for the Federal Power Commission to disallow any profit on transactions taking place between California Oregon Power Company and Byllesby for the reason that these two companies were arms of the same corporate combine. The Court pointed out that, in such circumstances, the Standard Gas and Electric Company system was, in effect, one corporation. The Court further pointed out that adherence to this principle of no profit between affiliates was calculated to eliminate the padding from utility accounts in a holding company system. Furthermore, the Court observed that corporate history showed that holding companies had been among the chief offenders in the padding of accounts. There is no difference in principle between the situation that was presented in the California Oregon Power Company case and the instant situation presented in this proceeding; we therefore adhere to the salutary principle announced in that case. The Court in that case adhered to a rule that had theretofore been upheld by several of the Courts of Appeal of the United States. The rule was not a new one.

In a corporate combine, such as is presented by the Bell System, the burden rests heavily upon an affiliate to prove the fairness of a contract or transaction with another affiliate in such corporate combination. (Concurring opinion of Mr. Justice Black in United Gas Public Service Company v. Texas, 303 U.S. 123, 151, 82 L. ed. 702, 721; Pepper v. Litton, 308 U.S. 295, 306-307, 310-311, 84 L. ed. 281, 289, 291.) The mere fact that an affiliate has paid for property purchased from another affiliate does not create any presumption of reasonableness of the price so paid, or the propriety or necessity for the purchase in question. (New England Telephone and Telegraph Company v. State of New Hampshire (Supreme Court of State of New Hampshire, February 1st, 1949), 64 Atlantic (2d) 9, 78 P.U.R. (N.S.) 67, 78.)

Mr. Justice Black summed the matter up rather succinctly in his concurring opinion in the United Gas Public Service Company case at pages 150-151 of the United States Report, when he said:

> "When a public utility chooses to pay out a large part of its 'operating expenses' to corporate associates, affiliates, etc., these payments might conceivably be used to drain the operating company's income and to inflate the 'operating expenses.' Inflated operating expenses inevitably lead to inflated rates. Since affiliates, associates, etc., do not ordinarily deal at 'arm's length' appellant had the burden of proving the fairness and reasonableness of all expenditures made or charged as inter-company transactions."

We do not deem it necessary to discuss all the facets of the subject involving the relationship between Western and applicant, although they have been considered, because the ultimate conclusion we have arrived at, as set out above, disposes of all such matters adversely to the contentions of applicant. We adhere to the principle announced by us in Interim Decision No. 42530, rendered in this proceeding, that Western Electric is entitled to no greater return on its sales to applicant than applicant is entitled to as against its ratepayers.

The record shows the reported earnings of Western over the years to be as follows, based on the company's own calculations:

	Percent Return on Net Investment		
Period	Total	Allocated to Bell Sales	Allocated to Pacific Co.
1916 to 1947	7.1%	6.8%	7.1%
1916 to 1948	7.4	7.3	7.7
1925 to 1947	7.0	6.8	7.0
1925 to 1948	7.4	7.4	7.7
1935 to 1947	7.5	8.1	7.9
1935 to 1948	8.1	8.9	8.7

If an adjustment corresponding to that recommended by the staff in this proceeding were applied to the respective operations, then the adjusted earnings for the period 1916 to 1948, as compared

with the reported earnings for 1916 to 1947 and for 1916 to 1948 would be:

Period	Total	Allocated to Bell Sales	Allocated to Pacific Co.
1916 to 1947 (Reported)	7.1%	6.8%	7.1%
1916 to 1948 (Reported)	7.4	7.3	7.7
1916 to 1948 (With 1948 Adjusted)	7.0	6.7	7.0

While the staff figures as presented in the record indicated an even greater adjustment could be made if operations prior to 1948 were considered, it did not so recommend because the earlier figures were not of the same degree of preciseness as the figures for the 1948 and 1949 period. Western's 1947 sales approached the 1948 sales in magnitude and its 1947 earnings were higher than the long-term average. The Commission concludes that the adjustment proposed by the staff is conservative.

In considering the years 1948 and 1949, the Commission will make certain changes from the staff presentation. Western's operating results for the first four months of 1949, which were not available at the time of the staff presentation, will be included. The company presented a net investment base which includes marketable securities. The record shows that the amounts of such securities have greatly increased in recent months and by the end of April, 1949, had reached a total of $87,900,000 as compared to very much lesser amounts in prior years. Western also has credit arrangements with banks. In determining the net investment for this purpose, we will not include the marketable securities in the base but will consider such securities as offsetting to that extent the bank borrowings of Western, and therefore we will exclude from income the effect of earnings on such marketable securities which the record shows amount to a little over 1%. The earnings, stated in this manner, are as follows:

Period	Investment Base	Per Cent Return
Year 1948	$434,801,000	12.2%
4 Months Ending 4-30-49	382,705,000	10.8

The record shows the earnings on sales allocated to Pacific's California operations in 1948 were 1% higher than Western's over-all earnings as computed by Western. This would indicate an earning of about 13.2% applicable to sales to Pacific Company for California operations in 1948 on the revised basis of computation. For the four months ended April, 1949, since no allocation of Western's over-all operating results was available, the system figure has been used. While we hereinafter adopt a basic return of not less than 5.6% for applicant, for the purpose of computing the adjustment to Western Electric charges, we utilize the 6% return which we hereinafter relate to the applicant's rate base for the six months' test period ending June 30, 1949.

The amount to be deducted from the Pacific Company's California intrastate rate base for the first six months of 1949 because of capital expenditures is $4,000,000, and the amount by which 1949 intrastate expenses will be reduced is $520,000.

III - Service Pension Costs

Two questions have been raised with respect to service pension costs: (1) the proper treatment for rate-fixing purposes of amounts accrued to "freeze" the unfunded actuarial reserve requirement at the level it had reached on January 1, 1937, which accruals are charged on applicant's books to Account 323, Miscellaneous Income Charges, but which applicant claims are proper current operating expenses; and (2) the effect upon applicant's pension costs of the Bell System policy of not making any transfers of accumulated pension funds when employees are transferred from one Bell Company to another with service credit.

The first of these questions was the subject of extensive evidence in Application No. 28211, and in Decision No. 41416 we stated our conclusion that "accruals in respect of the unfunded reserve requirement for service prior to 1937 should not be included in operating expenses for rate fixing." In determining applicant's operating results in the present proceeding, the Commission's staff has relied upon the above finding, but the applicant has included such accruals in operating expenses as part of current pension costs and has introduced additional testimony and other evidence to justify this treatment.

Our conclusion in Decision No. 41416 was based primarily on the fact that the accruals in question applied to past periods and upon the established principle that costs applicable to past periods are not properly includible in current operating expenses for rate fixing. The company presented additional evidence including the testimony of an actuary and an accountant. Cross-examination developed that neither witness was a rate-making expert or familiar with the principles involved in fixing public utility rates. The additional evidence introduced in the present proceeding does not change the basis of our earlier conclusion. The facts as related to this situation have

not changed (except as to subsequent normal transactions) from the statements shown in Section V of Decision 41416 and will not here be restated.

Let it be clearly understood that this Commission has not disallowed as a charge to operating expense current pension accruals. It is only the retroactive accruals, charged to miscellaneous income, which have not been included in operating expense for rate-fixing purposes. This Commission is well aware of the social desirability of establishing pension systems. However, this fact does not carry with it an approval of provisions of a pension system that place an unlawful burden upon the rate-payers of a public utility. Neither do we imply our approval of all the elements of the pension plan now existing in the Pacific Company. There are definite rules of law governing rate-fixing and this Commission is bound thereby. Broad and plenary as its authority may be to fix rates, it is not free to disregard cardinal principles of rate-fixing. There is no better established rule with regard to the prescription of rates for a public utility than the one that holds that rate-fixing may not be accomplished retroactively, unless some specific statutory or constitutional authority permits. Past deficits may not be made up by excessive charges in the future nor may past profits be reduced by disallowance to future operating expense.

Furthermore, the provisions of Section 32 of the Public Utilities Act plainly and unequivocally state that rates are to be established for the future. It is elementary that rate-fixing is purely legislative and that legislative action operates prospectively and not retroactively. One of the cardinal distinctions between legislative action and judicial action is that the former operates prospectively and the latter generally operates retrospectively, addressing its action to past occurrences. This is the distinction between the prescription of rates and the granting of reparation. (Southern Pacific Company v. Railroad Commission, 194 Cal. 734, 739.) In addition to the

statutory requirement that rates not be fixed retroactively, as laid down in Section 32 of the Public Utilities Act, it is a general rule of law, irrespective of statute, that rates may not be so prescribed. (Ohio Public Utilities Commission v. United Fuel Gas Company, 317 U.S. 456, 461-462, 87 L. ed. 396, 399-400; Transcontinental & Western Airlines v. Civil Aeronautics Board (Supreme Court of the U.S. April 18, 1949), 17 L.W. 4339, 93 L. ed. _____; Michigan Bell Telephone Company v. Michigan Public Service Commission, 315 Mich. 533, 24 N.W. 2d 200.) This Commission has specifically held that it has no authority to issue a retroactive rate order. (Merchants Traffic Association v. A.T. & S.F. Ry. Co., 4 C.R.C. 268, 276.)

We must bear in mind that all facets of this problem must be considered and not merely one facet. In stressing the social aspect of pension systems and their desirability, we should not lose sight of the rights of the rate-payer, which are vouchsafed to him by law. This Commission is not free to dispose of the rights of the rate-payer, secured to him by law, under the guise of supporting a necessary social undertaking. The Supreme Court of the United States has held in the case of Board of Public Utility Commissioners v. N. Y. Telephone Co., 271 U.S. 23, 31-32, 70 L. ed. 808, 812, that disallowance of charges to operating expense in the future may not be used in order to recoup past excessive allowances. And the rule there announced by the Supreme Court was held to work both ways. Neither the stockholder nor the rate-payer could be retroactively affected.

While it is true that pension plans and systems must start sometime, we are not free to use this oversimplification of the problem as a justification for striking down the lawful rights of the rate-payer. The company is now asking for permission to charge to present and future rate-payers what should have been charged to rate-payers in past years. If retroactive charges to operating expense lawfully may be made against the rate-payer in support of a pension system,

there is no reason why retroactive charges to operating expense may not be made for any other purpose that may be deemed desirable.

To sum up: We point out that accruals to a pension fund established by a public utility must conform to established principles of law. To allow these past accruals to be charged against the rate-payer into operating expense would amount to retroactive rate-fixing, which is prohibited by the decisions of the Supreme Court of the United States and by the provisions of the Public Utilities Act, as has been heretofore pointed out. The permitting of these retroactive pension accruals to be charged to operating expense is simply increasing rates retroactively, to the extent of the charges so made, and casting the increased burden upon present and future rate-payers.

We have grave doubt that the Supreme Court of this state would uphold the action of this Commission, should it undertake this type of retroactive rate-fixing. While it is true that other state commissions and courts in other states have permitted that which the company contends for here, it is pointed out that this Commission must operate under the law of the State of California and the rules of rate-fixing as established by the Supreme Court of the United States. What other states may do, may be justified under the particular laws of those states. The Oregon Commissioner allowed these past accruals to be charged to operating expense because a statute of Oregon specifically required such allowance. A three-judge statutory United States District Court, in the case of New England Telephone and Telegraph Company v. United States, 53 Fed. Supp. 400, 409, strongly relied upon by the company, did indicate some sympathy with the philosophy espoused by the company here but that Court upheld an accounting requirement of the Federal Communications Commission that denied to a utility the right to charge in its accounts to operating expense these past pension accruals. That case certainly does not support the position of the

company. As to managerial discretion, we may point out that any action by management that contravenes established principles of rate-fixing cannot be said to be a lawful exercise of such discretion.

One of the reasons stated in our Decision No. 41416 in the prior rate proceeding for not including in operating expenses the pension accruals charged to Account 323, was that "in August, 1926, the American Company's comptroller stated in a memorandum that to charge operating expenses with premiums designed to spread pensions of employees then in service over their remaining service lives, would result in 'penalizing present expense accounts unduly for past delinquencies.'" Applicant introduced this 1926 memorandum as an exhibit in this proceeding and its counsel called attention to the fact that all but one of the methods suggested in the memorandum for meeting the pension problem contemplated charging to current operating expenses the cost of maintaining the plan. After considering the entire memorandum, we still believe the quoted excerpt to be significant inasmuch as it stated the principle. The contention of applicant's counsel that the quoted excerpt could not have applied to the present charge to Account 323 because there was not any such charge in existence at that time, is beside the point.

In view of the foregoing, we see no justification or reason for departing from the position taken by this Commission on this subject in its Decision No. 41416, rendered in Application No. 28211, and we hereby affirm that position.

Turning to the second question, the effect of employee transfers upon pension costs, the Commission in Decision No. 41416 ordered applicant to submit not later than July 1, 1948, a plan for the transfer of accrued pension funds in respect to employees transferred between applicant and other companies of the Bell System. Applicant did not submit such a plan and in this proceeding a company

witness stated that to do so was impossible for two reasons: (1) The Pacific Company has no legal right to assert any claim for payments by other companies in respect to employees transferred therefrom to Pacific because the agreement for interchange of benefit obligations does not provide for such payments; and (2) the pension trust agreement requires that the amount in the trust fund of each company be used solely for service pension payments to retired employees of such company.

Another company witness testified as to the savings in employment and training expenses realized by applicant through its ability to obtain trained and experienced employees by transfer from other Bell companies. He estimated that during the ten years, 1937 through 1946, the Pacific Company saved an average of $1,100,000 per year in employment and training expenses by accepting transfers of experienced people from other Bell System companies (Exhibit 97), and compared this with the $500,000 per year increase in applicant's annual pension accruals which the Commission staff estimated has resulted from employee transfers.

The statement in Exhibit 97 contending that a lower average force experience is accompanied by higher cost of operation appears to be in conflict with the testimony of other witnesses of applicant in both this and the prior proceeding to the effect that labor costs per unit of productivity tend to increase as the employees' length of service increases.

It is apparent from Exhibit 97 that the estimated savings of $1,100,000 per year are gross savings and disregard the offsetting loss in respect to employees trained by the Pacific Company who subsequently transferred to other Bell companies. Exhibit 132 shows that applicant's actuarial reserve requirement on the full-service basis was increased $1,548,964 by reason of transfers-in during the

year ended October 31, 1947, while there was an offsetting reduction of $565,344 by reason of transfers-out, resulting in a net increase of - $983,620 for that period.

We consider it fundamentally sound that transfers of accrued pension funds should be made when employees are transferred within the Bell System, and direct applicant to give serious consideration to such a procedure.

We see no reason to alter our conclusions as to pension costs, as set forth in Decision No. 41416 in Application No. 28211.

IV - Other Factors Affecting Earnings

License Fee

In light of the fact that the regulation concerning the license fee payable by applicant to the American Telephone and Telegraph Company, which regulation we prescribed in Decision No. 42529 and Decision No. 42530, is now effective and is being observed by applicant pending an appeal to the Supreme Court of this state, we do not deem it necessary to incorporate said regulation in this decision. We are of the opinion that said regulation, being of a legislative nature, is prospective in its operation and will apply continuously in the future until terminated in accordance with law. We hold that this regulation will operate upon said license fee, irrespective of any rate increase that we may grant to applicant by this decision. There is nothing in this record that justifies increasing the maximum amount prescribed by said regulation that may be paid by applicant to American, pursuant to said license fee arrangement, which maximum amount was set at $2,250,000 on an annual basis as applied to California intrastate operations of applicant.

Revenue Items

Considerable opposition by applicant was offered on two staff recommendations affecting revenues, namely, an increased basic allowance from the present five seconds to ten seconds in connection

with over-timing of intrastate toll calls, and the inclusion of directory advertising increases. As will be discussed later, we believe applicant should have the opportunity to demonstrate its performance on toll timing, and will not order the ten seconds allowance at this time.

While the inclusion by the staff of revenues from directory advertising rate increases to become effective in the future drew opposition, applicant was silent on the staff's recommendations to include the revenue losses from exchange base rate area expansions to be made in the future. The items are offsetting, not cumulative, as to revenue effect. The only possible expense effect involved in the directory change that would be proper to include is a reduction in expense because of regrading as a result of the increase, not an increase as the company claims. Directory advertising revenues from the increased rates will be included, and the company will be required to file the base rate area expansions.

Dining Room Losses

The staff suggested the disallowance of the annual dining room losses estimated for the first six months of 1949. Applicant contends it has made every effort to operate these dining rooms efficiently, having as objectives higher employee morale and reduced force turnover. It points to similar operations by other concerns and to the order of the Industrial Welfare Commission requiring simple kitchen arrangements when women employees work during night hours. No correlation is noted between locations without dining service and with high force turnover and employment problems. Witness for applicant testified that whether such service is provided is a management decision not related to wage level variation between communities.

It appears that the losses are out-of-pocket, no charge being made for the capital expenditures for the dining rooms and facilities. Employees would still benefit by convenience of location and avoidance of carrying charges on investment and overhead charges, even if the dining room charges were placed at the break-even point. The staff excluded only the traffic department loss. Certain losses occur in the other departments. However, as we believe this service to the employees is in the public interest, we will make no adjustment of these expenses at this time.

Depreciation

It is apparent from the record that changes in the construction plans of the company have been made without corresponding changes in the depreciation rates and accruals. We are not in a position to conclude from this record to what extent the depreciation rates should be changed or whether the actual reserve is higher or lower than a theoretical reserve; therefore applicant will be required to submit the necessary studies in respect thereof as of December 31, 1948, together with proposed accrual rates on both a total life and remaining life straight line basis.

The Rate Base

Other than the Western Electric matter, no new issues arise which were not decided in Decision No. 41416. These issues include the treatment of property held for future use and the acquisition adjustment account, together with the calculation of working cash capital. These items have been set forth in the exhibits of the staff in this proceeding in the manner decided by the Commission in Decision No. 41416. We have carefully considered applicant's views, but see no reason to change our conclusions relative thereto.

Coordination of Construction

The staff presented evidence to the effect that closer coordination of outside plant with central office construction could be achieved, resulting in an increased rate of return either through

slowing down the capital expenditures or increasing the gross and net revenues. While the company witnesses testified that close coordination was achieved in its construction program, the Commission notes that Pacific still has about 120,000 held orders for service in California, and suggests that all possible steps be taken in respect to coordination of its plant construction and the expeditious alleviation of the held order situation.

Nonrecurring Expense

Considerable evidence was introduced by applicant to the effect that while nonrecurring expense was involved in dial conversions and other changes, nevertheless changes were constantly occurring in the business. This evidence indicates that the dial conversion program is the largest single item of such expense. Since this program is not completed and a considerable cutover is scheduled for later this year, we make no adjustment at this time in respect to nonrecurring expense. We note in passing, however, that applicant itself, in its initial showing in A-28211, adjusted its own expense figures to eliminate nonrecurring tax savings in 1946, in preparing an earnings base. We are, therefore, sustaining applicant's position only because we believe substantial additional dial conversion costs will be incurred in the immediate future.

V - Conclusions as to Present Earnings

Assembling the conclusions of the Commission as to the several components involved, including rate base, revenues and expenses, we have a choice of several test periods as shown by the evidence to be indicative of the future for the purpose of establishing rates.

These periods are (1) the estimated results for the first six months of 1949, (2) the actual results for the four months ended February 1949 and (3) the actual results for the four months ended April 1949, all referring to California intrastate operations. The estimates and statements are all on an annual basis and are adjusted to present rate and wage levels. The company's exhibits show a return of 4.6% for the four months ended February and 4.5% for the four months

ended April. The estimate for the first 6 months of 1949 showed a return of 4.9% but a company witness subsequently testified that, in his opinion, on the basis of later actual results, the return would not be over 4.5%. The staff exhibit for the four months ended February 1949, showed a return of 4.7% and its estimate for the first 6 months of 1949, arrived at by adjusting the company's estimate, yielded a return of 5.0%.

The results of operation for the 4 months ended April 30, 1949, are summarized in the following tabulation, both on the company basis and as adjusted for the purposes of this decision:

Four Months Ended April 30, 1949 (Annual Basis)

Item	Company Exhibit 181	Adjustments per Decision	Adjusted Results
Revenues	$261,539,000	$ (171,000)	$261,368,000
Expenses and Taxes	235,350,000	(793,000)	234,557,000
Net Revenue	26,189,000	622,000	26,811,000
Rate Base	586,222,000	(10,357,000)	575,865,000
Rate of Return	4.5%		4.66%

(Deduction)

The estimated results for the first six months of 1949, adopted for the purposes of this decision after consideration of the company's estimate and the Commission staff's adjusted estimate, are as follows:

Net Revenue	$ 27,234,000
Rate Base	586,000,000
Rate of Return	4.65%

A segregation of the estimated results for the first six months of 1949 by categories of operation may be obtained by assuming that the net revenue would be separated among the categories in the same proportion as the adjusted net revenue for the four months ended February, 1949. The results on this basis are as follows:

Categories	Net Revenue	Rate Base	Rate of Return
Exchange:			
S.F.-E.B. Extended Area	$ 4,158,000	$142,000,000	2.9%
L.A. Extended Area	12,291,000	224,000,000	5.5
San Diego Extended Area	1,009,000	19,000,000	5.3
Other Exchanges-No. Calif.	1,728,000	72,000,000	2.4
Other Exchanges-So. Calif.	(121,000)	15,000,000	(0.8)
Total Exchange	19,065,000	472,000,000	4.0
Intrastate Toll	8,169,000	114,000,000	7.2
Total Intrastate Operations	27,234,000	586,000,000	4.65

(Red Figure)

It will be noted that the rate of return for the estimated six months ended June 30, 1949 is slightly lower than for the four months ended April 30, 1949. The six months' period will be adopted as the base period for the purpose of prescribing rates, and the rate base is hereby fixed at $586,000,000 and the net revenue at $27,234,000.

VI. Cost of Money and Fair Rate of Return

The following statement shows, as of December 31, 1948, the amount of applicant's surplus and its outstanding stocks, short-term bank loans and debentures:

A. Debentures		$400,000,000	46.44%
2-3/4% due Dec. 1, 1985	$ 75,000,000		
2-7/8% due Oct. 1, 1986	75,000,000		
3-1/8% due Oct. 1, 1987	100,000,000		
3-1/4% due Mar. 1, 1978	75,000,000		
3-1/8% due Sep.15, 1983	75,000,000		
B. Short-term unsecured bank loans		35,360,000	4.11%
C. 6% preferred stock		82,000,000	9.52%
D. Common stock		332,460,200	38.60%
E. Surplus		11,495,678	1.33%
Total		$861,315,878	100.00%

Since December 31, 1948, the short-term bank loans have been increased to $88,760,000.

Applicant estimates that during 1949 and 1950 it must raise about $305,000,000 of new capital. This includes said short-term bank loans which applicant intends to refund.

The American Telephone and Telegraph Company owns 90.34% ($300,358,400 par value) of applicant's common stock, and 78.17% ($64,095,700 par value) of applicant's preferred stock. In the aggregate, it owns 87.93% of applicant's outstanding stock.

One can determine with a fair degree of accuracy the cost of applicant's debt and preferred stock capital from the price at which the debt and preferred stock were sold, and the terms of the agreements between applicant and the holders of the debt and preferred stock. The preferred stock capital, all of which was raised prior to 1925 through the issue of $82,000,000 of non-callable 6% preferred stock, cost applicant about 6.55%. Through the issue of such stock, applicant realized $75,151,107.50 in cash and properties. The $400,000,000 of debentures were issued in 1945, 1946, 1947 and

1948. The testimony shows that the actual average cost of this capital varies from 3% to 3.01%, depending upon the treatment of unamortized debt discount and expense on refunded debt capital.

Applicant takes the position that it should raise the $305,000,000 of new capital through the sale of common stock and thereby reduce its debt ratio from about 51% to about 35.7%. In Decision No. 41416, dated April 6, 1948, in Application No. 28211, the Commission expressed the belief that at least half of applicant's new capital for the period 1947 to 1950, inclusive, should be in the form of debt. Between the end of 1946 and September 30, 1948, applicant's capital obligations increased by $304,235,200. Adding the $305,000,000 for the period September 30, 1948 to December 31, 1950 makes a total of $609,235,200. If half of that sum were raised by debt, applicant's debt ratio by the end of 1950 would be 43.5%. On this assumption the additional debt capital would be $86,700,000, or 28.4%, and stock would be $218,300,000 or 71.6% of the new capital to be raised. Under the interest rates that applicant is paying on its debt, a 43.5% debt ratio is, in our opinion, not excessive. Except for the possible issue of debentures varying in amount from $50,500,000 to $75,000,000, no method of financing applicant's capital requirements through 1950, other than by the issue of common stock, was suggested by applicant's witnesses. The record shows that the American Telephone and Telegraph Company has been successful in issuing debentures convertible into that company's common stock.

There is in this record a wide difference of opinion as to the cost of applicant's common stock capital. Dr. Dorau, a witness applicant, testified that the historical cost of such capital was 8 and that the percentage should be increased to 9% because of the deterioration of applicant's capital structure. Dr. Badger, anoth witness for applicant, in arriving at his over-all cost of capital applies a rate of 8.37% to the present common stock equity, while

CORRECTION

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There is in this record a wide difference of opinion as to the cost of applicant's common stock capital. Dr. Dorau, a witness for applicant, testified that the historical cost of such capital was 8.6% and that the percentage should be increased to 9% because of the deterioration of applicant's capital structure. Dr. Badger, another witness for applicant, in arriving at his over-all cost of capital, applies a rate of 8.37% to the present common stock equity, while

Mr. Kosh, a witness for the United States Treasury Department, takes the position that a rate of 7% is ample. According to Dr. Dorau, it will cost applicant 9.4% to raise $305,000,000 additional capital through the issue of common stock, while Dr. Badger applies a rate of 9.14% to $254,500,000 of common stock capital and a rate of 3.10% to the balance of $50,500,000 represented by debt capital. All three witnesses, in arriving at their cost of equity capital, gave consideration to earnings-price ratios and to other factors which, in their opinion, have affected or will affect the market price of applicant's common stock. Applicant's witnesses normalized the actual earnings-price ratios, decreasing them for some years and increasing them for other years, to arrive at figures which, in their opinion, are more representative than the actual earnings-price ratios for the years normalized. In the end, their cost of equity capital is based on their judgment of what such cost would be and not on a mathematical calculation.

Dr. Dorau finds the over-all cost of applicant's capital employed as of September 30, 1948, to be 5.7%, and 5.87% after giving effect to the deterioration of the quality of applicant's common stock due to increased debt ratios in 1947 and 1948. After the issue of $305,000,000 of common stock on a 9.4% basis, his composite cost of capital becomes 6.7%. Dr. Badger finds the composite cost of applicant's capital invested as of September 30, 1948, to be 5.52%, which would be raised to 6.22% after the issue of the aforementioned debt and common stock aggregating $305,000,000. Mr. Kosh is of the opinion that there has been no change in the cost of either debt money or equity money since the final decision (No. 41416, dated April 6, 1948) in Application No. 28211, and that the composite cost does not exceed 5.14% appearing in that decision.

Three of the witnesses who testified on rate of return also testified on that subject in Application No. 28211. Their testimony

in that application and in the application now pending may be summarized as follows:

Witness	App. No. 28211	App. No. 29854
Dorau	6.75%-7%	7.1%
Badger	5.5%	6.57%
Kosh	5.%-5.25%	5.6%

Witness Walker, who urges a return of from 6.75% to 7%, did not testify in the former proceeding.

The returns advocated by witnesses Dorau, Badger and Walker are unwarranted. A return such as they now recommend was rejected by the Commission in Decision No. 41416. The testimony now before us does not support a finding that the rate of return they suggest is now necessary. In Decision No. 41416 the Commission fixed a return of 5.6%. The record shows that applicant has not earned such a return since the date of the decision. That return, in our opinion, would be ample now were it not for applicant's large construction expenditures and the increase in average unit investment resulting from the substantial additions of high-cost plant. Such expenditures have the effect of gradually reducing the return realized. Under these circumstances, we find that net revenue equivalent to 6%, based on the test period comprising the six months ended June 30, 1949, is sufficient to allow applicant a rate of return for the future of at least 5.6%, which rate of return we hereby find to be fair and reasonable.

VII - Amount and Distribution of Rate Increase

Having determined the required rate of return, it becomes necessary to translate this conclusion into the amount of increase in gross revenue needed to produce that return. In order to yield a 6% return on the test period rate base of $586,000,000 it will be necessary to increase the test period net revenue of $27,234,000 by $7,926,000. To accomplish this requires an increase of $13,400,000 in gross revenues, the difference of $5,474,000 representing resultant increases in taxes and uncollectibles.

Basic Rates in San Francisco-East Bay Extended Area

In the San Francisco-East Bay extended area, the present earnings are at a rate of 2.9% on the depreciated rate base. While the record shows that there has been an intensive program of dial conversion in the area, resulting in nonrecurring costs, in view of the prolonged comparatively low earning level in the San Francisco-East Bay extended area and the continuation of the dial conversion program, we conclude that further increases should be made effective for the immediate future so that the area may more equitably bear its share of the costs of furnishing service.

The basic rates in the San Francisco-East Bay exchange for residence individual line and two-party line flat rate service and two-party line message rate service are increased 50 cents, 40 cents, and 30 cents per month, respectively. Rates for business individual line message rate service are increased 25 cents per month. A rate of $1.50 per month is established for semipublic service, coupled with a reduction in the daily guarantee from 25 cents to 22 cents. The rate for additional messages in connection with business and residence message rate service is increased from 3½ cents to four cents. Suburban business and residence rates in the East Bay zone are increased 25 cents and 15 cents per month, respectively.

The rates authorized herein applicable to the remaining exchanges in the extended area provide for a regrouping for both extended and local service based upon company stations as of March 31, 1949. Increases in rates for residence extended service range from 25 cents to 50 cents per month for individual line and two-party line stations. Rates for residence extended four-party line stations are increased 25 cents per month in 15 exchanges. Basic rates for business individual line message rate extended service are increased 25 cents per month. The rate for additional messages in connection with message rate service is increased from 3½ cents to four cents. The rates for business individual line flat rate extended service are increased by varying amounts from $1 to $2.50 per month and for business two-party line flat rate extended service by varying amounts from 25 cents to 75 cents per month. PBX trunk rates are increased to maintain presently

effective relationships. Extended semipublic service rates are revised to reflect daily guarantees varying from 19 cents to 22 cents and to establish a monthly rate varying from 75 cents to $1.50.

Rates for residence individual line local service are increased by 25 cents per month in eight exchanges and by 50 cents per month in five exchanges. Residence two-party and four-party local service rates are increased by 25 cents per month in 30 exchanges and by 50 cents per month in three exchanges. The regrouping for local service results in increases in rates for business individual line local service by amounts varying from 50 cents to $2 per month and for business two-party line local service by amounts varying from 25 cents to $1.25 in 13 exchanges. Suburban residence rates are increased 25 cents per month in 30 exchanges and 50 cents per month in three exchanges, while suburban business rates are increased by 25 cents per month in nine exchanges and by 50 cents per month in four exchanges. Increases for farmer line residence rates vary from ten cents to 40 cents per month and for farmer line business rates from 25 cents to 75 cents per month in 12 exchanges. The rates authorized, the detail of which is shown in Exhibit A attached hereto, will result in increasing annual revenues from the changes described herein as affecting basic exchange rates, PBX trunk rates, and additional message charges by $4,323,000.

The record shows that a plan to close local service schedules in the San Francisco-East Bay extended area should offer advantages from the standpoint of improving service, meeting demands for service, and efficiency in use of plant and equipment. It would be necessary to introduce such a plan on a programmed basis over a period of approximately 18 months or more as facilities become available in particular exchanges. In order that the advantages of such a plan may be realized, the order herein will provide for the closure of local service schedules covering all one-, two-, and four-party service and commercial and

residence PBX service in the San Francisco-East Bay extended area to new customers, except as to applications on file as of the closure date of such local schedules in a particular exchange.

Basic Rates in Los Angeles Extended Area

The trend of earnings in the Los Angeles extended area has been downward. The present earnings are at a rate of 5.5%. Applicant seeks substantial increases in all basic rate classifications in this area. In view of the general decline in earnings, certain increases will be authorized in basic rates of certain exchanges where existing rates are comparatively low. In most instances the increases authorized are substantially less than the amount sought by the applicant.

No change is made in the basic rates in the Los Angeles exchange, except for semipublic service, in which case a monthly rate of $1.50 is established coupled with a reduction in the daily guarantee from 25 cents to 22 cents.

In other exchanges in the Los Angeles extended area, an increase of 25 cents per month for residence individual line and two-party line flat rate extended service is authorized. No changes are made in rates for residence two-party line message rate or four-party line flat rate extended services.

Rates for business individual line message rate extended service are established at $4.25 per month for 70 message units in the Chase district area of the Burbank exchange, and in the Canoga Park, Crescenta, El Monte, and Reseda exchanges. Coincident with the establishment of business individual line message rate service in the district area and exchanges listed above, the rates for business individual line flat rate extended service in said exchanges are increased a maximum of $4.25 per month and the flat rate service will be available only to existing applicants and subscribers. Additional message units in connection with message rate service in the Los Angeles extended area remain unchanged at 3½ cents. A monthly rate of $1.25 is established for extended semipublic service coupled with a uniform daily guarantee of 22 cents.

The order herein provides for the inclusion of Tujunga exchange in the local calling area of extended service subscribers served from the Glendale exchange, thereby establishing both-way extended service over this route.

The rates authorized herein for local service provide for a regrouping of certain of the exchanges. Rates for business individual line local service are increased by amounts up to $1.50 per month and for business two-party local service by amounts up to $1.25 per month. Rates for individual line and two-party line residence local service are increased by 25 or 50 cents per month, while rates for four-party line residence local service are increased 25 cents per month in ten exchanges. In the Canoga Park and El Segundo exchanges, rates for suburban residence and business local service are increased 25 cents per month. PBX trunk rates are increased to maintain presently effective relationships.

The expansion of the Glendale local calling area for extended service subscribers results in an annual toll decrease of $10,000 and a net annual expense saving of $7,000. The increases in basic exchange rates and PBX trunk rates as discussed herein total $1,311,000.

Basic Rates in San Diego Extended Area

The evidence shows that the earning level in the San Diego extended area has declined and is currently at a rate of 5.3%. Applicant seeks higher rates for all classifications of service in this area over and above those authorized by the Commission in its interim order in this matter. The rates authorized herein are no higher than those sought by the applicant, and for most classifications are lower.

Rates for business individual line flat rate extended service are increased $1 per month. In all exchanges except San Diego, rates for individual line message rate extended service are increased 25 cents per month and the message allowance increased from 60 to 65. The PBX flat and message trunk rates are increased to maintain the present

relationships. A rate of four cents in place of 3½ cents is established for additional messages in connection with message rate service. In addition to the daily guarantee in connection with semipublic extended service of 22 cents, a monthly rate of $1.25 is established. Suburban business extended rates are increased 50 cents per month and extended farmer line rates are authorized in the El Cajon exchange in lieu of local farmer line rates. Rates for residence individual, two-party, four-party, and suburban extended service are unchanged. The resultant gross revenue effect of all of the changes described herein as affecting basic exchange rates, PBX trunk rates, and exchange message charges in the San Diego extended area is $222,000 annually.

Basic Rates in Monterey Extended Area

Extended service was made available in the Carmel exchange commencing on July 21, 1949 and in the Monterey exchange commencing on July 26, 1949 as authorized by the Commission in its Decision No. 43095, dated July 6, 1949. The extended service rate levels established by Decision No. 43095 were in harmony with the prevailing levels of rates then in effect for service elsewhere in the state. Higher rate levels generally are being established by the order herein for service, and it, therefore, appears appropriate to increase the rates for extended service in the Monterey-Carmel area in harmony with the general rate levels as established herein. Accordingly, rates for residence individual line, two-party, and four-party line extended service are increased 25 cents per month. The rate for business individual line extended service is increased $1 per month and for business two-party line extended service 50 cents per month. The semipublic service daily guarantee is established at 22 cents and a rate of $1 per month applies in addition to the daily guarantee. Business and residence extended suburban rates are increased 25 cents per month while farmer line rates are increased 20 cents per month for residence service and 25 cents per month for business service. PBX trunk rates are increased to maintain

the same relationship as now exists. Upon establishment of the Los Laureles exchange now scheduled for the latter part of 1949, the same level of extended service rates as set forth herein for Monterey and Carmel is authorized for Los Laureles. The effect of furnishing extended service in the Monterey-Carmel area at the rate levels authorized herein compared with furnishing local service as reflected in the earning results shown in this record is as follows: Exchange revenue annual increase $107,000; toll revenue annual decrease $77,000; and net annual expense saving under full dial operation $61,000.[4/]

Basic Rates in San Lorenzo Valley Extended Area

An extended service arrangement was authorized to be established in the San Lorenzo Valley area comprising Ben Lomond, Boulder Creek and Felton exchanges on or before December 31, 1949 pursuant to Decision No. 42129 dated October 19, 1948. Such an extended service arrangement has not yet been established but is now scheduled to be introduced on or about September 10, 1949. The extended service rate levels established by Decision No. 42129 were in harmony with the prevailing level of rates then in effect for service elsewhere in California. Higher rate levels were established by Decision No. 42530, effective March 21, 1949, in these communities for local service; however, the question of rates for extended service was not determined in that interim order. In view of the higher rate levels generally being established herein for service and the further fact that the establishment of extended service in the San Lorenzo Valley area is imminent, it appears appropriate to continue in effect the present level of local service rates until extended service is made available and to authorize

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4/ The corresponding amount under manual operation in Carmel and dial operation in Monterey is $18,000. Full dial operation is now scheduled for the first quarter of 1950.

herein appropriate extended service rates. Upon establishment of the extended service arrangement, the rates for local service are authorized to be cancelled.

The extended service rates authorized herein for the exchanges within the San Lorenzo Valley extended area are those set forth in detail on Exhibit 17. The effect of furnishing extended service at the rate levels authorized herein compared with furnishing local service as reflected in the earning results shown in this record is as follows: Exchange revenue annual increase $8,000; toll revenue annual decrease $4,000; net annual expense saving under dial operation $4,000.

Basic Rates in Exchanges Outside Extended Areas

The evidence shows that the exchanges outside extended areas are earning at a rate of 2.4% in northern California and at a small loss in southern California. In view of the earning level being realized in the outside exchanges and considering the increases which have previously been authorized, it appears that further increases should be authorized.

The rates established by Decision No. 41416 were based upon a grouping of exchanges using company stations as of December 31, 1946. The same basic grouping was carried forward in the Commission's interim order in Decision No. 42530 in this proceeding. In view of the growth that has taken place in a number of exchanges since December 31, 1946, it appears appropriate to use a grouping of exchanges based on company stations as of March 31, 1949, as set forth in Exhibit 160.

A separate classification was established by Decision No. 41416 for exchanges where less than 24-hour service was being furnished as of April 26, 1948. Since that date several exchanges in this classification have been converted to dial and furnished with 24-hour service. It appears appropriate to continue the limited-hour grouping, but to include only exchanges therein where less than 24-hour service was being furnished as of March 31, 1949.

Several exchanges show a rather wide variation in stations between the seasons of the year. The seasonal characteristics of these exchanges make them more expensive to operate than the ordinary exchange. In view of these higher costs, a separate rate grouping for seasonal exchanges is established herein. The rate groupings A through D for single-office exchanges and the multi-office classification appear to be reasonable and will be continued.

In harmony with the above discussion, the following classification for monthly exchange rates in single-office exchanges will be adopted for the purpose of this order:

Group	Station Range[a]	Residence Flat Rate			Business Flat Rate	
		1-Party	2-Party	4-Party	1-Party	2-Party
L	b	$3.25	$2.75	$2.25	$4.75	$4.00
S	c	3.75	3.25	2.75	5.75	4.75
A	0 - 500	3.50	3.00	2.50	5.25	4.25
B	501 - 4,000	3.75	3.25	2.75	5.75	4.75
C	4,001 - 8,000	4.00	3.25	2.75	6.50	5.25
D	Over 8,000	4.00	3.25	2.75	7.50	6.00

Group	Semipublic		Suburban Line		Farmer Line	
	Daily Guarantee[d]	Rate per Month[d]	Residence	Business	Residence	Business
L	$0.17	$0.50	$2.75	$3.75	$0.50	$0.70
S	.19	.75	3.25	4.25	.70	1.25
A	.18	.75	3.00	4.00	.60	1.00
B	.19	.75	3.25	4.25	.70	1.25
C	.20	.75	3.25	4.50	.85	1.50
D	.21	1.00	3.25	4.50	1.00	1.75

a Company stations as of March 31, 1949.
b Limited-hour exchanges being those where less than 24-hour service was furnished as of March 31, 1949.
c Seasonal exchanges being those which show wide diversity in the number of stations between seasons of the year as set forth in Exhibit 160.
d In addition to the daily guarantee.

Group L rates remain unchanged, except that a monthly rate of 50 cents is established for semipublic service in addition to the daily guarantee of 17 cents. As a result of the reclassification of single-office exchanges and generally higher rate levels established,

the rates for residence individual line service are increased a maximum of 25 cents per month; residence two-party service, a maximum of [illegible] 50 cents per month; residence four-party service, a maximum of 50 cents per month; residence suburban service, a maximum of 50 cents per month; and residence farmer line service, a maximum of 30 cents per month. Rates for business individual line service are increased a maximum of $1 per month; business two-party, a maximum of 75 cents per month; business suburban, a maximum of 25 cents per month; and business farmer line service, a maximum of 50 cents per month. Rates for semipublic service are also increased and the present relationship for PBX trunk rates is maintained.

The California Farm Bureau Federation opposed increases in farmer line and suburban line rates, particularly in the small exchanges in Groups L and A. No change is made herein in the suburban or farmer line rates for Group L exchanges. In the interim order herein, an increase in business suburban rates of 25 cents per month was authorized for Group A exchanges, as well as for other groups, but no changes were made at that time in the business farmer line rate, the residence suburban rate, or the residence farmer line rate. In order to bring the suburban and farmer line rates for Group A exchanges into harmony with those being authorized herein for other classifications, it is concluded that for Group A exchanges, business farmer line rates should be increased 25 cents per month; residence suburban rates, 25 cents per month; and residence farmer line rates, ten cents per month.

The following exchanges outside extended areas fall in the multi-office classification:

Exchange	Company Stations 3-31-49	Exchange	Company Stations 3-31-49
Bakersfield	33,170	Sacramento	76,996
Fresno	49,790	Salinas	12,494
Modesto	14,003	Santa Ana	19,216
Newport Beach	7,635	Stockton	34,817
Riverside	19,220	Vallejo	16,678

The growth in the Modesto exchange has recently placed this exchange in the multi-office category. Of these exchanges, three are in southern California (Newport Beach, Riverside, and Santa Ana), the remaining seven exchanges being in northern California.

Varying amounts of increases are authorized in the multi-office exchanges. Rates for business individual line service are increased by amounts varying from $1 to $1.50 per month and for business two-party service by amounts varying from 25 cents to $1 per month. Rates for residence individual, two-party, and four-party line services are increased by 25 cents and 50 cents per month. Suburban rates are increased by 25 cents and 50 cents per month. Increases in rates for farmer line business service vary from 25 to 50 cents per month, and for farmer line residence service, from 20 to 30 cents per month. A monthly rate of $1 is established for semipublic service coupled with a reduction in the daily guarantee in nine of the exchanges from 24 cents to 22 cents. The same relationship as now exists is maintained for PBX trunk rate increases.

The combined effect of all the changes discussed herein as applicable to basic exchange rates and PBX trunks in these exchanges outside extended areas totals $2,338,000.

Message Rate Service

The company proposed the introduction of business individual line message rate service in the Sacramento exchange when facilities could be made available to replace business two-party line flat rate service. As the level of business flat rates is increased, particularly in the larger exchanges, a point is eventually reached where the small business user may be penalized. In view of the additional plant costs and the time element involved in introducing message rate service, it is believed desirable that the company review the possibility of introducing business individual line message rate service, particularly in the larger exchanges where such service is not now offered, as a means of furnishing

particularly the small business user with a service, the charge for which varies in relation to his usage.

Recentering San Francisco-East Bay Exchange

Providing additional rate centers as shown by Exhibit No. 81 is a logical rate development in recognition of the distance involved for message toll, interzone, message unit, and private line services. The principal revenue effect of establishing two additional rate centers in both the San Francisco and East Bay zones results from the increases in interzone and message unit charges. Such a plan would give consideration to the additional line haul between the more distant districts of the San Francisco zone and the East Bay zone and would further provide a more even gradation of message toll rates in accordance with the mileage steps. This plan, priced at a message unit charge of four cents, is estimated to produce $846,000 additional annual exchange revenue, $21,000 less annual toll revenue, or a net increase of $827,000 in annual revenue. In order that increases in basic rates may be kept to a minimum and that a more equitable basis of charges be made, it is believed the introduction of the plan, with four-cent units, is reasonable and the order will so provide.

Los Angeles Message Unit Rates

In its Decision No. 42530, the Commission authorized increases in message toll telephone rates which were accomplished in part by a modification in the toll mileage steps at the shorter hauls. No changes were made at that time in the number of message units per initial or overtime period over any of the routes in the Los Angeles extended area. As an alternate rate possibility, the applicant introduced evidence in this proceeding as to the effect of modifying the message unit schedule in the Los Angeles extended area so as to reflect in the number of message units over the several routes the same change in the mileage

steps as were authorized by this Commission in Decision No. 42530, for message toll telephone service. The estimated annual gross revenue increase resulting from such a modification is $2,742,000, and it is believed this change should be made in the interest of uniformity in the mileage steps between the toll and the message unit schedules.

Miscellaneous Rates

The record shows a basis for increases in rates and charges for some 150 items of miscellaneous and supplemental equipment and service and for some 200 items of special assemblies of equipment, as set forth in detail in Exhibits 150 and 151, respectively. Applicant also has presented the revenue effects of the introduction of an installation charge of $2 in connection with certain features of key telephone service, the increase in monthly rate from $3 to $3.50 for mechanical equipment in connection with dial PBX service, the introduction of installation charges in connection with multiple line key cabinet service, and the revision in monthly rates for ten-line key cabinets as set forth in Exhibit 152. In view of the special nature of these services and the impact of higher labor and material costs on the furnishing of these miscellaneous and special services, these increases will be authorized, resulting in an estimated annual revenue increase of $564,000.

The record shows that by reason of the time required to solve equipment problems, it is not practicable to change the basic rate of five cents applicable to patrons of public and semipublic telephones at this time. Applicant is placed on notice that it will be expected to have available plans and methods for promptly placing in effect a rate other than five cents for local messages should the Commission hereafter find a change in the rate to be justified.

Extension Stations

Applicant has proposed to increase rates for extension stations, for commercial and hotel PBX stations, and for private line stations by 25 cents per month in all exchanges within the Los Angeles extended area. The present rates for extension, PBX, and private line stations, in connection with Los Angeles exchange service and extended service in exchanges within the Los Angeles extended area are 25 cents per month less than those which now apply to such stations in connection with local service in the Los Angeles area and in exchanges throughout the rest of the state. In view of the general cost trends, the increase will be authorized, resulting in an increase in annual revenues of $977,000.

Toll Rates

Substantial increases in applicant's rates for message toll telephone, toll private line, and teletypewriter exchange (TWX) service, were authorized by the Commission in its interim order in this proceeding. These increases in toll rates were estimated to increase revenues approximately $9,368,000 per annum. After fully reflecting this increase in toll revenues, the earning results for state toll operations approximate 7.2%. In view of this indicated earning level in the state toll operations, no further general increases in toll rates above those authorized by Decision No. 42530 appear to be justified.

Applicant desires to correct certain irregular toll rates which are now applied between San Clemente exchange in Orange County and the Chula Vista, National City, and Pacific Beach exchanges in San Diego County. The application of the standard initial period station day rate to each of the three routes would involve an increase of five cents in each case. The standard differential for person service and for night and Sunday service also is proposed to be applied to these three routes. While these changes result in only nominal effects, it appears that the regularly established toll schedule for

the several mileages involved should be applied. Accordingly, the increases will be authorized.

Base Rate Areas

In the interim opinion in this proceeding, the Commission requested the applicant to review base rate areas generally, looking toward reasonable expansion thereof as areas grow in size. In response to this request, applicant submitted, as Exhibit No. 57, a list of some 182 exchanges in which it proposed to review the base rate areas on a programmed basis. In two additional exchanges, revisions had been made as of the date of the exhibit. It is estimated that the result of the programmed expansions would be to reduce revenues about $410,000 on an annual basis. In view of the growth of urban areas in which mileage charges are now applicable, the Commission is of the opinion that the applicant should proceed to extend said areas in accordance with Exhibit No. 57. The revenue increase authorized herein will take into account the effect of base rate area revisions.

Summary

The rate increases authorized in this decision total $13,400,000, bringing the increases granted in California intrastate rates since June, 1947, to a total of $54,700,000 annually. The present increases total $7,400,000 in northern California and $6,000,000 in southern California.

These adjustments when related to the rate of return for the test period comprising the first half of 1949, show the following results:

Categories	Rate of Return Related to Rate Base for First Half of 1949
Exchange:	
S.F.-E.B. Extended Area	5.2%
L.A. Extended Area	6.9
San Diego Extended Area	6.1
Other Exchanges-No. Calif.	4.1
Other Exchanges-So. Calif.	1.0
Total Exchange	5.7
Intrastate Toll	7.2
Total Intrastate Operations	6.0

As indicated in the section "Cost of Money and Fair Rate of Return," the rates of return shown above are computed upon a rate base for the first six months of this year.

VIII - Toll Timing Practices

The quality of the work in the timing of telephone messages is not only important to the telephone using public, but it also has a direct and important effect upon the revenues of the telephone company. A substantial proportion of the total revenues received by the Pacific Company is derived from charges for telephone messages which require accurate timing as part of the proper application of the filed tariffs. In fact, the charges for message toll telephone, message unit, and interzone messages vary with time. Generally, the rates for these services are quoted in terms of an initial period of three minutes or fraction thereof and an overtime period of one minute or fraction thereof. For example, a conversation timed at one minute is charged for at the initial period rate, and a conversation timed at three minutes and 16 seconds is charged on the basis of a four-minute message. Recent increases in toll, message unit, and interzone rates have added to the importance to the public of the need for accurate timing of such telephone messages.

Automatic timing is in use in California in connection with subscriber-dialed short haul toll, message unit, and interzone messages. Manual timing is in use on all longer haul toll messages, as well as on certain short haul messages, and is accomplished in general in two ways: (1) the operator reads the time from an electric clock which shows time to the nearest tenth of a minute, and (2) the operator uses a calculagraph. Timing is accomplished by calculagraph on more than 64% of the manually handled toll messages.

The tariff schedules of applicant show a distinction in the start of timing between station and person service, and generally specify that conversation on all calls is considered as terminated at the time a disconnect signal is received by the operator handling the call. On most switchboards, completion of conversation is indicated

to the operator by the appearance of a disconnect signal on the switchboard when the customer hangs up. On calls between magneto tributaries, the customer must ring off in order that a disconnect signal can appear. In many cases, customers having magneto service do not ring off, and, accordingly, on calls involving magneto tributaries and on which operators do not have switch-hook supervision, the operator monitors to ascertain the end of conversation.

With automatic timing, overtiming is virtually impossible. However, there are inherent inaccuracies in manual timing of telephone messages which, on the average, tend toward overtiming messages, after allowing for messages that are undertimed. The evidence shows that on the average the undertiming interval is one second compared with an overtiming interval from the end of verbal conversation of 5.4 seconds. Greater undertiming and overtiming intervals occur for messages originating from commercial and hotel PBX services than the average. The additional time required by the PBX operator to perform certain operating functions in general accounts for these greater undertiming and overtiming intervals. A timing allowance of five[5/] seconds is now applied by the applicant to all manually timed intrastate toll messages as an offsetting correction factor to this tendency toward overtiming. The corresponding timing allowance on interstate toll messages is 15[6/] seconds.

The evidence shows that on the average there is an interval of 2.2 seconds between the end of verbal conversation and the appearance of the disconnect signal at the telephone company's switchboard.

5/ Where calculagraphs are used, the allowance on intrastate toll messages is five seconds, except that a 15-second allowance applies on messages originating at coin telephones, messages on which the customer requests notification of the end of a specified time period, and messages on which the operator does not receive switch-hook supervision. Where timing is done by clocks showing tenths of a minute, the allowance is six and 12 seconds rather than five and 15 seconds, respectively.

6/ Where timing is done by clocks showing tenths of a minute, the allowance is 12 seconds rather than 15 seconds.

The Commission staff's witness did not take exception to the tariff provision relating to the end of timing, because no other practicable means is available for determining more accurately the actual time that verbal conversation is terminated. It was the staff's view that in the fixing of reasonable timing allowances by the Commission, the above-mentioned interval of 2.2 seconds should be considered in addition to the interval of 3.2 seconds on the average required by the operator to stamp the ticket after the disconnect signal appears at the switchboard. Applicant's witness characterized the time interval between the verbal end of conversation and the appearance of the disconnect signal at the telephone company's switchboard as the length of time required by the customer to signal the operator that he is through talking. It was applicant's view that the customer should be charged for this time inasmuch as the toll circuit would continue to be engaged by the customer until he hangs up.

The evidence shows that with the present five-second allowance applicable on intrastate toll messages, overcharges result on 1.3% of the messages, or on approximately two million messages a year. The amount of these overcharges compared with present tariff timing is estimated at approximately $166,000 annually.

In the interest of improving the timing performance of the company, and based upon a study of this subject over a period of a year and one-half, the staff's witness made ten specific recommendations, as follows:

1. Initiate the development work required to provide automatic timers.
2. Insert a notice in the telephone directory to the effect that customers, upon request, may be notified at the end of a stated period.
3. Instruct customers to hang up promptly after the completion of a conversation.

4. Instruct customers in magneto offices to ring off promptly after the completion of a conversation.
5. Advise each PBX customer, where the PBX system does not normally operate on a through-supervision basis, of the specific possibilities of overtiming.
6. Conduct a study and file a report as to the accuracies of timing on messages originating at hotel PBX systems.
7. File monthly reports showing the percentage of messages overtimed more than five seconds.
8. Provide special supervision at offices showing above-average percentages of overtiming.
9. Instruct business office personnel in toll timing performances.
10. Adopt other reasonable measures that may be developed to improve the timing performance.

Applicant's witness testified that, generally, the company was now carrying on activities along the lines set forth in recommendations 3, 4, 5, 8, 9 and 10. He also testified that while recommendations 2, 6 and 7 can be adopted at some cost to the company, the company's management believes they are unnecessary.

As the company is now carrying on activities with respect to recommendations 3, 4, 5, 8, 9 and 10, no further comments need be made relative thereto, except that the company will be expected to continue its efforts toward improving timing performances from these activities. Recommendations 2, 6 and 7 appear necessary and reasonable except that, as to recommendation 7, the reports will be required quarterly.

With respect to recommendation 1, looking toward development work on automatic timers, the company considers that it would be ill-advised to embark at this time on a program of applying automatic timing to manually handled traffic due to the present activity going on to

improve manual timing and the costs that would be involved in providing automatic timing equipment.

It appears, however, that a large number of messages will continue to be timed manually for an indefinite period unless the telephone company develops and installs automatic timers associated with switchboards handling timed messages. A review of the evidence relating to the company's objection to initiating the development work required to provide automatic timers does not appear to be well-founded. Accordingly, the company will be expected to initiate this program.

IX - Specific Service and Rate Issues

The record shows that a number of witnesses, appearing on behalf of various local groups, presented evidence pertaining to rate and service matters.

As a result of increases authorized by the interim order in this proceeding in short haul toll rates, particularly between exchanges having a high community of interest, several groups have requested the reduction or elimination of toll rates between certain exchanges. Specific requests for reduction or elimination of toll rates involving exchanges outside existing or authorized extended areas were made on behalf of certain communities in Orange County and the communities of Rialto, Colton, Bloomington, and Fontana in southern California, and the communities of Grass Valley and Nevada City in northern California. The evidence shows that in each of these cases the company is proceeding with studies to determine possible alternate rate plans, including the possibility of introducing extended service arrangements. The order herein will require the company to carry to completion these studies and others which may be indicated should be made.

It was urged with respect to the communities in and around Rialto and Fontana that the former lower toll rates be reestablished pending the completion of the studies and the final introduction of an

alternate rate plan for the area. In view of the fact that there are several hundred toll routes in California similar in distance to those in and around Rialto and Fontana which likewise should be considered, and the further fact that, while a study is in progress of the Rialto-Fontana area, no indication of the final solution to the problem is at hand, we conclude that no special toll rate should be established at this time for this particular area of the state. However, we will require that the Pacific Company file a report with recommendations on or before September 30, 1949.

A representative on behalf of the City of Richmond protested the toll rate that applies to calls from Richmond to Berkeley placed by local Richmond subscribers, particularly when in some cases the stations are only a few blocks or less apart. The witness also indicated that even with extended service a toll rate still applies to calls placed to north Oakland or beyond. The evidence shows that the company has in progress a study of the San Francisco-East Bay extended area for the purpose of reviewing the adequacy of present serving and rate arrangements. No basis appears at this time to enlarge the local calling area for Richmond extended service subscribers to include north Oakland, and it appears that the existing extended service and foreign exchange service offerings of the company are reasonable solutions to this situation at this time.

A witness on behalf of the subdivisions of Ray Park and Burlingame Village expressed difficulty because these areas are included in the company's Millbrae exchange although they are within the corporate limits of the City of Burlingame, served from the San Mateo exchange. Rates are on file for extended service and foreign exchange service between the Millbrae exchange and the San Mateo exchange. It has long been established that the boundaries of a telephone exchange cannot necessarily, and often do not, follow the

corporate boundaries of a city. There appears no basis at this time for a change in these boundaries. However, as previously indicated, the company has a study in progress as to the adequacy of the present service and rate arrangements in the San Francisco-East Bay extended area. It will be expected that this problem, together with others, will be reviewed in the course of the company's current study of this area.

Counsel, appearing on behalf of a number of cities in the Los Angeles extended area, presented Exhibit No. 69, showing that the ratio between the rates in contiguous exchanges and the rates in the Los Angeles exchange was much higher than the ratio between station availability for the corresponding exchanges. He suggested that a rate of not more than $4.25 per month with 70 message units be made effective for business individual line message rate extended service in Burbank-Chase, Crescenta, El Monte, Canoga Park and Reseda. The order herein includes such a rate for these exchanges.

A witness on behalf of the Utility Union Council of the C.I.O. proposed that full selective ringing be introduced in the Los Angeles area on four-party lines in lieu of two-party message rate service. No basis appears at this time for altering what we said in our Decision No. 41416 on this subject. The witness also proposed that an enlarged extended service at a higher rate than the existing rate for extended service be offered to permit calling downtown Los Angeles from contiguous exchanges without paying toll or message unit charges. He contends such a plan would offer a saving in zone registration equipment. Los Angeles foreign exchange service now offered in these contiguous exchanges appears to us to meet in part at least this service requirement. It further appears that the proposal, rather than simplifying the rate structure, would further complicate the problem and require separate facilities to identify the separate types of service, thereby increasing costs.

Several witnesses entered protests to increases in certain groups of exchange rates. A witness on behalf of the City of Sunnyvale protested any increase in rates in that community. In view of the comparatively low earning level of the San Francisco-East Bay extended area, of which Sunnyvale exchange is a part, there appears no basis for treating Sunnyvale differently from equivalent exchanges in the extended area.

A witness on behalf of the City of Santa Cruz protested any increases in rates until better service is furnished. He contended the company should look toward the immediate conversion of the existing manual service to dial operation. This same witness agreed that service in Santa Cruz had improved since February, 1949, when additional manual positions were added. The record shows that an expanded base rate area in Santa Cruz was made effective on June 16, 1949, reducing and eliminating mileage charges, and that the company has under construction a large outside plant project which upon completion will provide service for many waiting applicants and permit limited upgrading of service. No basis appears at this time for this Commission to order the immediate conversion of the Santa Cruz exchange from manual to dial operation.

Witnesses on behalf of the California Farm Bureau Federation protested the increase in farmer line and suburban line rates, particularly in exchanges where limited hours of service are furnished and in exchanges serving less than 500 stations. Protest also was made against increases in farmer line rates by the Suisun and Green Valley Telephone Company, a farmer line utility, serving within the exchange area of the Pacific Company's Suisun exchange. As previously mentioned, no change is made herein in farmer line or suburban line rates for the limited-hour exchanges. However, increases are authorized in such rates in the 500 or less station group and in other groups in order to bring

these rates into harmony with other rates authorized herein for other classifications. Witnesses on behalf of the Brown's Valley Telephone Company of Napa, a farmer line organization, and the El Nido Cooperative Telephone Company, of El Nido, California, also a farmer line organization, requested the establishment of rates to permit use of dial switching equipment, PBX equipment, and teletypewriter equipment on farmer lines. These requests are for rates for special services not now offered in connection with privately owned equipment connected to a public utility telephone system. We do not believe it appropriate to pass on these requests in this proceeding. If satisfactory arrangements by the representatives are not obtained with the Pacific Company on an informal basis, they may file separate formal proceedings before this Commission.

A representative of the Brown's Valley Telephone Company also presented a number of requests involving service matters and his relations with the Pacific Company. The record shows that an informal conference to review these matters was held between this witness, the Pacific Company representatives, and members of the Commission's staff. We conclude that if these matters cannot be settled informally, they are of such nature as may be the subject of formal complaint in a separate proceeding.

The California Farm Bureau Federation, through several of its witnesses, protested the service condition wherein subscribers on suburban and farmer lines have found it difficult to recall an operator in an emergency while their line was being held for the completion of a long distance call. The company's practices in this connection were reviewed by company witnesses. These practices provide that an operator may hold a line up to ten minutes for the completion of a long distance call but that during this interval a subscriber, by operating the switch hook, may in all but a few instances signal the operator. The practices

further provide that operators should answer these signals. This matter appears to be partly one of subscriber education, and we will expect the company to take reasonable measures to insure that subscribers on rural lines are advised of the proper procedure for recalling an operator. In those cases where magneto lines are terminated in common battery offices, and recall supervision is not provided, the company has indicated its intention to provide supervision. We will expect the company to proceed with this change and to file reports setting forth its program and progress relative thereto.

Several witnesses protested difficulties in obtaining service. One involved the furnishing of Los Angeles foreign exchange service to a subscriber in Beverly Hills. Witnesses from Rialto and Santa Cruz protested the inability to receive higher grades of service in their communities. The representative of the California Farm Bureau Federation stated that farmer line applications are sometimes held for long periods before completion and that some good and valid answer must be given by the company for these delays in order to retain the good will of these people. The Farm Bureau also called attention to a delay in providing Fresno foreign exchange service to applicants in the Fowler exchange of the San Joaquin Associated Telephone Company.

The matter of offering higher grades of service was extensively dealt with in this record. It appears the company is justified in offering lower grades of service than normal during this period in order that more waiting applicants can be furnished telephones sooner than otherwise would be possible. The record discloses the company is engaged in an intensive construction program to provide service to waiting applicants and to furnish higher grades of service to those who may desire to upgrade. It is clear this program will take some time to complete. In connection with the numerous instances of delays in service in rural areas cited by the Farm Bureau, the company in Exhibit

No. 139 presented a comprehensive statement of its rural development program. We will expect the company to proceed as expeditiously as possible with the completion of its program to provide service to waiting applicants and the higher types and grades of service which may be desired. In addition, we will specifically require the company to make a survey and report on its magneto central offices.

O R D E R

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 and further relief as may be proper in the premises, public hearings having been held, the matter having been submitted for decision after oral argument and the Commission being fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that (1) the increases in rates and the rules and conditions specified in Decision No. 42530, dated February 23, 1949, herein, were and are justified, and that no liability to make refund under the provisions of Section 2 of the order in said decision shall attach to applicant; and (2) the further increases in rates and the rules and conditions authorized herein are justified, therefore,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file 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 for service rendered on and after September 1, 1949, excepting that (a) increases in installation charges shall be effective on applications received by applicant on and after September 1, 1949 and (b) local service schedules in San Francisco-East Bay extended area may be closed by tariff filings effective on or after September 1, 1949 but within a period of two years thereafter.

2. Not later than December 31, 1949, applicant shall submit a plan for transfer of accrued pension funds in respect to employees transferred to or from the applicant's system from or to the American Telephone and Telegraph Company or subsidiaries.

3. Not later than December 31, 1949, applicant shall submit a report and analysis of its depreciation reserve and accruals thereto separately for northern and southern California, including an analysis of plant and retirement experience and the following computations based on such analysis:

    a. Theoretical depreciation reserve as of December 31, 1948.
    b. Accruals on a total life straight line basis.
    c. Accruals on a remaining life straight line basis sufficient to provide for depreciation of depreciable net plant investment over its remaining life.

4. In respect to the timing of intrastate messages, applicant shall:

   a. Insert a notice in its telephone directories to the effect that customers, upon request, may be notified at the end of a stated time period.
   b. Conduct a study of the accuracies of timing messages originating at hotel PBX systems and file a report showing the results of such study with the Commission on or before November 1, 1949.
   c. File quarterly reports with the Commission showing the percentage of messages overtimed more than five seconds, the first report being for the quarter ending December 31, 1949.
   d. Initiate the necessary development work and cost studies required to provide automatic timers associated with switchboards handling timed messages, and file semiannual reports as to progress beginning December 31, 1949.

5. Applicant shall prepare and file reports on traffic analysis and revenue, expense and plant effects of introducing extended service, together with applicant's recommendations thereon, in the Orange County, Rialto, and Nevada City-Grass Valley areas as soon as practicable, but not later than September 30, 1949, and also shall review all other areas in the state outside of existing extended areas where airline distances between exchange toll rate centers are six miles or less. Reports thereon shall be filed as studies are completed, but not later than March 31, 1950.

6. Applicant shall file revised base rate area maps for the exchanges listed in Exhibit No. 57 as soon as practicable to do so in each exchange and in no event later than July 1, 1950, and shall file progress reports on or before September 30, 1949, and quarterly thereafter until the revisions are complete.

7. In respect to business message rate service, applicant shall proceed with the installation of equipment for business message rate service in Sacramento at rates and under conditions to be subsequently fixed by this Commission, and shall study and review the revenue, expense and plant effects of furnishing such service at all other exchanges in extended areas where extended business message rate service is not presently offered and in outside exchanges of more than 4,000 company stations, and file a report with recommendations not later than December 31, 1949.

8. Applicant shall survey its magneto operated central offices and submit a report showing a program and estimated costs

for conversion of such offices to dial operation together with an interim plan for improving the service rendered at such exchanges and on magneto lines terminating at common battery offices. A report shall be filed on or before September 30, 1949.

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

Dated at San Francisco, California, this 26th day of July, 1949.

R. E. Mittelstaedt
Justus F. Craemer
Ira H. Rowell
Harold P. Huls
Kenneth Potter
Commissioners.

APPEARANCES

Arthur T. George, Eugene D. Bennett, Stephen H. Fletcher, Dudley Zinke, and Oscar Lawler, for applicant; Roger Arneberzh, 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 Alhambra, Arcadia, Beverly Hills, Burbank, Compton, Culver City, El Monte, El Segundo, Gardena, Glendale, Hawthorne, Inglewood, Montebello, Monterey Park, Pasadena, South Pasadena, South Gate, San Marino; Frank V. Rhodes, for the California Independent Telephone Association; Emmet H. Tomkins, for the City of Alhambra; Theodore K. Kearney, in propria persona; Harold M. Sawyer, Howard C. Ellis, and Morris Lowenthal, for Elinor Kahn; John W. Collier, Archer Bowden, and Loren W. East, for the City of Oakland; A. R. Linn, for the cities of Antioch, Concord, Martinez, Danville, Lafayette, Rocco, San Pablo and Walnut Creek, for the County of Contra Costa, for the Chambers of Commerce of Antioch, Concord and 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. Bell, 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; W. J. Cheyney, for the Del Mar Chamber of Commerce; H. S. Whitmer, for Solana Beach; John J. Kirby, for the U. S. Treasury Department, Bureau of Federal Supply.

The Commission staff's case was presented by E. C. McKeage, W. C. Fankhauser, and E. F. McNaughton.

A-29854
AGE*

LIST OF WITNESSES

Evidence was presented on behalf of applicant by F. A. Dresslar (construction program, supply contract, plant, and depreciation), S. W. Campbell (cost of money and pensions), E. T. Lockwood, H. B. Dorau, F. F. Walker, and R. E. Badger (cost of money and rate of return), A. Herrick and R. Nelson (pension accounting and plans), J. C. Gray and R. E. Hambrook (wages and employees), R. W. Thomas (price comparisons), F. J. Hammel and B. R. Young (Western Electric benefits and costs), Joel Dean (Western Electric prices and earnings), J. Hugh Jackson (Western Electric earnings and inventory methods), C. S. Mason (administrative expenses, taxes, working cash capital, and results of operation), J. M. Black (estimated operations, held orders, and lunchroom expense), T. J. Harris, W. C. Schweizer, and A. H. Cassady (rates and revenue estimates), J. H. Mitchell (commercial expenses), B. Roberts (maintenance expenses and coordination of central office equipment and outside plant construction), J. R. Black (traffic expenses), W. L. Kietzman (adjusted results of operation, wage increase program, toll timing effects on revenue, and directory advertising expense), W. A. Cantwell (telephone plant account adjustments), J. R. Marden (depreciation), F. N. Rush (service matters), L. B. McClain (uncollectibles), and E. D. Maloney (rural service and rates).

Evidence was presented on behalf of other parties by E. J. Forman (exchange rate comparisons), J. J. Deuel (rate treatment and service problems), D. A. Kosh (cost of money and fair rate of return), and by numerous public and Farm Bureau witnesses (service problems).

Evidence was presented on behalf of the Commission's staff by S. Weber (results of operation), W. B. Wessells (revenues, expenses, rate comparisons, and base rate area revisions), J. F. Donovan (financial statements), D. F. LaHue (general and other expenses and taxes), R. L. Ohlson (rate base), C. G. Ferguson (Western Electric prices and earnings), C. T. Coffey (estimated results of operation), W. W. Dunlop (toll timing practices), C. W. Mors (results of operation), C. Unnevehr (operating revenues, held orders, and coordination of central office equipment and outside plant construction), and L. A. Blom (traffic expense).

A-29854
AB

R A T E S

The presently effective rates and conditions are changed as set forth in this exhibit.

Schedule No. 2-T
Local Service Areas - Los Angeles and San Diego Extended Areas

Add Tujunga exchange to the list of exchanges and district areas included in the local service area for stations receiving extended service from the Glendale exchange.

Schedules Nos. 4-T, 9-T and 25-T
Service in San Francisco- East Bay Extended Area

Extended Service Rates - Each Primary Station								
	Residence Flat Rate Service			Business Msg. Rate Service[a]	Business Flat Rate Service		Extended Semipublic Min. Charge Per Day	Monthly[c] Rate
	Monthly Rate			Monthly Rate	Monthly Rate			
Group	1-Party	2-Party	4-Party[b]	1-Party	1-Party	2-Party[b]		
1	$4.25	$3.50	$3.00	$ -	$ 7.00	$5.75	$0.19	$0.75
2	4.25	3.50	-	-	8.00	-	.20	.75
3	4.25	3.50	3.00	-	8.00	6.25	.20	.75
4	4.50	3.50	3.00	-	9.00	7.00	.21	1.00
5	4.50	3.50	3.00	-	10.00	7.75	.22	1.00
6	4.75	3.65	3.25	-	11.25	8.50	.22	1.25
7	4.75	3.65	3.25	5.00(80)	-	8.75	.22	1.25
8	4.75	3.65	3.25[d]	5.25(85)	-	-	.22	1.50
SF-EB	4.75	3.65[e]	-	5.25(85)	-	-	.22	1.50

a Each exchange or zone message over allowance 4¢.
b Interim rates.
c In addition to the daily guarantee.
d Not offered in Orinda. Residence two-party message rate extended service is offered in Orinda at $2.80(60) 4¢.
e Residence two-party message rate service also offered at $2.80(60) 4¢.
SF-EB San Francisco-East Bay exchange.

Local Service Rates - Each Primary Station									
	Residence Flat Rate Service			Business Flat Rate Service		Suburban Line		Farmer Line	
	Monthly Rate			Monthly Rate		Monthly Rate		Monthly Rate	
Group	1-Party	2-Party	4-Party	1-Party	2-Party	Res.	Bus.	Res.	Bus.
A	$3.50	$3.00	$2.50	$5.25	$4.25	$3.00	$4.00	$0.60	$1.00
B	3.75	3.25	2.75	5.75	4.75	3.25	4.25	.70	1.25
C	4.00	3.25	2.75	6.50	5.25	3.25	4.50	.85	1.50
D	4.25	3.25	2.75	7.50	6.00	3.25	4.50	-	-
E	4.25	3.25	2.75	8.50	6.50	3.25	4.75	1.10	2.00
F	4.50	3.50	3.00	9.50	7.25	3.50	5.00	-	-
E.B. Zone	-	-	-	-	-	3.65	5.00	1.50	2.75

Add the following condition to Schedule No. 4-T, Individual and Party Line Service - Northern California and applicable to local service in exchanges within the San Francisco-East Bay extended area:

> The rates and conditions for local service in this schedule, other than suburban service, apply only to services established or applied for prior to the closure date of such schedule in a particular exchange, 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.

DS

Schedules Nos. 4-T, 9-T, and 85-T Cont'd.
Service in San Francisco - East Bay Extended Area

Exchange	Rate Grouping Local	Extended	Exchange	Local	Extended
Alvarado	A	4	Orinda	B##	6
Belvedere	B#	3	Palo Alto	E#	5
Campbell	B#	6	Redwood City	E#	5
Centerville	B	1	Richmond	E#	7
Corte Madera	B#	4	San Carlos-Belmont	C#	5
Decoto	A	4	San Jose	F#	6
Hayward	E	7	San Mateo	E#	5
Irvington	A	1	San Rafael	E	4
Lafayette	B#	2	Saratoga	B#	6
Los Altos	B#	5	Sausalito	B	3
Millbrae	B#	5	Sharp Park	A#	7
Mill Valley	B	4	South San Francisco	D#	7
Mission San Jose	A	1	Sunnyvale	B#	6
Moraga	A#	8	Walnut Creek	C	2
Mountain View	C#	5	Warm Springs	A#	1
Newark	A	1	Woodside	B#	5
Niles	B	1			

*Suburban service not offered.
#Farmer line service not offered.

Schedules Nos. 5-T and 10-T
Service in Los Angeles Extended Area

Group	Extended Service Rates - Each Primary Station: Residence Flat Rate Service Monthly Rate 1-Party	2-Party	4-Party	Business Msg. Rate Service[a] Monthly Rate 1-Party	Business Flat Rate Service Monthly Rate 1-Party	Extended Semipublic Min. Charge Per Day	Monthly Rate[b]
1	$3.75	$3.00	$2.50	$4.25(70)	$11.00[c]	$0.22	$1.25
2	3.75	3.00	2.50	4.25(70)	-	.22	1.25
3	4.00	3.00	2.50	4.50(75)	-	.22	1.25
4	4.25	3.25	2.75[d]	4.75(80)	-	.22	1.25
LA	4.25	3.25[e]	-	5.00(85)	-	.22	1.50

a Each exchange message over allowance 3-1/2¢.
b In addition to the daily guarantee.
c Applies to services established or applied for prior to September 1, 1949.
d Not offered in Beverly Hills. Residence two-party message rate extended service is offered in Beverly Hills at $2.50(60) 3-1/2¢.
e Residence two-party message rate service also offered at $2.50(60) 3-1/2¢.
LA Los Angeles exchange.

Group	Local Service Rates - Each Primary Station[a]: Residence Flat Rate Service Monthly Rate 1-Party	2-Party	4-Party	Business Flat Rate Service Monthly Rate 1-Party	2-Party	Suburban Line Monthly Rate Res.	Bus.	Former Line Monthly Rate Res.	Bus.
A	$3.50	$2.75	$2.25	$5.75	$4.75	$2.75d	$4.25d	$ -	$ -
B	3.50	2.75	2.25	6.50	5.25	-	-	-	-
C	3.50	2.75	2.25	7.50	6.00	-	-	-	-
D	3.50	2.75b	2.25	8.50	6.50	2.75c	4.25e	-	-
E	3.75	2.75	2.25c	8.50	6.50	-	-	-	-
F	3.75	2.75	2.25	9.75	7.50	2.75	4.50	1.00	2.00

a Local service rates except for suburban and farmer line in the Los Angeles extended area apply only to services established or applied for prior to March 21, 1949 in accordance with Condition No. 1.d. of Schedule No. 5-T.
b Not offered in Compton exchange.
c Not offered in Beverly Hills exchange.
d Canoga Park and El Segundo only.
e Compton and Van Nuys only.

Schedules Nos. 5-T and 10-T (continued)

Service in Los Angeles Extended Area

Rate Grouping

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

D.A. - District Area

Schedule No. 5-T

Los Angeles and Extended Services in Los Angeles Extended Area	Monthly Rate
Each Extension Station:	
Individual and Party Line Service:	
Business Flat Rate	$1.25
Business Message Rate	1.00
Residence Flat or Message Rate	1.00
Semipublic Service:	1.00

Schedules Nos. 5-T and 10-T

Service in San Diego Extended Area

Exchange	Extended Service Rates - Each Primary Station: Residence Flat Rate Service Monthly Rate: 1-Party	2-Party	4-Party	Business Msg. Rate Service a Monthly Rate: 1-Party	Business Flat Rate Service Monthly Rate: 1-Party
San Diego	$4.25	$3.25	$2.75	$4.50(75)	$12.25
Other [b]	4.00	3.00	2.50	4.00(65)	11.75

Exchange	Extended Service Rates - Each Primary Station: Semipublic: Min. Charge Per Day	Monthly Rate [c]	Suburban Line Monthly Rate: Res.	Bus.	Farmer Line Monthly Rate: Res.	Bus.
San Diego	$0.22	$1.25	$3.25	$5.25	$ -	$ -
Other [b]	.22	1.25	3.00 [d]	5.00 [d]	1.25 [e]	2.50 [e]

a Each exchange message over allowance 4¢.
b Chula Vista, Coronado, El Cajon, La Jolla, La Mesa, National City, and Pacific Beach.
c In addition to the daily guarantee.
d Not offered in Coronado and Pacific Beach exchanges.
e El Cajon exchange only.

Rates for farmer line local service in El Cajon exchange are authorized to be cancelled.

Schedules Nos. 4-T and 9-T

Service in Monterey - Carmel Extended Area

Exchange	Extended Service Rates - Each Primary Station: Residence Flat Rate Service Monthly Rate 1-Party	2-Party	4-Party	Business Flat Rate Service Monthly Rate 1-Party	2-Party
Carmel	$4.25	$3.50	$3.00	$8.50	$6.75
Los Laureles [a]	4.25	3.50	3.00	8.50	6.75
Monterey	4.25	3.50	3.00	8.50	6.75

Exchange	Extended Service Rates - Each Primary Station: Semipublic Min. Charge Per Day	Semipublic Monthly Rate [b]	Suburban Line Monthly Rate Res.	Suburban Line Monthly Rate Bus.	Farmer Line Monthly Rate Res.	Farmer Line Monthly Rate Bus.
Carmel	$0.22	$1.00	$3.50	$4.75	$1.10	$2.00
Los Laureles [a]	.22	1.00	3.50	4.75	-	-
Monterey	.22	1.00	3.50	4.75	1.10	2.00

a Rates for Los Laureles exchange are authorized to become effective upon establishment of the exchange.
b In addition to the daily guarantee.

Schedules Nos. 4-T and 9-T

Service in San Lorenzo Valley

Exchange	Extended Service Rates - Each Primary Station [a]: Residence Flat Rate Service Monthly Rate 1-Party	2-Party	4-Party	Business Flat Rate Service Monthly Rate 1-Party	2-Party
Ben Lomond	$3.75	$3.25	$2.75	$5.75	$4.75
Boulder Creek	3.75	3.25	2.75	5.75	4.75
Felton	3.75	3.25	2.75	5.75	4.75

Exchange	Extended Service Rates - Each Primary Station [a]: Semipublic Min. Charge Per Day	Semipublic Monthly Rate [b]	Suburban Line Monthly Rate Res.	Suburban Line Monthly Rate Bus.	Farmer Line Monthly Rate Res.	Farmer Line Monthly Rate Bus.
Ben Lomond	$0.19	$0.75	$3.25	$4.25	$ -	$ -
Boulder Creek	.19	.75	3.25	4.25	0.70	1.25
Felton	.19	.75	3.25	4.25	-	-

a The extended service rates for Ben Lomond, Boulder Creek, and Felton are authorized to become effective upon the introduction of the service scheduled on or about September 10, 1949. The local service rates authorized by Decision No. 42530 are continued in effect in Ben Lomond, Boulder Creek, and Felton exchanges until extended service is made available, at which time the local service rates are authorized to be cancelled.

b In addition to the daily guarantee.

Schedules Nos. 4-T, 5-T, 9-T, and 10-T
Service in Multi-Office Exchanges Outside Extended Areas

Exchange	Local Service Rates – Each Primary Station: Residence Flat Rate Service, Monthly Rate: 1-Party	2-Party	4-Party	Business Flat Rate Svc., Monthly Rate: 1-Party	2-Party
Bakersfield	$ 4.50	$ 3.50	$ 3.00	$ 9.00	$ 7.00
Fresno	4.50	3.50	3.00	9.00	7.00
Modesto	4.25	3.25	2.75	8.50	6.50
Newport Beach	4.00	3.25	2.75	8.00	6.25
Riverside	4.50	3.50	3.00	9.50	7.25
Sacramento	4.50	3.50	3.00	9.75	7.50
Salinas	4.00	3.25	2.75	8.00	6.25
Santa Ana	4.25	3.50	3.00	8.50	6.50
Stockton	4.50	3.50	3.00	9.00	7.00
Vallejo	4.25	3.25	2.75	8.50	6.50

Exchange	Local Service Rates – Each Primary Station: Semipublic, Min. Charge Per Day	Semipublic, Monthly Rate[a]	Suburban Line, Monthly Rate: Residence	Suburban Line, Monthly Rate: Business	Farmer Line, Monthly Rate: Residence	Farmer Line, Monthly Rate: Business
Bakersfield	$ 0.22	$ 1.00	$ 3.50	$ 5.00	$ 1.10	$ 2.25
Fresno	.22	1.00	3.50	5.00	1.10	2.25
Modesto	.22	1.00	3.25	4.75	1.10	2.00
Newport Beach	.22	1.00	3.25	4.75	-	-
Riverside	.22	1.00	3.50	5.00	-	-
Sacramento	.22	1.00	3.50	5.00	1.25	2.50
Salinas	.22	1.00	3.25	4.75	1.10	2.00
Santa Ana	.22	1.00	3.50	4.75	-	-
Stockton	.22	1.00	3.50	5.00	1.10	2.25
Vallejo	.22	1.00	3.25	4.75	1.10	2.00

a. In addition to the daily guarantee.

Schedules Nos. 4-T, 5-T, 9-T, and 10-T
Service in Single Office Exchanges Outside Extended Areas

Group	Station Range, Company Stations 3-31-49	Local Service Rates – Each Primary Station: Residence Flat Rate Service, Monthly Rate: 1-Party	2-Party	4-Party	Business Flat Rate Svc., Monthly Rate: 1-Party	2-Party
L	Ltd. Hrs.[b]	$ 3.25	$ 2.75	$ 2.25	$ 4.75	$ 4.00
S	Seasonal[c]	3.75	3.25	2.75	5.75	4.75
A	0-500	3.50	3.00	2.50	5.25	4.25
B	501-4,000	3.75	3.25	2.75	5.75	4.75
C	4,001-8,000	4.00	3.25	2.75	6.50	5.25
D	Over 8,000	4.00	3.25	2.75	7.50	6.00

Group	Station Range, Company Stations 3-31-49	Local Service Rates – Each Primary Station: Semipublic, Min. Charge Per Day	Semipublic, Monthly Rate[d]	Suburban Line, Monthly Rate: Residence	Suburban Line, Monthly Rate: Business	Farmer Line, Monthly Rate: Residence	Farmer Line, Monthly Rate: Business
L	Ltd. Hrs.[b]	$ 0.17	$ 0.50	$ 2.75	$ 3.75	$ 0.50	$ 0.75
S	Seasonal[c]	.19	.75	3.25	4.25	.70	1.25
A	0-500	.18	.75	3.00	4.00	.60	1.00
B	501-4,000	.19	.75	3.25	4.25	.70	1.25
C	4,001-8,000	.20	.75	3.25	4.50	.85	1.50
D	Over 8,000	.21	1.00	3.25	4.50	1.00	1.75

a. Exchanges where service is offered.
b. Exchanges where less than 24-hour service is furnished as of March 31, 1949.
c. Exchanges in this group are Blairsden, Brockway, Homewood, Tahoe City, and Tallac.
d. In addition to the daily guarantee.

Schedule No. 6-T

Message Unit Service - Los Angeles Extended Area

Number of Message Units:

The number of message units applicable to a message shall be equivalent to the toll charge for a sent-paid station message over the particular route involved divided by 5¢.

Schedule No. 7-T

Message Unit Service - San Francisco-East Bay

Message Unit Rate:	Each Message Unit
Business foreign exchange service	$0.05
Hotel private branch exchange service	.05
Other services	.04

Recenter San Francisco Zone and East Bay Zone for message unit service as set forth in Exhibit No. 81.

Schedule No. 8-T

Interzone Service - San Francisco-East Bay

Recenter San Francisco Zone and East Bay Zone for interzone service as set forth in Exhibit No. 81.

Schedule No. 12-T

Private Branch Exchange Service

	Monthly Rate	
	Flat Rate	Message Rate
Commercial Hotel, and Residence Manual and Dial PBX Service:		
Los Angeles and Extended Services in the Los Angeles Extended Area:		
Station Rate:		
Each Station:		
Commercial manual and dial PBX service	$1.25	$1.00
Hotel manual and dial PBX service		
Not in guest room	1.25	1.00
In guest room	1.00	.85
Residence manual and dial PBX service	1.00	-

Condition No. 3 relating to a minimum of 10 stations in Cambria, Cayucos, and Morro Bay exchanges is authorized to be cancelled.

	Monthly Rate		
	Business Serv.		Residence Serv.
Business and Residence Key Station Dial PBX Service:	Flat Rate	Message Rate	Flat Rate
Los Angeles and Extended Service in the Los Angeles Extended Area:			
Key Stations:			
On same premises as switching equipment:			
Each hand set with key unit in base	$1.50	$1.25	$1.25
Each station with separate key unit	1.75	1.50	1.50
Not on same premises as switching equipment and not more than 300 feet, circuit measurement, from switching equipment:			
Each hand set with key unit in base	2.25	2.00	2.00
Each station with separate key unit	2.50	2.25	2.25
Keyless stations, each station	1.25	1.00	1.00

Order Receiving Equipment Service:	Monthly Rate	
	Flat Rate	Message Rate
Los Angeles and Extended Service in the Los Angeles Extended Area:		
Station Rate:		
Each station, with or without dial	$1.25	$1.00

Schedules Nos. 12-T, 15-T, 22-T, 24-T, 25-T, 32-T, 43-T and 50-T

Miscellaneous and Supplemental Equipment and Service

The increases and changes in installation charges, monthly rates and conditions set forth on Exhibit Nos. 150 and 152 are authorized to be made.

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.

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 the rate for two trunk lines rounded to the lower 25¢ multiple.

Exchange and Zone Message Rate:

The following message rates apply in connection with message rate PBX service, except hotel PBX service:

Each zone message, 4¢.

Each exchange message, 4¢.

Add the following condition applicable to local service in exchanges within the San Francisco-East Bay extended area:

The rates and conditions for local service in this schedule, other than hotel service, apply only to services established or applied for prior to the closure date of such schedule in a particular exchange, 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 schedule.

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 the rate for two trunk lines rounded to the lower 25¢ multiple.

Exchanges within San Diego Extended Area

Exchange Message Rate:

Message Rate PBX Service, except Hotel:

Each exchange message, 4¢.

Schedule No. 16-T

Apartment House Private System	Monthly Rate
Vestibule or Tradesman Station Rate:	
Each vestibule or tradesman wall set station, equipped to call stations connected with the system:	
Los Angeles - 36-station system	$1.75
Janitor or Manager Station Rate:	
Each janitor or manager station, with or without annunciator, equipped to call stations connected with the system and to operate a door latch:	
Los Angeles - 36-station system	2.50
Apartment Station Rate:	
Each apartment station, equipped to call manager and janitor station and to operate door latch, Los Angeles	1.00

DS

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.

Message Rate Service:

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

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

Business Intercommunicating System Service:	Monthly Rate
Station Rate:	
Each Station:	
Message rate service, Los Angeles	$1.00
Exchange and Zone Message Rate:	
The following message rates apply in connection with message rate service:	
San Francisco - East Bay:	
Each zone message, 4¢.	
Residence Intercommunicating System Service:	
Station Rate:	
Each station, exchanges where offered	1.00

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:

Joint User Service in Connection With:	Rate Per Month For Each Joint User Service
1. Message Rate Service:	
a. Business individual line	$1.50
b. PBX, Order Receiving Equipment, or I.C.S. Service	2.00
2. Semipublic Service	1.50
3. Flat Rate Service:	

Where the Business Individual Line Flat Rate Is:	Rate Per Month For Each Joint User Service In Connection With Business Individual Line or Party-Line Flat Rate Service	Rate Per Month For Each Joint User Service In Connection With PBX, Order Receiving Equipment, or I.C.S. Flat Rate Service
$4.75	$1.50	$2.50
5.25	1.50	2.50
5.75	1.50	3.00
6.50	1.50	3.00
7.00	2.00	4.00
7.50	2.00	4.00
8.00	2.00	4.00
8.50	2.00	4.00
9.00	2.00	4.00
9.50	2.50	5.00
9.75	2.50	5.00
10.00	2.50	5.00
11.00	2.50	5.00
11.25	2.50	5.00
11.75	2.50	5.00
12.25	2.50	5.00

EP

Schedule No. 22-T
Key Equipment Service

	Monthly Rate
Multiple Line Key Cabinet Service:	
Each private branch exchange line terminating on three- or six-line cabinet:	
Los Angeles and extended services in Los Angeles extended area	$1.25
Each station, without dial	
Los Angeles and extended services in Los Angeles extended area:	
Flat rate service	1.25
Message rate service	1.00

Schedule No. 25-T
Local Private Line Telephone Service

	Monthly Rate
Station Rate:	
Each telephone station, and battery, including battery renewals:	
Los Angeles	$1.50
Turret Rate:	
Each additional telephone arranged for alternate use with the attendant's telephone:	
Los Angeles	1.50

Schedule No. 30-T
Toll Terminal Service

	Monthly Rate
Each extension station furnished in connection with a toll terminal:	
Los Angeles	$1.00

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
Orinda residence two-party message rate extended service in Lafayette:
The rate for each additional exchange message is authorized to be increased to 5¢.

EP

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.

Listed Routes Between Contiguous Exchanges
Beverly Hills residence two-party message rate extended service in Culver City:
The rate for each additional exchange message is authorized to be increased to 5¢.

Joint User Service:
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.

Schedules Nos. 43-T, 46-T, 47-T, 48-T, and 49-T
Private Line Services and Channels

Recenter San Francisco zone and East Bay zone for interzone private line services and channels as set forth in Exhibit No. 81

Schedule No. 53-T
Message Toll Telephone Service

Reconter San Francisco zone and East Bay zone for message toll telephone service as set forth in Exhibit No. 81.

Apply the standard station and person toll rates for the applicable toll rate mileage between San Clemente exchange in Orange County and the Chula Vista, National City, and Pacific Beach exchanges in San Diego County.

Schedule No. 83-T
Special Assemblies of Equipment

The increases and changes in installation charges, monthly rates, and conditions set forth on Exhibit No. 151 are authorized to be made.