ORIGINAL

Decision No. 46661

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE WESTERN UNION TELEGRAPH COMPANY for an order authorizing it to increase and revise rates and regulations covered by schedules as specified herein, applicable to intrastate message telegraph and other services within the State of California.	Application No. 32759

Appearances for applicant: William Seward, Pillsbury Madison and Sutro by Turner H. McBaine and Noel Dyer.

Protestant: City and County of San Francisco by Dion R. Holm and Paul L. Beck.

Interested Party: California Farm Bureau Federation by Edson Abel.

Commission Staff: Walter B. Wessells, Telephone and Telegraph Engineer.

O P I N I O N

The Western Union Telegraph Company, a New York corporation, operating a public utility communication system throughout the United States and engaged in intrastate telegraph communications in the State of California, filed the above-entitled application on September 21, 1951, for authority to increase annual revenues from its California intrastate operations by $702,874. Applicant's proposed rate increases by schedules are contained in Exhibit No. 2 of its application. Public hearing was held on this application before Commissioner Craemer and Examiner Edwards on November 21, 1951, at San Francisco, California.

Applicant owns and operates a general communication system covering most of the State of California, composed of telegraph lines, transmission and receiving equipment, rights of way and franchises. Office space is leased in the larger cities. As of November 1, 1951, the company maintained 196 offices and 415 agencies in 535 California communities. The number of employees for California operations was 2,571 as of September 15, 1951.

Summary of Post World War II Rate Proceedings

Three major state-wide rate increase applications have heretofore been filed with this Commission by applicant since the close of World War II. These applications and the actions of the Commission thereon were as follows:

1. Application No. 27678 filed July 15, 1946: By Decision No. 39338, dated August 27, 1946, a request for an approximate 10% increase in rates was granted to cover approximately 76% of the estimated wage increases of $643,000 in California, resulting from a National War Labor Board's Award.

2. Application No. 28245 filed March 4, 1947: By Decision No. 40186, dated April 22, 1947, a request for an annual increase of $465,610 was granted for the purpose of offsetting further wage increases amounting to $592,912 for California intrastate operations. Approximately half of the increase resulted from the elimination of exception rates and the balance from increases in regular rates and charges.

3. Application No. 31026 filed February 16, 1950: By Decision No. 43996, dated April 4, 1950, an increase in annual revenues of approximately $120,000, or 2.85%, based on operations for the year 1949 was authorized to eliminate certain defects, inconsistencies and anomalies existing in intrastate telegraph message rate schedules. Increases and decreases in rates ranged to more than 40% in individual cases with gross increases approximating $310,000 and gross decreases approximating $190,000. The revised tariff schedules established the same rates for service between all rate squares which are the same distance apart and partially offset a stated net operating deficit of $1,176,328 for the year 1949 on California intrastate operations.

Company's Position in Present Proceedings

General wage increases of approximately 13 cents per hour were granted on July 1, 1951, to this applicant's employees to avoid a nationwide strike set for that date. Such a strike would have had a very serious effect on the national defense program and the general public, as well as on the applicant and its employees. This wage increase, amounting to 10%, was equivalent to the maximum permitted at that time under the Federal Wage Stabilization Board's formula. The Board subsequently authorized a further increase of 4 cents per hour, approximately 3%, effective September 1, 1951. Applicant states the proposed rate schedules do not include rate increases sufficient to cover the additional wage increase on September 1, 1951.

Nationwide the company showed a loss in 1948 and 1949, but in 1950 had a net income of $9,855,775. Prior to the 1951 wage increases, it estimated 1951 nationwide net earnings for rate purposes at $10,159,121. After giving effect to the two wage increases on an annual basis, its system net earnings in 1951 are expected to drop to a red figure of $173,759. On August 24, 1951, the Federal Communications Commission issued an order in its Docket No. 9980 authorizing new rates for interstate telegraph service which, if also applied to intrastate operations, would result in restoration of system net earnings to a figure of $7,942,692 on an annual basis. On a system-wide rate base of $188,433,000 a rate of return of 4.22% is indicated.

Earnings Position in California

Applicant proposes to make revisions in rates and regulations in every state corresponding to those placed in effect for interstate service. If such increased rates had been in effect during 1950, applicant estimates that its revenue from California intrastate operations would have shown a net increase of $585,712 after an estimated shrinkage of 2.32% in business due to the higher rates. Similarly, during the first six months of 1951 it estimates a net increase of $312,164 would have been shown.

The estimated earning position for California intrastate operations at present rate levels follows:

	Year 1950	First Six Months 1951
Operating Revenues	$4,200,722	$2,288,346
Expenses (before interest and federal income taxes):		
Operating	4,374,828	2,341,178
Uncollectible Revenue	7,808	4,576
Depreciation	330,972	153,197
Taxes	219,271	128,726
Total Expenses	4,932,879	2,627,677
Net Income before interest and federal income taxes	(732,157)	(339,331)

(Red Figure)

The applicant receives revenues in California from interstate as well as intrastate business. Inasmuch as the same equipment is used to transmit and receive intrastate as well as interstate messages, the problem of segregating and allocating fixed charges on plant to each class of service is involved. Also, the problem of segregating operating expenses is involved because most operators, clerks, and messengers handle both types of messages. This problem is resolved by separation studies performed by the company.

State Separation Method

Since the last increase and revision of rates in California as authorized in Decision No. 43996, dated April 4, 1950, and with the establishment of reperforator switching centers in 15 major cities in the United States for the mechanical transmission and routing of all messages through one or more of these centers from and to any pair of company offices in the country, The Western Union Telegraph Company has found it necessary to develop a method of state separation studies to meet the jurisdictional requirements of several state Commissions, including the California Public Utilities Commission, for data required for regulatory purposes in matters pertaining to the establishment of rates for intrastate traffic. For the purpose of informing this Commission as to the details of its method, the company introduced its "Manual of Instructions State Separations Studies", issued August 31, 1950, as Exhibit No. 8, in this hearing.

Fundamentally, this state cost separation study is predicated on three basic conclusions. These are set forth in the manual as follows:

1. That the reperforator center is a huge machine serving two or more states, the relative use of which is determined by the volume of traffic passing through the machine; and that the expense of such reperforator center operation should be allocated to each of the area states served on the basis of the ratio of its traffic volume to total area traffic volume.

2. That the physical location of the reperforator center affects distances and costs of transmission within the area, which, if based on actual distance traveled, would penalize certain states and benefit others, and which, therefore, should be equalized and borne by the area states in proportion to traffic volume.

3. That all expenses, other than reperforator center costs and area transmission costs, incurred within a state are a direct assessment against traffic of that state; such costs to be allocated between interstate and intrastate operations on the basis of relative number of message handlings within the state.

There are two reperforator switching centers in California. One is in Oakland for California, excluding Los Angeles, and for Nevada; and the other is in Los Angeles, for that city and for the states of Utah, Arizona, and New Mexico.

In accordance with basic conclusion 2 of the separations manual as quoted above, the physical location of these reperforator centers is not considered in separations studies. The actual transmission costs of an entire area served by a reperforator center are combined and redistributed to the area states on the basis of traffic volume, in effect equalizing distances for all the area states.

The company's separation study is accepted for the purpose of this proceeding; further experience however, may show that changes or refinements are justified. The results of California intrastate operations should be developed setting forth the rate base, revenues, expenses and rate of return, and the order will so provide.

Total California Operations

While applicant by its separation procedure shows a red figure for the net revenue from intrastate operations, its total revenues from interstate and intrastate operations in the State of California as shown by Exhibit No. 7 amounted to $16,580,166 in the year 1950, of which it states $12,379,444 was from interstate traffic as compared to $4,200,722 from intrastate traffic. Further, in this exhibit it shows the operating expenses in California for the same year were $13,167,561 of which $8,792,733 were assigned to interstate operations as compared to $4,374,828 assigned to intrastate operations. From these figures the company claims a net operating revenue before depreciation, taxes, and uncollectibles of $3,412,605 for the state as a whole. There was no conclusive showing as to the rate of return for total California operations, nor for intrastate operations.

Conclusion on Earnings

Reviewing the record, the company shows that the earnings nationwide on the proposed rate levels applied to both interstate and intrastate traffic would produce an approximate rate of return of 4.22% which, in our opinion, is not excessive. We have no comparable figure for California operations since the company has not developed a separate rate base. Company estimates indicate, however, that had the proposed rates been in effect for the entire year 1951 an operating deficit of $500,000 before income taxes would have resulted from California intrastate operations. In order for the Commission to have full information on this fact, the company will be required to submit a separations study. For the intrastate portion of the business which is subject to our jurisdiction, based on the limited data the company has presented, we are of the opinion that earnings will remain low even with the increased rates proposed by applicant.

Although there are reservations with respect to the company's method of separation provided for in the manual of instructions, the deficit shown under this method is so large it is not reasonable to conclude that some other logical separation method may so alter this result as to indicate an unreasonably high return in the future for intrastate operations under the proposed rates. This is particularly true in view of the fact that those rates are no higher than those approved by the Federal Communications Commission, with the minor exception of the private line leased circuit rates which in our opinion are presently too low in the State of California.

A representative for the protestant City of San Francisco cross-examined the applicant's witness on the results shown by the separations study for California intrastate operations, and questioned if the method showed all other states to be in the red for such operations. The witness listed some 13 to 14 states which showed intrastate revenues greater than expenses under this separations method.

Authorized Rates

The proposed rates which we will authorize are set forth in the company's Exhibit No. 2 attached to the application, as corrected for omissions and typographical errors at the hearing. It is estimated that these rates will produce an increase of $702,874 in California intrastate revenues.

The proposed rates for telegraph message service, Commercial News Department (CND) service, money order premium charges and charges for leased facilities equipment, and the elimination of the rates for serial section classification are uniform with the rates authorized by the Federal Communications Commission for interstate service.

It is the opinion of the Commission that these rates are an improvement over present intrastate rates deletion as follows:

In the full rate telegrams, the minimum word charge will include 15 words as compared with the average length of telegram of approximately 14-2/10 words and the additional word rate with the exception of the rate in the first message zone block of 75 miles has been reduced. The revenue increase from full rate telegrams is estimated at 16.8%. Day letter rates have been revised to produce an estimated 21.5% increase in revenue. Night letter rates have been revised to include a minimum of 50 words and the rate for each additional five words has been adjusted to produce an estimated 20.7% increase in revenue. The money order premium charges have been adjusted to eliminate charges of less than 25 cents, so that this minimum charge now applies to $20 or less, and is estimated to produce an additional 5% increase in revenue. The revision in rates for telegraph service will also affect the revenues from money order messages. With the increased minimum rate, for 50 words in night messages, a 10-word message may now be included with night money orders at no additional charge. The new money order rates are estimated to produce an increase of 4.2% in revenues. The increases in press message rates from one-third up to one-half of full rates for day press, and from one-sixth to one-fourth of full rate for night press are necessitated by the reductions in additional word rates for the ordinary full rate messages, otherwise the present press message rates would then be excessively low and discriminatory. The increased revenue from proposed press message rates is estimated to be 26.8%. Revisions in CND service have been similarly made to represent more nearly the cost of service, to simplify the rate structure, and to give greater consideration to length of message and distance transmitted.

The rates for private line service, Schedule No. G-2, allow a 40% increase over present rates for intercity leased circuits. It is the opinion of the Commission that this increase is justified since the present rates are deletion low compared to similar service rendered by The Pacific Telephone and Telegraph Company in California. deletion Although the company did not request authorization for a similar increase in interstate private line leased circuit rates from the Federal Communications Commission due to a peculiar competitive situation in that field, the 40% differential in this rate for intrastate private line leased circuits will be allowed.

In general, the rate revisions and increases proposed will produce an over-all increase of approximately 18.8% in intrastate revenues on the basis of the company's separations studies.

Conclusion

No testimony was placed in the record in opposition to the proposed increase in telegraph rates. After a review of all of the evidence, it is our conclusion that an order should be issued granting the increase in accordance with the request of the applicant.

O R D E R

The Western Union Telegraph Company, having applied to this Commission for order authorizing increase in telegraph rates and charges, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and in so far as present rates differ from those authorized herein, they are unjust and unreasonable for the future; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file, in quadruplicate, with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedule of rates shown in Exhibit No. 2 attached to the application as amended and, after not less than five (5) days' notice to this Commission and to the public, to make said rates effective for service rendered on and after February 18, 1952.

IT IS HEREBY FURTHER ORDERED that applicant shall prepare and file with this Commission on or before July 1, 1952, a statement of the results and rate of return of its California intrastate operations for the year 1951, clearly indicating the rate base used and showing the components included therein; setting forth the revenues, expenses, and taxes by principal components; and showing in detail all accounting adjustments made and allocation bases.

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

Dated at San Francisco, California, this 22nd day of January, 1952.

R. T. Mitchell
President.

Justus F. Craemer

Harold P. Hule

Peter E. Mitchell

Commissioners.

Commissioner Kenneth Potter, being necessarily absent, did not participate in the disposition of this proceeding.