

Decision No. _____

47121

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Associated Telephone Company, Ltd.,)
a corporation, for authority to)
increase certain rates and charges)
applicable to telephone service.)

Application No. 33047

Appearances and list of witnesses are set
forth in Attachment 1.

O P I N I O N

Associated Telephone Company, Ltd., operating a public utility communication system in portions of central and southern California, filed the above-entitled application on January 11, 1952 for authority to increase its rates for exchange and toll telephone service in California, including an increase in each local pay station call from 5 cents to 10 cents. The rates as proposed by the applicant, if effective for the entire 12 months' period ending June 30, 1952, are estimated to increase applicant's operating revenues by \$2,449,526 of which \$522,688 would be derived from a 10-cent rate for local pay station calls and the remaining \$1,926,838 from increases in other exchange and toll rates. After due notice, public hearings were held on this application before Commissioner Peter E. Mitchell and Examiner M. W. Edwards on March 19 and 20, 1952 at Los Angeles, California.

Applicant owns and operates telephone systems in various cities and territories in the counties of Los Angeles, San Bernardino, Santa Barbara, Ventura, Orange, Tulare and Fresno, all in the State of California. Its systems consist mainly of telephone

instruments and facilities for their interconnection, including underground and aerial cables and lines, central office equipment, land and buildings, and miscellaneous equipment. Applicant reports that as of December 31, 1951 the total number of company stations served was 460,826, which figure it estimates will grow to 491,929 in June, 1952, and that the total number of employees as of December 31, 1951 was 5,073.

Summary of Post World War II Rate Proceedings

Two major rate increase applications have heretofore been filed with this Commission by applicant since the close of World War II in 1945. These applications and the actions by the Commission thereon were as follows:

1. Application No. 30339 filed May 24, 1949.
 - a. By interim order, Decision No. 43423, October 18, 1949, the Commission, acting upon a request that it grant interim rate relief of such portion of an application for \$2,493,680 annually as it believed just and proper granted rate increases aggregating about \$1,100,000. No change was made in the basic rates for business and residential individual line and party line service. Changes authorized were in the miscellaneous exchange rates, installation, service connection and move and change charges, and in rates for certain message toll telephone service.
 - b. Following the interim order, applicant amended its request so as to provide for an annual increase of approximately \$3,742,000 in addition to the \$1,100,000 authorized in the interim order. In the final order, Decision No. 44135 dated May 2, 1950, applicant was authorized an additional increase of \$2,200,000 on an annual basis. Increases were authorized in the local service rates and extended service rates with no further increase in toll rates. The increases were not uniform as between all exchanges and areas but were developed generally in accordance with the principle that the charges for telephone service applicable in any one area shall not place an unreasonable burden on the balance of the company's customers.

2. Application No. 31712 filed August 30, 1950 asked authority to increase rates and charges by an annual amount of \$3,241,200, but on February 1, 1951, the applicant filed an amended application requesting that this amount be increased to \$5,757,600 by reason of changed conditions following the start of the Korean War on June 25, 1950. An increase of \$4,750,000 on an annual basis was granted by Decision No. 45889 which was estimated to produce a return of 6.1% for a period of 12 months following the date of the decision. Substantial increases in local and extended service rates were authorized for service furnished on and after July 21, 1951; however, no increase in toll rates was granted.

Company's Position in the Present Proceeding

While the relief sought in this proceeding is for the primary purpose of reflecting in rates for the future the increases in wages and taxes which have occurred subsequent to the issuance by the Commission of its Decision No. 45889 on June 29, 1951 authorizing rate increases, the applicant claims its rate of return is declining as a result of the continuing greater investment required to serve each new telephone customer. With wages, tax rates and telephone rates adjusted to present levels, the applicant claims its earnings on net plant and working capital on an annualized basis would have been 6.08% for the first six months of 1951 compared with 5.18% for the second six months of 1951 and 4.66% for the first half of 1952. Applicant shows its actual earnings for the recent past have been 4.23% for the year 1949, 4.97% for 1950, and 4.44% for the 12 months ending November 30, 1951.

Applicant labels the increased costs due to higher wages and taxes incurred subsequent to June, 1951, as out-of-pocket costs, not within its control, which could not be determined at the time the Commission rendered its prior decision. The wage increase resulted from negotiations with the union certified by the National Labor Relations Board which continued to within a

few hours of a strike deadline. Applicant agreed to the granting of wage increases which, based on the estimated level of expenses for the 12 months ending June 30, 1952, would result in an increase in operating expenses in the amount of approximately \$1,089,027. Exhibit No. 2 shows that applicant determined the above increase from an analysis of the month of October, 1951, during which month the effect of the new wage level was to increase pay roll by 9.7588%. It then applied a factor of 0.7355 as the operations' portion of pay roll and increased the figure by 1.06381 times to reflect the growth in the company between November 30, 1951 and June 30, 1952. Thereafter, it added an item of 10.383% to provide for pension expense, social security tax and other costs applicable to pay roll.

To recover the effect of an increase from 47% to 52% in federal income tax rates, applicant computed that a gross revenue increase of \$815,438 will be required for the 12 months ending June 30, 1952. This amount, when added to the wage increase plus an item for additional uncollectible revenues and local franchise tax of \$22,373, results in a total claimed revenue requirement of \$1,926,838.

Applicant states it will not be able to obtain and place in service the equipment necessary to compel the deposit of 10 cents for the completion of local calls from pay telephone stations throughout its territory until late in 1952. Accordingly, it estimates the revenue that might be derived from this source during 1952 to be nominal. The applicant claims, however, that even if the full benefit of the proposed 10-cent local pay station rate were realized starting April 1, 1952, it would not, when added to the other rate adjustments proposed, increase the rate

of earnings beyond those authorized by the Commission in the prior proceeding because of the continuing decline in its earning level.

Subscriber Representation

Subscribers and their representatives were present during each day of the public hearing and several presented statements in opposition to the proposed rate increase. In addition, the Commission received communications protesting the proposed increase. Some of the protestants were concerned with the delay in obtaining an operator in the West Los Angeles area, which fact was admitted by the company. A witness for the applicant stated it has had difficulty recruiting and holding operators in competition with the better wages being paid on defense jobs in the southern California area. In December, 1951, the company was 37 operators short of the required force in the West Los Angeles office but as the result of improved employment conditions it expected to have available the required operating force by the end of March, 1952. Although there is some inexperience in the force, the company is pursuing a vigorous training and retraining program to remedy this situation. Because of the measures being taken by the company, particularly in its West Los Angeles office, we are of the opinion that the service in that area should be markedly improved in the near future.

Protest was made that the extended service calling area for the West Los Angeles exchange was too limited. The plan now in effect provides for local calling into contiguous exchanges and the subscribers in this exchange have a station availability of approximately 220,000. The applicant showed that this situation was comparable to other exchanges located about 10 miles from the Civic Center of Los Angeles.

In response to a subscriber complaint that toll calls are not listed on the monthly bill, the company stated with reference to message unit calls an itemized listing may be obtained at a slight additional charge as provided for in its tariff schedules on file with the Commission. Toll calls are regularly listed on the subscriber's statement.

Complaint as to the infrequency of issuing directories brought the reply from the company that directories are issued every 12 months which is the general prevailing practice throughout the Los Angeles extended area. A few years ago the company issued directories on a nine-month basis and many years ago on a six-month basis. Applicant's witness testified that the cost of publishing and delivering directories is very substantial, and more frequent issuance of directories than once a year would require higher rates which would not be in the public interest.

In response to a request that the company furnish time of day service applicant stated that such service would add to the costs of rendering telephone service which would have to be reflected in higher rates to the subscribers. The company stated that it has studied this problem for a number of years and that there was nothing in its records which would indicate that it would be in the public interest to add that burden in the operating expenses. The company did not indicate how much added cost there would be in providing time of day service so we are reluctant to order such a change on this record without more study of the problem. The applicant will be required by the order herein to make a report as to the costs and feasibility of introducing this service.

All other problems brought to our attention by the witnesses were either answered at the hearing or will be made a subject for investigation by our staff. All communications and statements, as well as the testimony, have been reviewed and have been given careful consideration in making rates which we consider fair to the customers as well as to the investors in the utility under present day inflationary economic conditions.

Cost of Service

For the purpose of determining whether or not the applicant is entitled to a rate increase, the Commission considers, among other things, the relationship of the revenues to the over-all cost of rendering the utility service. Such costs include ✓ the expense of maintenance of plant and equipment, commercial expenses, ✓ traffic expenses, general office and other expenses, depreciation expense, city, county, state, and federal taxes, and a reasonable return for the use of the capital necessary to provide plant facilities for the public service.

It appears from the record that the applicant, in preparing its exhibits for this proceeding, made an effort to follow the methods employed by the Commission staff in prior proceedings with the result that matters which otherwise might have been controversial have been eliminated. While such process simplified the work of the staff in this proceeding, the staff, nevertheless, considered it proper to make certain adjustments in the applicant's pro forma showing with respect to uncollectible revenues, traffic and depreciation expenses, and related income tax computations.

The company's and staff's showings of the pro forma results of operations for the first six months and last six months of 1951 on an annual basis at present tariff schedule and salary levels, and present 52% federal income tax rates are as follows:

Item	Pro Forma Results of Operations			
	First Six Months		Last Six Months	
	of 1951 - Annual Basis		of 1951 - Annual Basis	
	Company	Staff	Company	Staff
	Exhibit No. 7	Exhibit No. 16	Exhibit No. 7	Exhibit No. 16
Revenues	\$29,052,124	\$ 29,115,505	\$30,648,360	\$30,715,224
Operating Expenses	14,138,892	14,202,061	15,438,266	15,333,979
Depreciation	3,678,246	3,444,489	4,053,212	3,800,236
Taxes	6,391,720	6,400,983	6,591,369	6,673,425
Total Expenses	24,208,858	24,047,533	26,082,847	25,807,640
Net Revenue	4,843,266	5,067,972	4,565,513	4,907,584
Rate Base (Depreciated)	79,614,600	79,614,600	88,138,200	88,138,200
Rate of Return	6.08%	6.37%	5.18%	5.57%

In the above table the increase in rates granted in 1951 has been fully reflected. It is apparent that during the last six months of 1951 on the pro forma basis the utility was not earning as high a rate of return under either the staff's or the company's computations as the 6.1% which the Commission previously found reasonable.

The company prepared estimates which showed that the rate of return for the 12 months ending June 30, 1952, at present levels of wages, salaries, taxes and tariffs would drop to 4.90% and for the six months ending June 30, 1952, annualized, would drop to 4.66%. Similar studies for these periods were not presented by the staff; however, the staff's witness testified that the utility's rate of return showed a sharp decline, from 6.37% to 5.57%, equivalent to 0.8% as between the six months periods ending in June and December, 1951.

The company's studies indicate the declining trend in rate of return will continue in the foreseeable future. The staff witness testified that an increase in gross revenue of approximately

\$1,926,000 would yield, after allowing for the effect of taxes on income, approximately \$870,000 of net revenue. Related to the rate base of \$95,199,300 set forth in Exhibit No. 9 for the 12 months ending June 30, 1952, an increase in rate of return of a little less than 1% would result. After allowing for a differential of 0.4% shown between the staff's and the company's computations, he obtained a pro forma rate of return of 6.3% based on that test period. However, the staff witness concluded that since the increase in tariff rates could not become effective before May 1, 1952, or 10 months after the start of the test period, and since the applicant's earnings on a pro forma basis had shown a decline of eight-tenths of one per cent in a six months' period, the company could not realize a 6.1% rate of return during the first 12 months the requested rate increase would be in effect unless there was some substantial change in the operating conditions.

Rate of Return

The representative of the City of Long Beach questioned the staff witness as to whether or not the 6.1% rate of return was the minimum amount considered fair by the Commission for an operation of this character. He replied that the Commission normally finds a fair rate of return in each rate proceeding as applicable to the particular company under the particular conditions of that proceeding. He also pointed out that the Commission found a rate of return of 5.6% as reasonable in the case of The Pacific Telephone and Telegraph Company in a similar type of proceeding at a somewhat earlier period of time.

The representative for the Grand Lodge of Negro Masons protested granting an increase in rates that would yield the

company as high a rate of return as 6.1%. He pointed out that in 1949 the return was 4.23% and in 1950 was 4.97%, and that the company got along at that time.

Counsel for the City of Los Angeles took the position that an efficiently operated utility, rendering a reasonable service is entitled to earn a fair return on its investment necessarily dedicated to serving the public, but questioned whether this is an efficiently operated company rendering a reasonably acceptable service. He stated that probably the West Los Angeles area has the worst service provided by the company and that it is unfair to require a telephone user to pay for service which he does not receive. He urged the Commission to require evidence of improvement in the service provided in West Los Angeles before granting any increase in rates. In his opinion the service improvements could be accomplished if the company complied with the testimony of its witness.

The representative of the California Farm Bureau Federation stated that the policy of his organization is that a public utility which performs a valuable service for the benefit of the public is entitled to charge the rates which the laws permit. He conceded that the utility should have a return that will permit it to pay reasonable operating expenses, including taxes, and a reasonable return on the investment the stockholders have in the company. This representative found no fault with the 6.1% rate of return for this company and did not object to necessary adjustments in rates to restore the applicant's earnings to that level. He stated that there was need for improvement in the service.

Conclusion on Earnings

Having given consideration to the evidence regarding revenues, expenses, and rate base put in evidence by the applicant and the staff, it is our conclusion that this utility is not currently earning a rate of return in excess of 5.6% as measured by the results shown for the last six months of 1951, adjusted and annualized. We adopt a depreciated rate base of \$88,138,200, which we hereby find to be reasonable and further find that after giving weight to the declining trend in the rate of return of approximately 1.6% per year, it appears that applicant would earn a rate of return during the 12 months following the issuance of this order of approximately 4% at present rate levels. After allowing for the proposed increase in rates of \$1,926,838 exclusive of coin-box service, it appears applicant would earn a rate of return of approximately 5% during the next 12 months.

In our opinion under no circumstances will the return to be earned, after allowing for this proposed increase, exceed the fair rate of return heretofore found reasonable for this utility.

We are aware of the problems this utility faces in trying to keep pace with growth in its territory. Furthermore, it is experiencing difficulty in obtaining sufficient materials to meet all of the demands for new services. Telephone plant costs are more per unit than prewar and with such a large postwar growth the plant capital largely reflects current-day costs. We can see reasons for charges of inefficiency and poor service by customers but there is evidence that improvement is being made on both of these counts.

In order that we can check this matter, however, the applicant will be required to file reports monthly with the Commission showing its traffic operating performance.

In view of the evidence, we cannot deny an increase of \$1,926,838, and will authorize rates which will produce approximately that amount, but desire to leave the matter of an increase from 5 cents to 10 cents in coin-box rates to a subsequent order when applicant is ready to institute such service.

Proposed Rates

The applicant proposed, by Exhibit C attached to the application, increases in monthly rates as follows:

<u>Class of Service</u>	<u>Increase in Rate per Month</u>
<u>Business Service:</u>	
1-party	\$1.00
2-party	.75
4-party	.75
Suburban	.75
Trunks	1.50
Semipublic Coin-box	1.00
Extensions	.25
PBX Stations	.25
<u>Residence Service:</u>	
1-party	.30
2-party	.25
4-party	.20
Suburban	.20
<u>Foreign Exchange Service:</u>	
Noncontiguous and LAFX Primaries	
1-party	5.00
2-party	2.50
Contiguous FX Primaries (all grades)	.75
Joint User Service	.75

In addition, applicant requested an increase in each local pay-station call from 5 cents to 10 cents.

The representative for the City of Long Beach opposed the company's proposal for an "across the board" type of increase in exchange rates to all areas because of the claimed inequity of certain present basic rates of the company. Exhibit No. 14 introduced by this party shows that Long Beach local rates are higher than in the smaller cities served by this company. His plea for a rate revision was based on the fact that a rate of return in the Long Beach exchange of 7.55% was shown during the hearings in the previous rate case.

The secretary of the Rancho Park Chamber of Commerce testified that people residing in West Los Angeles exchange pay more for exchange service than nearby residents that receive service from The Pacific Telephone and Telegraph Company.

If the company's proposed increase in exchange service were granted, the problems mentioned by these two parties would not be improved. Applicant submitted at the request of the Commission staff an alternate method, Exhibit No. 4, as a means of obtaining the increase in revenue by adding a toll terminal charge on each intrastate toll message. Applicant's study showed that if a toll terminal charge of 5 cents for the first three minutes and 5 cents for each additional three minutes be applied the estimated annual increase in revenue would be \$1,837,671. ✓ This was a net figure after deducting 2½ cents per call, or \$724,976.85, as an allowance for additional expenses which may be encountered in applying the toll terminal charge.

Exhibit No. 6 presented by the applicant is a copy of a letter from The Pacific Telephone and Telegraph Company in opposition to the toll terminal charge because approximately \$1,200,000 of the increase would be collected from customers

outside of Associated Company territory and the collection costs would be approximately one-half of the revenue. In addition, it states that where the Pacific Company performs the traffic function on Associated Company originated traffic, the costs would approximate some \$225,000 annually. Inasmuch as no representative of The Pacific Telephone and Telegraph Company was present for **CROSS-examination**, counsel for the staff objected to introduction of the letter in evidence and argued that without a witness who could substantiate the estimates and other figures in the letter it is highly objectionable and tends to discredit the terminal cost study. Counsel for Los Angeles joined in the objection.

Counsel for the applicant offered the letter, not for the facts contained therein but as evidence of the fact the utility had made inquiry as to costs and had received a reply. He suggested the letter be received in evidence for whatever it may be worth. The objection was overruled and the exhibit received for such weight as may be considered appropriate by the Commission. The applicant's witness made no proposal that the amount of additional revenues needed by the company be derived by the application of a toll terminal charge.

Counsel for the City of Los Angeles argued that a terminal toll charge merits considerable attention; that while at first it might appear to be an uneconomical way of obtaining the revenue because of the cost of collecting over a period of time, these costs undoubtedly would be reduced. The representative for the California Farm Bureau Federation observed that this is not a too efficient manner of securing money but thought that it would be less troublesome from the standpoint of the subscribers than adding to the station rates. Counsel for the staff argued that the evidence shows that the objections raised to the adoption

✓ of a toll terminal charge are more apparent than real and that the sentiment seemed to be in favor of the toll terminal charge method of raising additional revenue for the company. He listed three companies in which this method is in use and pointed out that by this method the subscriber can control his total increase by controlling the number of toll calls; if the charge is added to the station rates the subscriber has no alternative but to pay the full increase if exchange telephone service is a necessity to him.

Counsel for the cities of Ontario and Upland moved that the application for any increase be denied. We have carefully considered this motion but in view of the evidence of record we cannot grant counsel's request. The motion is therefore denied.

The applicant proposed in Exhibit No. 3 to enlarge the base rate areas in five of its exchanges to include therein the recently built-up territory. The effect of this change would be a reduction in charges to customers of approximately \$40,700 on an annual basis. This change appears to be in the public interest and will be authorized.

Conclusion

After reviewing all of the evidence of record and the statements by protestants and interested parties in this matter, it is our conclusion that an order should be issued increasing the revenue by means of the application of a toll terminal charge of 5 cents for the first three minutes and 5 cents for each additional three minutes in lieu of exchange rate increases proposed by the applicant. Inasmuch as there will be several months' delay before applicant is ready to provide for a 10-cent

local pay-station rate, this portion of applicant's request will be handled by supplemental order upon further application by the company.

In order that the toll terminal charge be made effective on the connecting company's system, authority will be granted by the order herein to make the necessary tariff revisions.

O R D E R

Associated Telephone Company, Ltd. having applied to this Commission for an order authorizing an increase in rates and charges, public hearings having been held and the matter having been submitted for decision;

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

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order in conformity with the Commission's General Order No. 96, Schedule No. B-1, revised to include a toll terminal charge rate of five (5) cents for the first three (3) minutes or less and five (5) cents for each additional three (3) minutes or less applicable to each intrastate toll message either originating or terminating at exchanges or toll stations of the Associated Telephone Company, Ltd., provided only one toll terminal charge per message is applicable where the toll call originates and terminates in Associated Telephone Company, Ltd. service area, and on not less than five (5) days' notice to the Commission and to the public, to make said rates effective for service furnished on and after June 1, 1952.

2. Applicant is authorized to revise base rate areas as proposed in Exhibit No. 3 and make necessary tariff filings to accomplish such change within ninety (90) days after the effective date of this order.
3. Applicant shall prepare and submit, within one hundred and twenty (120) days after the effective date of this order, a report as to the costs and feasibility of introducing time of day service for the benefit of its subscribers.
4. Applicant shall submit reports monthly, by the fifteenth day of the following month, beginning with the month of May, 1952, and continuing for 12 months thereafter, of its traffic operating performance in exchanges where such data is normally accumulated monthly and particularly in the West Los Angeles exchange.
5. The Pacific Telephone and Telegraph Company is authorized to file and make effective appropriate revisions in its tariff schedules to reflect the toll terminal charge hereinabove authorized coincident with the filing by the Associated Telephone Company, Ltd.
6. Applicant's request for an increase in local pay station calls from 5 cents to 10 cents is not authorized at this time but will be subject to further consideration and ultimate determination upon the filing of a supplemental application when applicant is able to furnish a definite date for the institution of such service.

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

Dated at San Francisco, California, this 5th day of May, 1952.

R. T. [Signature]
President.

Justus J. [Signature]

Harold K. [Signature]

[Signature]

[Signature]
Commissioners.

ATTACHMENT 1

LIST OF APPEARANCES

For Applicant: Marshall K. Taylor, John Robert Jones, and O'Melveny & Myers, by Harry L. Dunn.

Interested Parties: City of Los Angeles, by Roger Arnebergh, T. M. Chubb and R. W. Russell; California Farm Bureau Federation, by J. J. Deuel; City of Long Beach by Henry E. Jordan; California State Hotel Association, by Carl I. Wheat; City of Manhattan Beach, by Clyde Woodworth; Clifton, Regina and Strand Hotels, by Harry H. Lederer; Grand View Hills Home Owners Association, by Benjamin Held; 11th Naval District, by Howard L. Minister.

Protestants: Grand Lodge of Negro Masons, by William L. Wood; Cities of Upland and Ontario, by Henry M. Busch.

Other Appearances: C. G. Ferguson, Supervising Utilities Engineer, and J. T. Phelps, Senior Counsel, of the Commission staff.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by: Edwin M. Blakeslee (construction program, capital), Ernest W. Watson (revenues, expenses, rate areas, toll terminal charge, results of operations), Ralph K. Chaso (taxes), Dean M. Barnes (rate base), Guy T. Ellis (pay roll, salaries), Everett E. Karlsson (maintenance and depreciation expenses), Owen G. Jarboe (traffic expense), Robert U. Pearson (service).

Evidence was presented on behalf of the interested parties and protestants by: Henry E. Jordan (rates), Russell Fitzgibbon (service and rates), Phillip Papel (service), James Wolf (service and rates), William L. Wood (rates).

Evidence was presented on behalf of the Commission staff by: Jean Balcomb (depreciation), Charles W. Mors (pro forma results of operation).