

ORIGINAL

Decision No. 47211

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 an order authorizing a revision
in its present directory advertising
rates.

Application No. 33316

Appearances for applicant: Arthur T. George
and Alexander R. Imlay.

Interested party: City and County of San Francisco,
by Dion Holm and Paul Beck.

Commission staff: Harold J. McCarthy and William W.
Dunlop.

O P I N I O N

The Pacific Telephone and Telegraph Company, owning and operating a general telephone and telegraph utility system in the states of Washington, Oregon, Idaho, and California, filed the above-entitled application on April 16, 1952 for authority to increase annual revenues from directory advertising in California by \$3,324,000. Applicant's proposed revised advertising rates are contained in Exhibit No. 3 in this proceeding. After due notice public hearings were held on this application before Examiner M. W. Edwards on May 9, 1952 at Los Angeles and on May 14, 1952 at San Francisco.

Company's Position in the Present Proceeding

Applicant periodically publishes 55 classified telephone directories in conjunction with telephone service rendered by it in the State of California. It claims that the cost of publishing classified telephone directories has substantially increased since

1946. This has resulted from increased labor and material costs in the compilation, printing, and delivery of directories and in the sale of directory advertising. Applicant's Exhibit No. 8 shows that the price per 100 pounds of paper used in the preparation of directories has increased by a weighted average amount of 24% between January 1, 1947 and January 1, 1952. Exhibit No. 9 shows that the annual directory expense per telephone has increased from \$1.83 in 1946 to \$2.74 in 1951, or by 50%.

The present level of telephone directory advertising rates was set by this Commission on December 30, 1946 in Decision No. 39801, Application No. 28060. Since that date applicant states that there has been a substantial increase in advertising rates in magazines of national circulation and in daily and weekly newspapers. It submitted Exhibit No. 10 which shows that for 14 representative magazines with national circulation, the 1952 rate compared to the 1946 rate is 46% higher; for 119 representative daily newspapers in 36 states and the District of Columbia 47% higher; and for 102 representative weekly newspapers in 47 states 25% higher. An analysis of daily and weekly newspapers printed in California shows equivalent or greater increases on the average since 1946. Applicant claims that the 1946 level of advertising rates which it is now using is disproportionately low when related to these other advertising media.

Subscriber Representation

No subscribers or their representatives appeared at either of the public hearings to protest the proposed increase in advertising rates. Two subscribers wrote letters of protest to the Commission which were read into the record. The first author based his protest on the assertion that in other cities in the United States the advertising directory of the telephone company is compiled and published by a separate company and apparently enough money is

made on present rates or the advertising would not be handled in this manner. The second author relied on the advertising directory as his principal source of new business and stated that if the rates are increased this medium will eventually become too expensive to support itself. He suggested a change in arrangement and size that might increase the productiveness of the advertisement.

The company's answer to the first letter was that only in Chicago is the advertising directory handled completely by contract for a "Bell System" company. Some other utilities pay an outside company for selling advertising, but publish their own directories. Other telephone companies handle all phases of preparation of classified directories as does the applicant. The applicant's witness testified that the rates proposed are at levels commensurate with those now in effect in other parts of the United States for equivalent circulation groups.

In reply to the second letter the applicant's witness testified that the format of the directory has been developed over a period of years. In the early 1920's uniformity among directories was established all over the United States so as to give equal opportunity to all advertisers. Except for minor changes since that time the advertising layouts have been generally acceptable, according to the witness. He also stated that the General Telephone Directory Company, which handles advertising for some of the independent companies generally follows these same advertising methods.

Advertising Rate Plan

Advertisers seek representation in classified telephone directories in order to obtain business from the market of telephone users and the circulation of directories is used as a measure of the value of classified telephone directory advertising. The present

rates are set for 21 circulation groups: Group 1, the smallest circulation, covers 1 to 2,000; while Group 21, the largest, covers over 950,000 circulation. The present advertising rates in the various classified directories are set upon a level in conformity with a schedule based upon the directory circulation in the largest exchange served by each classified telephone directory with the highest rates applying to the largest circulation grouping.

An example of certain present and proposed monthly rates for the smallest, intermediate, and largest sizes of groupings follows:

	Group 1 (1-2,000)		Group 10 (40,001-55,000)		Group 21 (Over 950,000)	
	Pres.	Prop.	Pres.	Prop.	Pres.	Prop.
Column Advertising						
Regular Type Listing	\$0.25	\$0.25	\$0.50	\$0.50	\$0.50	\$0.75
Bold Type Listing	.50	.75	1.00	1.50	2.00	2.50
Trade Name Listing	.75	1.00	1.25	1.75	2.25	2.75
Trade-Mark Heading	1.75	1.75	4.00	4.75	13.00	18.50
Informational						
Listing 1 Inch	1.50	1.50	3.25	4.00	10.50	13.50
Display Advertising						
$\frac{1}{2}$ Column	2.00	2.00	6.00	8.00	26.00	35.00
$\frac{1}{2}$ Column or 2- $\frac{1}{2}$ Col.	4.00	4.00	12.00	16.00	52.00	70.00
1 Column or 2- $\frac{1}{2}$ Col.	8.00	8.00	24.00	32.00	104.00	140.00

Up through Group 12 no increase is proposed in the regular type listings, while increases in the larger circulation groups have been proposed at 25 cents for this item. Increases for the other classes of column and display advertising have been proposed at varying amounts. Applicant's proposed increase will affect approximately 81% of the 608,808 items of advertising and might result in an over-all revenue increase as great as 20%.

In proposing the increases, the company's witness testified that weight was given to the commercial acceptability of the rates and it was not his desire to propose "uncommercial" rates. However, based on past experience it was his estimate that the company would

realize only 55.1% of the theoretical increase based on applying the proposed rates to the present number of items because it is anticipated many advertisers will reduce the size of their advertisements at the increased rates.

Revenue Increase Estimate

The increase determined by applying the proposed rates to advertisement items contained in directories in service as of February 1, 1952 is summarized in Exhibit No. 6 as \$2,477,166 for northern California and \$3,555,912 for southern California. Because of anticipated reclassification these computed increases will result in net increases of \$1,389,000 in northern California and \$1,935,000 in southern California. Such increases were based on 281,415 items in northern California directories and 327,393 items in southern California directories as of February 1, 1952.

Not all of such estimated increase would be realized in the first year because all directories are not issued at the same time, their issue dates being staggered so as to give a comparatively uniform year-round work load on the 130 employees engaged in this work. Applicant submitted Exhibit No. 11 which contains a schedule of dates for start of sales canvass, closing dates for publication, month of issue, service life, and effective date of proposed rates. Even if increased rates are authorized in June, 1952, most of the increases would not be applied prior to 1953, because the directories are issued only once in 12 months and it is not suggested that the new rates be applied to directories already in circulation.

The estimated increased revenues to be realized from the increased rates in the years 1952, 1953 and 1954, based on number

of advertising items in directories in service as of February 1, 1952, and assuming the new rates to be made effective on the dates shown in Exhibit No. 11, are:

	<u>Year 1952</u>	<u>Year 1953</u>	<u>Year 1954</u>
Northern California	\$ 37,000	\$ 936,000	\$1,389,000
Southern California	64,000	1,287,000	1,935,000
Total California	<u>101,000</u>	<u>2,223,000</u>	<u>3,324,000</u>

Based on the above summary the full benefit of the proposed increase will not be realized until the year 1954.

Conclusion

The Commission staff reviewed the applicant's work papers and cross-examined the applicant's witness with regard to the testimony and the 14 exhibits presented for the record. The staff brought out the fact that the directory advertising revenue since 1946 has exceeded the cost of publishing directories. During the postwar period of inflation in wages and prices of material, the applicant has adopted several measures to economize on cost of preparing directories. Any net revenue, after expenses, will reflect in the over-all revenues of the company, which in the long run should result in lower exchange rates to the average subscriber.

After reviewing the evidence of record in this proceeding, it is our opinion that the proposed increased rates will cover the additional unit directory expenses since 1946 and might contribute in a reasonable manner to the over-all earnings. It is our conclusion that an order should be issued granting the increases in advertising rates as proposed. The record shows that the company has satisfactorily answered the protests contained in the two letters. The suggestion in the second letter for a change in arrangement and size of advertisements to increase productiveness is a subject for further research and report by the applicant.

O R D E R

The Pacific Telephone and Telegraph Company, having applied to this Commission for an order authorizing a revision in directory advertising rates, public hearings having been held, the matter having been submitted and being ready 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 future directories, are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that:

1. Applicant is authorized and directed to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, revised tariffs containing rates as proposed by Exhibit No. 3 of this proceeding and after not less than five (5) days' notice to this Commission and to the public, to make said rates effective for future issues of classified telephone directories on or about the effective dates as set forth in Exhibit No. 11.
2. Applicant shall study changes in arrangement and sizes of advertisements pursuant to the suggestion contained in the subscriber's letter read into the record in this proceeding; such study to be made with the idea of modernizing or improving the directory so as to result in more productiveness of advertisements at reduced cost to subscribers and render a report on this subject to the Commission on or before July 1, 1953.

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

Dated at Los Angeles, California, this 5th day of

June, 1952.

R. J. [Signature]
President.
Justice J. [Signature]
Harold P. [Signature]
Herbert [Signature]
[Signature]
Commissioners.