

ORIGINAL

Decision No. 48171

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Order requiring)
telephone corporations to file)
rule and regulation with the)
Commission as specified in said)
Order or show cause why said)
rule and regulation should not)
be filed.)

Case No. 5338

Appearances for Respondents: The Pacific Telephone and Telegraph Company by Noel Dyer for Arthur T. George and Pillsbury, Madison and Sutro; McCloud Telephone Company by John L. Talt for Littler, Coakley, Lauritzen and Ferndon; Associated Telephone Company by Marshall K. Taylor and William W. Alsup; California Water and Telephone Company by Charles de Y Elkus, Jr. for Bacigalupi, Elkus & Salinger; California Independent Telephone Association by F. V. Rhodes.

Interested Parties: City and County of San Francisco by Dion R. Holm and Paul L. Beck; City of Los Angeles by T. M. Chubb and Robert W. Russell; San Francisco Hotel Association by Charles W. Kieser for McKeveatt, De Martini, Howard and Hooey.

Intervener: California State Hotel Association by Carl I. Wheat.

Other Appearances: R. B. Cassidy and Walter B. Wessells of the Commission's staff.

O P I N I O N

By order dated November 6, 1951, the Commission directed each telephone corporation listed in Exhibit "A" thereto to file the following rule:

"Telephone exchange, message unit, and message toll telephone services are furnished to hotels, apartment houses, and clubs upon the condition that

use of the services by guests, tenants, members, and others shall not be made subject to any charge by any hotel, apartment house, or club in addition to the telephone exchange, message unit, and message toll telephone rates and charges of the telephone company, except as specifically provided for in the tariff schedules of the telephone company."

or show cause on March 12, 1952 why such rule should not be filed.

On the return day The Pacific Telephone and Telegraph Company and the Associated Telephone Company, Ltd., complied with the order by filing the rule. Other respondents filed later.

Petition to Intervene

A petition for leave to intervene was filed by California State Hotel Association, Ltd., on February 28, 1952. Intervener requested that any rules filed pursuant to the order of November 6, 1951 be suspended for a reasonable period until a study of the costs incurred by hotels in connection with telephone service furnished to guests could be completed and the results presented to the Commission.

On April 1, 1952, the Commission by Decision No. 46914 granted petitioner's request to intervene and enlarged the scope of the proceeding to consider whether or not, upon the rule involved herein becoming effective, other provisions of the tariff schedules of respondent telephone corporations applicable to telephone service furnished to hotels, apartment houses, and clubs should be amended in any particular. Also, this decision suspended the effective date of the rule until August 9, 1952. In order to allow time to complete presentation by the intervener, the period of suspension was extended by Decision No. 47379 until February 6, 1953.

Public Hearings

A total of five days of public hearing was held on this case between March 12, 1952, and December 19, 1952, before Commissioner Peter E. Mitchell and Examiner M. W. Edwards. The matter was submitted for Commission decision on December 19, 1952. Evidence was offered by Horace D. Brown, Donald W. Chapman and Theodore W. Ralston on behalf of The Pacific Telephone and Telegraph Company, by Henry T. Maschal, A. G. Mott, K. Charles Bean, George D. Smith and J. E. Snelson on behalf of the intervener, and by Neal C. Hasbrook on behalf of the Commission's staff. The record comprises 427 pages of transcript and 11 exhibits.

Intervener's Position

Intervener takes the position that hotels should be permitted to recoup certain costs incurred in connection with telephone service furnished to guests through charges by hotels to individual guests, by providing for lower telephone rates to hotels, or the payment to hotels by telephone corporations of amounts sufficient to cover the costs incurred by hotels in rendering guest room telephone service. It states that the telephone companies and the hotels are each entitled to reimbursement for all costs incurred in rendering telephone service to hotel guests.

Intervener's Exhibit No. 4 shows an average estimated cost to hotels in rendering guest telephone service of 10.55 cents per local message handled over and above the local message charge by the telephone corporations and an average estimated cost to hotels of 16.59 cents per intrastate intercity message over and above the message charge by the telephone corporation. In addition

to the cost of direct hotel telephone service, the hotels render a "secretarial" service, or extra guest service over and beyond the ordinary public undertaking of the telephone companies. The cost of this extra guest service is estimated at 3.46 cents per message on local calls and 7.70 cents per message on intercity intrastate calls. By adding these figures the intervener estimates an average cost of 14.01 cents for handling local calls and 24.29 cents for handling intercity intrastate calls.

The Hotel Association's study was based on 23 test hotels which it claims are a representative cross-section of the hotels in the state. As to size the hotels consisted of:

- 3 large (more than 500 rooms)
- 7 medium large (250 to 500 rooms)
- 8 medium (125 to 250 rooms)
- 5 small (less than 125 rooms)

Position of The Pacific Telephone and Telegraph Company

The Pacific Telephone and Telegraph Company had no objection to the hotels recovering their reasonable costs by way of a surcharge, but would not on its own volition file rates to provide for such surcharge as permitted by the exception in the rule which reads: "...except as specifically provided for in the tariff schedules of the telephone company."

This respondent showed that the sample hotels analyzed constitute 2.6% of the hotels, 8.0% of the switchboard positions, 11.0% of the trunks, 8.5% of the stations and 24.5% of the billing to hotels in its operating territory.

This respondent disagreed with the assumption of the intervener that any part of the cost of incoming calls should be allocated to guest service. It also disagreed that the costs

incurred by the hotels of referring to the hotel PBX directory in connection with incoming calls to guests should be included in the cost of providing service to guests. It claimed that many of the references to hotel directories are required because of the secretarial features provided by the hotels, and that secretarial service furnished to guests is similar to service furnished by telephone answering bureaus, which is paid by the customer receiving the service separate and apart from the monthly charges he pays to the telephone utility for service. Respondent's witness testified that such services are furnished as a part of hotel operations as a business and not for the telephone utility. It compared such services to functions like delivering mail, receiving and delivering packages, answering inquiries as to whether certain individuals are registered and their whereabouts in the hotel, and taking and delivering messages. These services it claims are part of the general expense of the hotel and should be borne by the room rent and not by a surcharge on telephone bills.

By Exhibit No. 7 this respondent presented a telephone service cost analysis of the same 23 hotels after making adjustments for the cost of handling incoming calls and other items which it believed to be management or business costs not chargeable to guest telephone service with the following results:

	<u>Hotel Costs Per Message</u>		
	<u>Highest Cost Hotel</u>	<u>Lowest Cost Hotel</u>	<u>Median Cost</u>
Local Calls	17.50¢	3.49¢	6.23¢
Intercity Intrastate Calls	52.95¢	3.39¢	16.16¢

In brief, this respondent's position was that the telephone utility should not be responsible for the financial well-being of the hotels as the cost per call varies widely as between hotels and are guest service costs which the hotels elect to incur, the amount of which, and over which, the telephone utilities have no control. It opposed the payment of any commissions to hotels, such as a percentage on intrastate tolls, as not in the public interest because it would throw an extra burden on the regular residential and business subscribers that should be borne by the hotel guests in proportion to their use of the service. In determining the reasonable cost of service it holds that the cost of handling incoming calls and calls for the business and management of the hotel should not be included.

Position of Other Parties

The representative for the City of San Francisco had no objection to the hotels making a reasonable surcharge for service, but was opposed to any form of relief to hotels by which the other ratepayers, and specifically the residential ratepayers, would be burdened. He opposed the suggestion of the intervener that one method of compensating the hotels for their costs would be to establish reductions in the present rates for guest stations and switchboard equipment.

Counsel for the California Water & Telephone Company concurred in the position taken by The Pacific Telephone and Telegraph Company and the City of San Francisco and stated the possibility that payment of commissions of 15%, or some other amount, would have the effect of determination of telephone utility

rates without evidence as to the utility costs. In case the hotels are permitted to add a surcharge he requested that it be stated as a hotel charge and not as a part of the telephone company rates.

The representative for the California Independent Telephone Association suggested that the Commission rescind its action in suspending the rule that has been filed by the utilities.

The Associated Telephone Company, Ltd., concurred in the position taken by the California Water & Telephone Company.

Commission Staff Analysis

The staff prepared four exhibits for the information of the Commission. One contained a digest of the data introduced in evidence by the California State Hotel Association, Ltd. The staff's analysis shows that when the cost of telephone service is placed on a per room basis at 100% occupancy the average cost is 12.1 cents per day, at 80% occupancy 15.1 cents, at 60% occupancy 20.2 cents, and at 40% occupancy 30.3 cents. Similar per room per day costs for extra guest service allocable to intrastate operations are: 4.5 cents, 5.6 cents, 7.5 cents and 11.3 cents, respectively.

The staff report also showed there was considerable variation between hotels in average cost for guest telephone service per message, the highest being 38.33 cents per message and the lowest being 6.76 cents for local service, similar figures for intrastate toll being 74.23 cents and 4.81 cents. If the hotels were to charge the average rates of 10.55 cents for local calls and 16.59 cents for toll calls some hotels would be over-compensated and some undercompensated for their costs, the

maximum annual overcompensation being \$6,855 for one hotel and the maximum undercompensation being \$6,938 for another hotel.

A difference in average cost per message was shown for hotels receiving flat rate and message rate service. The staff's analysis may be summarized as follows:

Average Cost per Message to Hotels

<u>Item</u>	<u>Flat Rate Service</u>		<u>Message Rate Service</u>	
	<u>Local</u>	<u>Intrastate Toll</u>	<u>Local*</u>	<u>Intrastate Toll</u>
1. Outgoing Guest Telephone Service	8.46¢	20.94¢	4.49¢	8.94¢
2. Outgoing & Incoming Excluding Reference to Hotel Directory	14.55	28.98	7.49	12.23
3. Outgoing & Incoming Including Reference to Hotel Directory	17.20	31.35	9.92	15.21
4. Outgoing, Incoming, Reference to Hotel Directory; and Extra Guest Service	23.20	54.22	13.15	21.37

* Excludes local message charge of telephone utility.

The staff presented a summary of tariff provisions applicable in certain other states, namely, Missouri, New York, and Wisconsin relative to charges by hotels. In Missouri a 5-cent rate for local calls is permitted and the lawfully established toll rate for each toll message is applicable. The hotel retains 2-1/2 cents of the charge on local messages and receives a 15% commission on intrastate toll messages applicable to messages made by guests. If the hotel makes an additional charge above the tariff charge for its service, it must be shown separately from the local and toll message charges. In New York the hotels are

permitted to collect from guests 16 cents for local messages and for intrastate toll calls a surcharge of 15 cents is applicable where the toll charge is 50 cents or less, 20 cents where the charge is over 50 cents, but not more than \$1, and 25 cents where the charge is over \$1. The telephone company's billing to hotels in New York for local messages above the allowance varies from 5 cents to 4 cents depending upon the number of local messages used. In Wisconsin a charge to guests of 15 cents for each local message is permitted. The telephone company's local message charge to hotels is 4 cents. There is no surcharge on toll messages in Wisconsin, the hotels receiving a 15% commission from the telephone utility.

In the states of Oregon and Washington, The Pacific Telephone and Telegraph Company pays hotels subscribing to hotel private branch exchange service a commission of 15% on the tariff charge for intrastate toll telephone messages originated through the hotels' switchboards. No commission is paid to the hotels on local messages.

Motion to Strike Portion of Exhibit

Intervener offered a plan of reduced charges for telephone equipment to hotels if surcharges are not permitted. Counsel for The Pacific Telephone and Telegraph Company moved to strike that portion of Exhibit No. 4 concerned with a possible combination of remedies if no surcharge is allowed or applied. Other interested parties joined in the motion. Such motion was taken under submission and not ruled upon prior to submission of this proceeding. While the decision, herein, does not adopt any

of the combination of remedies suggested in said portion of said exhibit, we are of the opinion that the same was admissible in evidence and for said reason the motion to strike is hereby denied.

Conclusion

Based upon an analysis of the exhibits and testimony presented in this case it is evident that the hotels incur certain costs in rendering telephone service to guests that should be recovered by reasonable charges.

We see no difference between the toll service rendered by a telephone utility to a hotel and that rendered to a large business establishment where similar types of switchboards and stations are used. No commissions on intrastate toll calls are paid to the business firms and none will be authorized for payment to the hotels.

With regard to the question of "secretarial" or extra guest service, the cost thereof varies between 4.5 cents and 11.3 cents per room per day. It probably averages about 5 cents per room per day. This service appears to be an accommodation service that logically should be considered a part of the hotel's cost of doing business. If hotels find it necessary to recover this cost by charges against the guests' making use of the service, it must be shown as a separate charge on the bill other than as a telephone charge or surcharge.

We do not favor the imposition of a surcharge upon incoming telephone calls as the frequency of both incoming and outgoing calls vary as to the character of the hotel and the type of clientele. It appears impractical as a matter of guest relations

to place a charge on incoming calls. The telephone plays an important part in the normal services provided by the modern hotel for its guests and the cost of handling incoming calls is one that the management should consider as a part of the hotel's cost of doing business.

If the Commission authorized and directed appropriate tariff amendment to recover the average costs shown in the Hotel Association's study, it is evident that some hotels would be undercompensated and others overcompensated for their reasonable costs incurred in furnishing guest telephone service. Some hotels may not desire to make a specific charge or surcharge but as a matter of public relations and public service may desire to recover such costs in the regular room rental fees. Accordingly, the tariff provisions which telephone utilities will be authorized to file will permit the subscriber to Hotel Private Branch Exchange Service optionally to apply charges or surcharges up to a level not in excess of the maximum rates authorized herein or to make no charge if desired.

It is concluded that an order should be issued permitting the rule to go into effect at the expiration of the suspension date February 6, 1953, and requiring telephone corporations having hotel PBX schedules to file the tariff schedule provided herein at least one day before that date permitting hotels to make a charge not to exceed 15 cents for local calls and a graduated surcharge on

intrastate toll messages and multi-message unit messages not to exceed the following:

<u>Intrastate Toll and Multi-Message Unit Charge</u>	<u>Guest Charge - Each Message</u>
1. Where the charge is 50 cents or less	Tariff charge, plus a surcharge of 10 cents
2. Where the charge is over 50 cents but not over \$1.00	Tariff charge, plus a surcharge of 15 cents
3. Where the charge is over \$1.00 but not over \$2.00	Tariff charge, plus a surcharge of 20 cents
4. Where the charge is over \$2.00	Tariff charge, plus a surcharge of 25 cents

Additionally it will be provided that where the total charges for local calls exceed 10 cents and where any surcharges are made on intrastate toll and multi-message unit messages the hotel, apartment or club will be required to post a schedule of charges adjacent to guest room telephones in a conspicuous manner.

O R D E R

The Commission having ordered respondent telephone corporations to file a rule, said rule having been suspended until February 6, 1953; public hearings having been held herein, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND that the provisions of said rule are reasonable, and that any increases in rates or charges as may result from the rate filings hereinafter authorized and directed 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 ORDERED as follows:

1. Each of the respondent telephone corporations having on file with this Commission a schedule of rates and

conditions applicable to Hotel Private Branch Exchange Service 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, a schedule of rates and charges for telephone service by hotels, apartment houses or clubs as set forth in Exhibit A attached hereto, and after not less than one(1) day's notice to this Commission and to the public to make said rates effective for service rendered on and after February 6, 1953.

2. Each respondent telephone corporation having on file with this Commission a schedule of rates and conditions applicable to Hotel Private Branch Exchange Service shall notify each hotel, apartment house or club that renders guest telephone service as to the charge or surcharge that may be made for telephone service in accordance with this order, and shall furnish a list of the hotels, apartment houses and clubs that have been notified by March 1, 1953. Such list shall be submitted to the Commission on or before March 20, 1953.
3. That the suspension of the rule which telephone corporations were directed to file on November 6, 1951, be and hereby is removed as of February 6, 1953.

The effective date of this order shall be fifteen (15) days after the date hereof.

Dated at San Francisco, California, this 19th day of January, 1953.

A. Z. [Signature]
President.

Justice J. Calles

Harold K. [Signature]

[Signature]

[Signature]
Commissioners.

EXHIBIT A

RATES

Add the Following Condition to Hotel Private Branch Exchange Schedule:

Hotel Private Branch Exchange Service is furnished to hotels, apartment houses, and clubs under either of the following conditions at the option of the subscriber:

- a. Hotels, apartment houses, and clubs may charge guests, tenants, members and others not to exceed 10 cents (total charge) for each local exchange or zone message from hotel private branch exchange telephones in guest rooms, provided no charge is made in addition to those set forth in filed tariffs for multi-message unit and intrastate toll messages.
- b. Hotels, apartment houses, and clubs may charge not to exceed 15 cents (total charge) to guests, tenants, members and others for each local exchange or zone message from hotel private branch exchange telephones in guest rooms and an amount, in addition to the filed tariff charge for each intrastate toll or multi-message unit message sent paid or received collect from such telephone, not to exceed the charges tabulated below; provided the hotels, apartment houses, and clubs post a schedule of charges for local exchange and zone messages and the additional charges for intrastate toll and multi-message unit messages in a conspicuous manner and location adjacent to each guest room telephone which contains the following statement:

"These charges are included at the option of the hotel management and do not exceed legally authorized charges."

Where the tariff charge for an intrastate toll or multi-message unit message is: _____

The maximum additional charge that may be made by the hotel is: _____

50 cents or less	10 cents
51 cents to \$1.00	15 cents
\$1.01 to \$2.00	20 cents
Over \$2.00	25 cents

The above charges are maximum amounts and the subscriber may at his option post such lesser amounts as he deems appropriate.