

**ORIGINAL**Decision No. 48489

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

(Amended Title)	)	
In the Matter of the Application of	)	
GENERAL TELEPHONE COMPANY OF	)	
CALIFORNIA, formerly named Associated	)	
Telephone Company, Ltd., a corporation,	)	Application No. 33493
for authority to increase certain rates)	)	(Amended)
and charges applicable to telephone	)	
service.	)	

A list of appearances and witnesses  
is appended hereto as Appendix "A".

OPINION AND ORDER GRANTING MOTION  
TO DENY AN INCREASE IN TELEPHONE RATES

General Telephone Company of California, formerly named Associated Telephone Company, Ltd., filed the original application herein on June 16, 1952, seeking an annual increase of \$6,319,763 in telephone revenues. On September 26, 1952, applicant filed a first amendment to its original application increasing the amount sought to \$6,865,000 annually. On January 14, 1953, it filed an amendment to the first amended application changing the name to the General Telephone Company of California and revised downward its requested increase to approximately \$5,060,000. On March 4, 1953, following revision in settlement agreements between the applicant and The Pacific Telephone and Telegraph Company as to their interchanged telephone traffic, the applicant further revised downward its requested increase to \$1,833,441 for the estimated year 1953.

After due notice public hearings were held on this application, as amended, on January 14 and 15, February 2 and March 18, 1953, before Commissioner Mitchell and Examiner Edwards at Los Angeles, California.

Motion to Deny

Near the close of the hearing on March 18, 1953, counsel for the City of Los Angeles made a motion that the application be denied on the grounds that the applicant has completely failed to establish the need or any justification or basis for any increase in rates, in that at the present time and under present rates, it is now earning a rate of return in excess of that which has heretofore been established to be fair and reasonable for this company, and that there is no evidence in the record which would justify a rate of return in excess of that which the applicant is now earning. The City of Santa Monica and the Commission staff joined in said motion.

Applicant's Position

Applicant's position is that net earnings of \$8,700,000 are required during 1953, assuming that new securities to be issued would be outstanding throughout the year, the amount being equivalent to a return of approximately seven per cent on its rate base. Its witness indicated that to induce financing, applicant's coverage of fixed charges should be 4.25 times and its coverage of fixed charges and preferred stock requirements 2.25 times, with earnings on equity capital of about 12 per cent.<sup>(1)</sup>

In Exhibit 19 as amended by testimony, applicant estimates its net revenues available for return for 1953, under present rates, at approximately \$7,950,000, an amount it states would not provide a fair and reasonable return on its rate base nor enable it to complete its 1953 financing and construct the new plant needed to meet the demands of customers in its service area. It reports its 1953 average year rate base in the amount of \$126,439,900.

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(1) Table 6 of applicant's Exhibit 5 shows average earnings in 1951 on equity capital of 17 electric companies of 12.05 per cent, with a range of from 7.21 per cent to 17.69 per cent. Six of the 17 experienced earnings of less than 10 per cent.

Applicant avers that there is a down trend in its earnings due to the addition of high cost capital in this postwar period of inflation and that it has never been able to realize the 6.1 per cent rate of return which the Commission allowed in Decision No. 45889, Application No. 31712, dated June 29, 1951. In addition applicant asserts wage increases and tax rate increases occurred after the Commission made its decision in 1951, with the result that for 1952 the earnings were only 5.66 per cent. However, barring cost increases, it is applicant's hope to earn a return of 6.29 per cent in 1953 under present rates.

Nature of Evidence

The applicant presented 21 exhibits and testimony by nine witnesses. Subjects covered consisted of such items as revenues, expenses, depreciation, taxes, rate base, rate of return, economic and financial requirements and revision in intercompany settlements. In the amendment to the first amended application, applicant stated that it had completed a study separating its investment, revenues and expenses as between toll service and all other service in accordance with the October 1947 Separations Manual and 1952 Addendum thereto issued by NARUC-FCC Special Cooperative Committee on Telephone Regulatory Problems. Applicant claimed that this study showed that it is entitled to and should receive additional revenue from multmessage unit service within the Los Angeles extended area.

Originally, applicant sought to increase exchange rates; however, after realizing a revised settlement improvement in revenue of approximately \$3,300,000 for the level of business in 1953, applicant withdrew its request to increase exchange rates and substituted instead a request to increase the multmessage unit rate from 3½ cents to 4½ cents with a potential annual revenue increase of approximately \$1,800,000 based on estimated traffic volumes for 1953.

The withdrawal of the request to increase exchange rates eliminated complaints from many subscribers and reduced considerably testimony from the public, interested parties and the staff of the Commission. The California Farm Bureau Federation placed testimony into the record by four of its members showing the need for extended service in Ventura County but it did not offer any strenuous objection to applicant's latest revised rate request. The representative from the City of Long Beach opposed applicant's request for an increase in multmessage unit rate on the basis of a showing in Exhibit No. 23 that for the year ended June 30, 1952 the Long Beach exchange provided a rate of return in excess of the average return for the system as a whole of 5.50 per cent shown therein, although there was question as to the correctness of the computation of return by exchanges. In addition financial analyses were presented by the City of Los Angeles and the Commission staff.

#### Financial Analyses

The representative for the City of Los Angeles introduced Exhibit No. 24 showing that the message unit rate increase proposed by the applicant would provide earnings of \$2.60 per share of common stock and based on a common stock dividend of \$1.60 per year would provide a balance available for surplus of \$2,032,000. This exhibit also showed that the present rates, after reflecting the revised settlements, would provide earnings of \$2.19 per common share and after a \$1.60 dividend would provide a balance for surplus of \$1,209,000. As to rate of return the city used the summary of applicant in its exhibits that showed 6.33 per cent.

The Commission staff introduced Exhibit No. 26 showing that the earnings during the year 1952 per share of common stock were \$2.25, the highest of record since 1943, with the exception of the year 1946. The exhibit also showed that the estimated net

operating revenues under present rates and new traffic agreement (\$7,950,000 in 1953) would provide earnings in excess of \$2.40 per common share based on the average number of shares expected to be outstanding in 1953 and a return on equity capital of almost 12 per cent. Assuming that applicant will issue 500,000 additional shares of common stock in the near future, \$6,000,000 of preferred stock in June 1953 and \$8,000,000 of bonds in September 1953, the present rates would provide common share earnings of almost \$2.10 per share and equity return in excess of 10 per cent based on year-end capitalization. Such net earnings is in excess of 6.28 per cent return on applicant's 1953 average rate base of \$126,439,900.

Discussion

At the final day of hearing the applicant revised downward its estimated 1953 rate base by approximately \$1,000,000 due to a forecast of lesser growth of new stations based on December 1952 figures than was forecast on March 1952 figures. The new financing program was based on the March forecast and was not revised to the lower December forecast. It is evident that applicant's financing program will be delayed somewhat and on an average year basis the common stock earnings undoubtedly will be in excess of the showing in the Commission staff exhibit.

Exhibit No. 24 by the City of Los Angeles indicates fixed charges coverage of 4.3 times under the present level of rates in 1953 and coverages of fixed charges and preferred stock requirements of 2.26 times, with a return on equity capital of 10.39 per cent. Upon analysis of the staff exhibit, it is evident that the estimated earnings in 1953 will provide over-all coverage of fixed charges and preferred stock requirements 2.1 times considering the new financing program as assumed therein. Realizing that there will be

some delay in this new financing program, it is probable that the 2.25 times coverage of fixed charges and preferred stock requirements sought by applicant's financial witness will, in substance, be achieved.

Multimessage Unit Rate Investigation

Concurrently, with the issuance of this decision, the Commission has instituted an investigation into the multimessage unit costs and tariffs in the Los Angeles extended area. If we were at this time to grant the request of the applicant to increase the message unit rate to  $4\frac{1}{2}$  cents there would be a disparity in the charges between the traffic flowing into and that flowing out of applicant's service area. In the past this  $3\frac{1}{2}$  cent multimessage unit rate has been maintained at the same level on four different telephone utilities offering extended service in the Los Angeles extended area.

Conclusion

Upon a full consideration of this matter, we are of the opinion that it would be premature to pass, at this time, upon the reasonableness of applicant's request to increase its message unit rate without investigating the over-all extended area situation.

And further, in arriving at our conclusion, we have considered applicant's financial position. Accepting applicant's 1953 average year rate base of \$126,439,900 for the purpose of this proceeding, but without prejudice to our right to review the matter should it become an issue in any future proceeding, we are of the opinion and so find that applicant's expected net revenues of approximately \$7,950,000, under present rates, will provide it with a reasonable return on its rate base. Testing the expected net revenues against applicant's financial requirements, it appears that they should be ample to service not only the presently outstanding

bonds and shares of preferred stock but also those proposed to be issued later in the year, and to provide a reasonable return on equity capital.

We hereby find that under the present rates, applicant will earn a reasonable return and therefore it is concluded that the motion to deny this application for a rate increase should be granted.

O R D E R

General Telephone Company of California having applied to this Commission for an order authorizing an increase in rates, public hearing having been held, a motion to deny the application having been made by a party to this proceeding at the close of applicant's case in the above-entitled proceeding, said motion having been argued orally and submitted for decision, and the Commission having considered said motion and having concluded, as recited in the foregoing opinion, that an order should be issued denying the increase, and good cause appearing,

IT IS ORDERED that said motion to deny an increase be and the same is hereby granted; therefore, the application herein for an increase in rates is denied.

Dated at San Francisco, California, this 14<sup>th</sup> day of April, 1953.

[Signature]  
-President-  
Justice J. Casper  
Harold H. Kule  
[Signature]  
[Signature]  
Commissioners

APPENDIX A

LIST OF APPEARANCES

Appearances for applicant: O'Melvony and Myers, Harry L. Dunn, Robert Jones, Marshall K. Taylor and Edwin Blakeslee.

Interested parties: Pacific Telephone and Telegraph Company by Arthur T. George; City of Los Angeles by Roger Arnebergh, T. M. Chubb and R. W. Russell; Eleventh Naval District by C. L. Alliman and D. W. Cyphert; City of Long Beach by Henry E. Jordan; California Farm Bureau Federation by J. J. Deuel; City of Santa Monica by Mark C. Allen, Jr.; California State Hotel Association, Santa Barbara Hotel Association and Long Beach Hotel Association by K. Charles Bean.

For Commission's staff: J. T. Phelps, Boris Lakusta, Charles W. Mors, John F. Donovan and Freyman Coleman.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by Edwin M. Blakeslee (analysis of operations), Ernest W. Watson (operating revenues, commercial expenses, summary of earnings), Evert E. Karlsson (maintenance expenses, depreciation), Guy T. Ellis (general office and other operating expenses), Ralph K. Chase (taxes, rate base), Dean M. Barnes (rate base), Owen G. Jarboe (traffic expenses), Richard L. Ohlson (remaining life depreciation expense), Jonathan B. Lovelace (economic and financial data).

Evidence was presented on behalf of the City of Los Angeles by T. M. Chubb (estimated equity earnings and financial data).

Evidence was presented on behalf of the California Farm Bureau Federation by Ernest R. Nichols, F. R. Jewett, L. S. Lothridge, J. H. Lenox.

Evidence was presented on behalf of the Commission's staff by Theodore Stein (capital structure, earnings requirements).