ET

Decision No. 50260

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the rates, tolls, charges, rules, regulations, tariffs, contracts, operations and practices of The Pacific Telephone and Telegraph Company, General Telephone Company of California, California Water & Telephone Company and Sunland-Tujunga Telephone Company.) Case No. 5462

(Appearances and list of witnesses are set forth in Appendix C)

O P I N I O N

Nature of Proceeding

This is an investigation initiated April 14, 1953, and amended June 30, 1953, on the Commission's own motion, the principal objectives of which are: (1) to inquire into and ascertain the respective costs, both capital and expense, of the four above-listed respondents in providing, operating, and maintaining for the public all facilities and service in connection with multiple message unit conversations under message unit tariff schedules within the Los Angeles extended area; (2) to inquire into the tariff construction and provisions covering such service, and to determine if any change in tariff construction or provision is in the public interest; and (3) to determine the principle or method by which any joint or other rates of respondents for such service should be divided for rate-making purposes.

One of the prime factors motivating this investigation was the request of The Pacific Telephone and Telegraph Company for an increase in the multiple message unit rate from 3½ to 4½ cents under its Application No. 33935. Inasmuch as four telephone companies are involved in rendering and interchanging multiple message unit service in the Los Angeles extended area, it is essential to give consideration to the desirability of a uniform rate for this type of service among the four companies. With the concurrent issuance today of an order on Application No. 33935 authorizing an increase in the multiple message unit rate to 4¼ cents for the Pacific Company, this opinion and order is necessary to maintain uniformity. It will authorize increased multiple message unit rates for the other three respondents.

Public Hearing

Two days of public hearing on this investigation were held before Commissioner Peter E. Mitchell and Examiner M. W. Edwards on January 29 and March 9, 1954. These hearings had been preceded by five informal conferences between representatives of the four respondents and the Commission staff. As a result of these informal conferences the four respondents entered into an agreement covering the basis of intercompany divisions of revenue from interchanged multiple message unit extended service traffic in the Los Angeles extended area when an increased rate in the range of 4¼ to 4½ cents might be authorized. A copy of such agreement is filed as Exhibit No. 2 in this proceeding and is attached hereto as Appendix B.

Cost Studies

The order instituting this investigation required the four respondents to prepare cost studies for a reasonable test period applicable to the multiple message unit traffic using the principles of separation of message traffic contained in the Separations Manual of 1947, as amended in 1952. Each respondent filed its study and in addition representatives of each respondent and a member of the Commission staff summarized the studies in one exhibit which was filed as Exhibit No. 13 in this proceeding.

For the purpose of making the studies the test period selected was the first four months of 1953 expanded to an annual basis. A complicating factor in these studies was the fact that not all of the multiple message unit traffic is interchanged between companies. For the largest company only about one quarter of its multiple message business terminates or originates in the service areas of the other three companies, the other three quarters originating and terminating in its own service area. Another complicating factor is that some of the multiple message traffic is now charged for at a 5 cent unit rate for such services as semipublic coin-box, public telephone, hotel private branch exchange and foreign exchange services. No change in the 5 cent rate is being authorized herein. The following tabulation indicates the number of message units involved.

Summary of Multiple Message Units, Los Angeles Extended Area
First 4 Months of 1953, Annual Basis
(Exhibit No. 13, Page 8)

Originating Company	Units		
	3½ Cent	5 Cent	Total
California Water & Telephone	31,448,896	2,535,393	33,984,289
General Telephone	176,570,314	20,514,180	197,084,494
The Pacific Telep. and Teleg.	672,954,198	90,903,680	763,857,878
Sunland-Tujunga Telephone	4,454,040	286,578	4,740,618
Total	885,427,448	114,239,831	999,667,279

At the present multiple message unit rates of 3½ cents and 5 cents and present intercompany settlement arrangements, Exhibit No. 13 indicates an over-all earning at the level of 2.68 per cent rate of return for the four companies using a 52 per cent federal income tax rate. The following summary shows the build-up of this figure:

Results of Total Multiple Message Unit Operations
First 4 Months of 1953, Annual Basis
(Exhibit 13, Page 7)

Item	Calif. Wtr. & Tele.	General	Pacific*	Sun-land	Total
Revenues ($1,000)					
3½ cent units	$1,100	$6,180	$23,553	$156	$30,989
5 cent units	127	1,025	4,545	14	5,711
Uncollectibles	(4)	(29)	(83)	(1)	(117)
Connecting Co. Payments	(90)	(2,858)	2,957	(9)	-
Operating Revenue	1,133	4,318	30,972	160	36,583
Expenses and Taxes ($1,000)					
Operating Expenses	796	5,061	24,475	94	30,426
Income and Other Taxes	167	286	3,816	38	3,735
Total	963	4,775	28,291	132	34,161
Net Revenue ($1,000)	170	(457)	2,681	28	2,422
Avg. Net Plant and Working Capital ($1,000)	3,715	17,298	68,573	737	90,323
Rate of Return	4.56%	(2.64)%	3.91%	3.84%	2.68%

(Red Figure)

* Pacific Company gross revenues include charges for all multiple message units billed plus calculated revenues for multiple message units under monthly allowance.

Exhibit No. 13 also shows that if the 3½ cent rate is raised to 4¼ cents the revenue for the total of the four companies would increase by approximately $6,620,000 after uncollectibles and the rate of return would be 6.02 per cent for the group. If a 4½ cent unit rate is authorized the rate of return would rise to 7.13 per cent. Further computations contained in Exhibit No. 13 show that for the interchanged traffic only (after deducting those units originating and terminating in the Pacific Company's service area) the 4¼ cent rate would result in a 5.87 per cent rate of return and the 4½ cent rate in a 7.02 per cent rate of return. The method of revenue segregation set forth in the aforementioned agreement,

Appendix B herein, would provide each one of the four utilities a return of 5.87 per cent on the 4¼ cent rate or 7.02 per cent on the 4½ cent rate on the plant investment to handle interchanged multiple message unit traffic.

The above-mentioned rates of return are based upon a 52 per cent federal income tax rate and reflect certain items of expense and rate base normally adjusted or excluded by the Commission staff in its rate of return computations. Using a 47 per cent federal income tax rate and a multiple message unit rate of 4¼ cents would produce a rate of return approximating 6.28 per cent. The staff of the Commission suggested that periodic reviews of the cost relationships should be made by the respondents and that the results of such reviews should be furnished to the Commission.

Tariff Changes

The respondents presented as Exhibits 5, 8, 10, and 11 the presently effective tariff schedules which would be affected by a change in the message unit rate in the Los Angeles extended area. Witness for the General Telephone Company of California stated that if the multiple message unit rate is increased it would be desirable to raise to the same level the single message unit charge of 3½ cents now applicable to local calling area messages in excess of the initial allowance on all one-party message rate business services. It appears from the record that if such single unit rate is increased to 4¼ cents annual revenues of the General Company would be increased approximately $14,600. This problem does not affect the California Company or the Sunland Company. As the order on Application No.33935 authorizes an increase in the single unit rate for the Pacific Company to the same level as the multiple message unit rate, the request of General Company in this respect appears reasonable.

Views of City of Los Angeles

Representatives for the City of Los Angeles attended the public hearings and made a statement of its views on March 9, 1954. The city contends that it is in the public interest that interchanged services in an area involving telephone calls from and to stations served by any two of the respondents, or calls from and to one of the respondents but partly over the area and facilities of a second, should be handled, so far as the subscriber is concerned, as if such calls were solely within the area of one of the respondent companies. If at all practicable, it stated, the rates for multiple message unit service should continue to be uniform throughout the whole Los Angeles extended area.

The city did not object to rates for multiple message unit service that would cover the costs and a reasonable return but objected to a return as high as 7 per cent. If any increase is permitted in the multiple message unit rates it desired offsetting reductions in fixed station rates on the premise that when all of the evidence upon Pacific's rate increase application has been received the rate of return for all classes of service in the Los Angeles extended area would be in excess of a rate which could be deemed fair and reasonable. Clearly, it stated, the factors which require uniform message unit rates in the Los Angeles extended area by no means also require an attempt to bring station rates in the area together and it urged that rates for similar service in other areas should be no lower than in this area unless and after proper showing by separate cost study by the company or companies affected.

Commission Staff's Position

Counsel for the staff pointed out that questions relating to settlement arising from joint participation in furnishing multiple message unit service are inevitably complex and that the companies have here presented a common approach which contemplates that the rates for such service at whatever level established will continue to be uniform throughout the extended area and at the same time provides a basis for each company to obtain its costs of furnishing the service. While not all of the problems are wholly resolved, the staff urged that the Commission fix a uniform rate for multiple message unit service in the Los Angeles extended area and give favorable consideration to the settlement arrangement as proposed by the respondents.

The question as to what should be done with the existing toll terminal charge effective on the system of the General Telephone Company of California had been considered by the staff. Earlier the staff had suggested to the General Company that the toll terminal charge was originally authorized on the premise that the revenues derived from participation in toll service and multiple message unit service were inadequate. Counsel for General stated that if the Commission authorized a message unit rate in the range of 4¼ to 4½ cents it would not object to the contemporaneous elimination of the toll terminal charge. The staff concurred in the position taken by counsel for General.

Findings and Conclusions

Based upon a consideration of all of the evidence of record in this proceeding, it is found that multiple message traffic in the Los Angeles extended area at the present unit rate of 3½ cents does not provide a reasonable return after expenses upon the telephone plant devoted to multiple message service and the present method of intercompany settlements does not provide an equitable division of revenue from this business among the four participating respondents.

It is concluded that an increased multiple message unit rate of 4½ cents should be authorized for the Los Angeles extended area and the four respondents should revise the method of dividing multiple message unit revenue from interchanged traffic among themselves in such manner as will enable each respondent to recover its respective costs plus a uniform return on its plant devoted to such service. Experience may demonstrate some need for changes in the plan; however, the agreement filed in this proceeding as Exhibit No. 2 appears to be reasonable for the purpose at this time. It is further concluded that the present 3½ cent single message unit rate of General Company should be increased to 4½ cents and that the toll terminal charge of General Company should be canceled.

ORDER

The Commission, on its own motion, having instituted an investigation into the rates, tolls, charges, rules, regulations, tariffs, contracts, operations and practices of The Pacific Telephone and Telegraph Company, General Telephone Company of California, California Water & Telephone Company, and Sunland-Tujunga Telephone Company, particularly for the purpose of inquiring into the multiple message unit rate in the Los Angeles extended area, public hearing having been held, the matter having been submitted and the Commission being fully advised,

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. General Telephone Company of California, California Water & Telephone Company and Sunland-Tujunga Telephone Company are authorized and ordered to file with this Commission after the effective

date of this order, in conformity with General Order No. 96, revised rates, rules, and conditions with changes as set forth in Appendix A attached hereto, and, after not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after August 1, 1954.

2. The agreement filed in this proceeding as Exhibit 2 covering the basis of intercompany divisions of revenues from interchanged multiple message unit traffic in the Los Angeles extended area is approved. However, this approval should not be construed as a finding respecting the components of expense and net investment in plant entering into the agreement.

3. The results of such periodic reviews of the cost relationships of multiple message unit business in the Los Angeles extended area as are made by the respondents shall be furnished to the Commission.

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

Dated at San Francisco, California, this 6th day of July, 1954.

Peter E. Mitchell
President

Justus F. Craemer

Kenneth Potter

Verne Scoggins

____
Commissioners

C-5462 ET

APPENDIX A

The presently effective rates, rules, and conditions of the General Telephone Company of California, California Water & Telephone Company, and Sunland-Tujunga Telephone Company are changed as set forth in this appendix.

General Telephone Company of California

Schedule No. A-1
Individual Line and Party Line Service

The rate for each message over the allowance in connection with message rate service is authorized to be increased to 4½ cents.

Schedule No. A-6
Commercial Private Branch Exchange Service
Schedule No. A-8
Automatic Private Branch Exchange Service

The rate for each exchange message in connection with message rate service is authorized to be increased to 4½ cents.

Schedule No. H-1
Message Unit Service

The message unit rate for all services other than semipublic, public telephone, foreign exchange and hotel PBX service is authorized to be increased to 4½ cents.

Revise "Rate (3) Number of Message Units" on Sheet No. 5368-T to read as follows:

(3) Number of Message Units.

The number of message units per initial and overtime periods are as follows:

Where the Airline Toll Rate Mileage Between Toll Rate Centers Is:[a] Miles Over	Including	The Number of Message Units per Initial Period Is	The Initial Period Is	The Number of Units per Overtime Period Is	The Overtime Period Is
0 -	10	2 message units	3 minutes	1 message unit	2 minutes
10 -	15	3 message units	3 minutes	1 message unit	1 minute
15 -	20	4 message units	3 minutes	1 message unit	1 minute
20 -	25	5 message units	3 minutes	1 message unit	1 minute
25 -	30	6 message units	3 minutes	2 message units	1 minute
30 -	35	7 message units	3 minutes	2 message units	1 minute
35 -	40	8 message units	3 minutes	2 message units	1 minute
40 -	50	9 message units	3 minutes	3 message units	1 minute
50 -	60	10 message units	3 minutes	3 message units	1 minute

a. Outside the local service area.

Schedule No. B-1
Message Toll Telephone Service

The toll terminal charge is ordered to be canceled, deleted, and withdrawn.

California Water & Telephone Company

Schedule No. H-1
Message Unit Service

The message unit rate for all services other than semipublic, public telephone, hotel private branch exchange, and foreign exchange service is authorized to be increased to 4½ cents.

Sunland-Tujunga Telephone Company

Schedule No. H-1
Message Unit Service

The message unit rate for all services other than semipublic, public telephone, hotel private branch exchange, and foreign exchange service is authorized to be increased to 4½ cents.

AGREEMENT COVERING BASIS OF INTERCOMPANY DIVISIONS OF REVENUES FROM INTERCHANGED MULTI-MESSAGE UNIT EXTENDED SERVICE TRAFFIC IN THE LOS ANGELES EXTENDED AREA

The undersigned companies, California Water & Telephone Company, General Telephone Company of California, The Pacific Telephone and Telegraph Company, and Sunland-Tujunga Telephone Company, are engaged in furnishing telephone service in the Los Angeles extended area within their respective serving areas, and, as a part of that service, furnish an extended calling service to their respective customers at message unit rates under each company's applicable tariffs. The Los Angeles extended area is very extensive, the serving arrangements are complex, and the situation is unusual in that four separate companies are jointly engaged, through interchange of traffic, in the furnishing of telephone service within one extended area. Separate traffic and settlement arrangements applicable to interchanged Los Angeles extended area multi-message unit traffic now exist between The Pacific Telephone and Telegraph Company and each of the other companies. The four companies now desire to enter into the following arrangement expressing the basis of divisions of revenues as among all of the companies for the multi-message unit traffic interchanged between them in the Los Angeles extended area, said arrangement to become effective if and when each of the four companies is permitted to place in effect a message unit rate in the Los Angeles extended area in the range of 4¼¢ to 4½¢ pursuant to order of the Public Utilities Commission of California.

The basis of divisions of revenues from multi-message unit traffic interchanged among any of the four undersigned companies in the Los Angeles extended area shall be as follows:

Each company shall receive out of the revenues from interchanged multi-message unit traffic in the Los Angeles extended area an amount equal to its expenses incurred in rendering this service. The remainder of such revenues shall be divided among the four companies in proportion to the net investment in plant devoted to interchanged multi-message unit traffic.

The revenues to be included shall be those revenues attributable to interchanged multi-message unit traffic of the four companies in the Los Angeles extended area, less uncollectibles.

Expenses will include operating expenses, pension accruals charged to income, and operating taxes.

The net investment in plant shall be the equivalent of accounts 100.1, 100.3, 100.4, 122, and working cash in the amount of 1/12th of the annual operating expenses less depreciation, minus account 171.

The revenues, expenses, and net investment in plant attributable to interchanged multi-message unit traffic in the Los Angeles extended area shall, for divisions of revenue purposes under this agreement, be determined in accordance with the uniform methods used by the respective companies in submitting such revenues, expenses, and net investment data to the Public Utilities Commission of California in Case 5462.

The monthly settlement among the companies will be calculated to appropriately reflect the above arrangements.

The four companies will periodically review the divisions of revenues made pursuant to this agreement, such review to be made at least once each year unless the parties agree it is not required. A more frequent review will be made if request therefor is made by any party incident to any basic change in operating arrangements. In such reviews the parties may agree upon any simplification of study methods for divisions of revenues hereunder as may appear mutually desirable.

C-5462 NB

The four companies from time to time will review the level of the message unit rate applicable to the service covered by this agreement, and if it appears that a modification of such rate is desirable and in the public interest, the four companies will give consideration to what action may be appropriate to take.

Except as to any amounts due thereunder, this agreement supersedes, in so far as computations of intercompany settlements for interchanged multi-message unit traffic in the Los Angeles extended area are concerned, all previously existing agreements between any of the four companies.

This agreement shall become effective if and when each of the four companies is permitted to place in effect a message unit rate in the Los Angeles extended area in the range of 4¼¢ to 4½¢ and shall continue in force for a period of one (1) year and thereafter until terminated by sixty (60) days' prior notice in writing from any company to the others.

IN WITNESS WHEREOF, the said companies have caused this agreement to be executed in their behalf this 14th day of December, 1953.

CALIFORNIA WATER & TELEPHONE COMPANY

WITNESS:

/s/ B. A. Lindholm
Assistant Secretary

By /s/ Peter A. Nenzel
Vice President

GENERAL TELEPHONE COMPANY OF CALIFORNIA

WITNESS:

/s/ Marshall K. Taylor
Secretary

By /s/ Harlan W. Holmwood
Vice President

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

WITNESS:

/s/ E. De Bow
Assistant Secretary

By /s/ J. S. Cantlen
Vice President

SUNLAND-TUJUNGA TELEPHONE COMPANY

WITNESS:

/s/ Allan R. Stacey
Assistant Secretary

By /s/ Jean D. Weir
Vice President

APPENDIX C

LIST OF APPEARANCES

For Respondents: Arthur T. George and Francis N. Marshall, for The Pacific Telephone and Telegraph Company; Marshall K. Taylor and Albert M. Hart, for General Telephone Company of California; Allan R. Stacey, for Sunland-Tujunga Telephone Company; Bacigalupi, Elkus and Salinger, by Claude N. Rosenberg, for California Water & Telephone Company.

Interested Parties: Roger Arnebergh, Alan G. Campbell, T. M. Chubb and R. W. Russell, for the City of Los Angeles; Dion R. Holm and Paul L. Beck, for the City of San Francisco; J. J. Deuel, for the California Farm Bureau Federation.

Other Appearances: Boris H. Lakusta and Charles W. Mors, for the Commission staff.

LIST OF WITNESSES

Evidence was presented on behalf of respondents by Ward C. Schweizer and J. M. Riddle, for The Pacific Telephone and Telegraph Company; Robert E. Joslin, Marshall K. Taylor and Frederick C. Rahdert, for General Telephone Company of California; Allen R. Stacey, for Sunland-Tujunga Telephone Company; Peter A. Nenzel, for California Water & Telephone Company.