

Decision No. 5993S**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of WESTERN UNION)
 TELEGRAPH COMPANY, a corporation,)
 for an order authorizing it to)
 increase and revise certain)
 intrastate rates and regulations)
 applicable to telegraph service)
 within the State of California.)

Application No. 35780
 (Amended)

W. E. Seward and Pillsbury, Madison & Sutro, by
Noel Dyer, for Western Union Telegraph Company.
 J. F. Coakley, District Attorney, by Maurice Engel,
 Deputy, for Alameda County District Attorney's
 Office; Edson Abel, for California Farm Bureau
 Federation; Dion R. Holm, City Attorney, by
Paul Beck, for City and County of San Francisco;
Clarence A. Winder and Frank L. Kostlan, for
 City of Pasadena, interested parties.
Neal C. Hasbrook and H. F. Wiggins, for the
 Commission staff.

O P I N I O NIntroduction

Western Union Telegraph Company, hereinafter termed Western Union, by application filed September 14, 1954, as amended by amendments filed November 9, 1954, seeks rate revisions, applicable to California intrastate operations, covering public message, commercial news (CND), money order and press services, to offset partially the intrastate portion of system-wide wage increases effective June 1, 1954.

The proposed rate increases are set forth by schedules in Exhibit 6 attached to the application. They are estimated to produce an over-all increase in annual intrastate revenues of approximately \$750,818, or 20.11 percent, based on operations for the year ended

June 30, 1954, without allowance, however, for shrinkage due to anticipated customer resistance to the higher rates.

Public Hearing

The application was submitted for decision at a public hearing held, after due notice, on November 19, 1954 at San Francisco, before Commissioner Ray E. Untereiner and Examiner John M. Gregory. The only protest to the application was one manifested by the Board of Supervisors of Placer County, which adopted and forwarded to the Commission a resolution protesting the increased rates but otherwise entered no appearance.

The Company's Position

Western Union placed in effect on June 1, 1954, on a system-wide basis, wage increases amounting to \$6,979,000 per annum, resulting from new contracts negotiated with the company's two labor unions. The old contracts expired May 31, 1954. These wage increases have a heavy impact upon the company's earnings, since the record shows that substantially more than one-half of every revenue dollar is applicable to wage costs.

Rate relief to offset, in part, the increased wages was sought and secured from the Federal Communications Commission and from regulatory bodies in 43 states prior to the hearing on the instant application, at which time there were also pending applications for comparable relief in four other states. These wage increases have not previously been considered by this Commission in establishing rates for this utility.

Evidence on Earnings

Applicant estimated its system-wide rate of return for the 12 months ended June 30, 1954, at 3.6 percent, based upon present rates and a depreciated rate base of \$186,514,454, but excluding the effect of the June, 1954 wage increases. Inclusion of the wage

increase without rate relief would reduce the rate of return for the same period to 1.8 percent. The annual effect of the proposed rate revision, system-wide, is estimated to increase the company's net income, after income taxes, by \$5,394,000, of which \$3,350,000 will be absorbed by increased wages. The balance of about \$2,000,000, the company estimates, will restore its rate of return to 4.7 percent on domestic telegraph business.

The estimated rate of return for California intrastate operations at present and company proposed rates, based on operations for the year ended June 30, 1954, appears below:

	<u>Year Ended June 30, 1954</u>	
	<u>At Present Rates Excluding June Portion of Wage Increase</u>	<u>Adjusted for June 1 Wage Increase and Company Pro- posed Rates</u>
Operating Revenues	\$4,908,620	\$5,659,438
Operating Expenses and Taxes	<u>5,202,161</u>	<u>5,436,319</u>
Net Operating Revenues before Federal Income Taxes	<u>(293,541)</u>	223,119
Estimated Federal Income Tax at 52%, Modified by Bond Interest and Other Tax Differentials	-	<u>107,119</u>
Net Operating Revenues After Federal Income Taxes	-	116,000
Rate Base (Depreciated)	4,026,580	4,026,580
Rate of Return	-	2.88%

(Red Figure)

Separation Procedures

Inasmuch as the same telegraph equipment and facilities are used to transmit and receive both intrastate and interstate messages and most operators, clerks and messengers handle both types of message, separation of plant, revenues and expenses is required in developing California intrastate operating results. This problem is resolved by separation studies performed by Western Union, which are in evidence and which will be accepted for the purpose of this proceeding. Further experience, however, may justify refinements or modifications in such studies.

¹ Exhibit 2 - Manual of Instructions - State Separation Studies.

Conclusion on Earnings

The record shows that Western Union's system-wide earnings on the proposed rate levels would result in a rate of return of approximately 4.7 percent. Comparable figures for California intrastate operations, shown above, indicate a rate of return of about 2.9 percent on a depreciated rate base of \$4,026,580.

It is clear that the rates requested herein are justified. These rates are no higher than those in effect for interstate service and for intrastate service in a number of states.

Authorized Rates

The proposed rates, which will be authorized, are set forth in Exhibit 6 attached to the application. A comparison of present and authorized rates for basic public message telegraph service classifications follows:

Rate Zones, Miles		Full Rate Mes- sage for 15 Words or Less		Day Letter for 50 Words or Less		Night Letter for 50 Words or Less	
Over	Including	Pres.	Co.Pro. & Auth.	Pres.	Co.Pro. & Auth.	Pres.	Co.Pro. & Auth.
0	75	\$.55	\$.75	\$.70	\$1.00	\$.40	\$.60
75	125	.65	.85	.85	1.15	.50	.65
125	225	.80	.95	1.05	1.30	.60	.75
225	425	.95	1.10	1.25	1.50	.70	.85
425	750	1.10	1.25	1.45	1.70	.80	.95
750	1,125	1.25	1.40	1.60	1.90	.90	1.10

The above basic rate increases account for approximately 88 percent of the total revenue increase authorized by the order herein. In addition, increases are authorized in press message, money order and commercial news department (CND) quotation services.

The revised rates herein authorized for California intrastate business were made effective for interstate traffic on July 15, 1954, except for press message service rate revisions, which became effective September 1, 1954.

The application will be granted.

O R D E R

The Western Union Telegraph Company, having applied to this Commission for an order authorizing increases in telegraph rates and charges, a public hearing having been held, the matter having been submitted and now 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 authorized, are and for the future will be unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedules of rates shown in Exhibit No. 6 attached to the application herein, and after not less than five days' notice to this Commission and to the public, to make said rates effective for service furnished on and after February 1, 1955.

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

Dated at San Francisco, California, this 4th day of JANUARY, 1955

John E. Mitchell
President
Justice F. C. ...
Ralph ...

Commissioners