

ORIGINALDecision No. 51143

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 authority)	
to increase certain intrastate rates)	Application No. 33935
and charges applicable to telephone)	(2nd Supplemental)
service furnished within the State of)	
California.)	

(Appearances and list of witnesses at the hearing on this Second Supplemental Application are set forth in Appendix A.)

SECOND SUPPLEMENTAL OPINION

In its second supplemental application filed in the above-entitled proceeding on November 19, 1954, The Pacific Telephone and Telegraph Company seeks authorization to increase certain intrastate rates to produce additional annual gross revenues of \$4,980,000.

After due notice, public hearings were held in San Francisco on January 12, and 13, 1955, before Commissioner Peter E. Mitchell and Examiner M. W. Edwards. The matter was taken under submission and now is ready for decision.

The rates currently being applied by applicant for California intrastate service were prescribed by the Commission by Decision No. 50258, dated July 6, 1954, and Decision No. 50402, dated August 17, 1954, and, generally speaking, did not go into effect fully until August 21, 1954, less than three months prior to the filing of the present supplemental application. Such rates, according to the orders which prescribed them, were designed to produce sufficient revenues to afford a return of 6.25 per cent on the rate base found reasonable, after payment of reasonable operating

expenses, taxes and depreciation. The determination of the Commission was related to the 1952 test year.

In presenting this supplemental application to the Commission, applicant asserts that the increases in rates now requested are equivalent to increases in wages which were being negotiated and considered by applicant at the time we entered our earlier orders in this proceeding and which subsequently were awarded to applicant's employees. It asserts further that the effect of the wage grants was to decrease its return below that found reasonable by the Commission. It presented testimony purporting to show that, giving effect to such wage increases, its return on the basis of the test year previously adopted would be 5.97 per cent and on the basis of 1954 earnings would be still further decreased to 5.94 per cent. The showing with respect to 1954 earnings was based on the results of operations for the first eight months of the year annualized, adjusted to include the effect of changes in taxes, financing, rates, wages and other elements.

In fixing rates the Commission does not rely on a purely mathematical process in which inflexible levels of revenues, expenses and rate base are related. In its final determination judgment plays an important if not a controlling part. In making its earlier orders in this proceeding the Commission took into consideration, among other things, revenue, expense and rate base items as presented in the record, but in doing so it was well aware of the fact that the then prevailing costs and revenues were not likely to be future costs and revenues and that there could well be changes in these items from time to time. The probability of such changes was taken into consideration by the Commission in the exercise of its judgment as to the appropriate rate schedules to be applied by applicant in the future.

We have given full consideration to the testimony and the exhibits now before us in this supplemental proceeding. The record is clear that applicant currently is faced with the payment of increased wages. The record is equally clear, however, that applicant will incur lower expenses because of a revision in its pension accrual rate, which lower expenses were not taken into account by applicant in arriving at the requested rate increase of \$4,980,000. Moreover, the record shows a distinct and substantial upward trend in applicant's earnings during the second four months of 1954 as compared with the first four months. The indicated return for the second four-month period approximates the level heretofore found reasonable and it may well be that the actual operations for a full year under existing rates will show a result differing substantially from the one obtained by applicant by annualizing the first eight months' figures.

We do not draw the same inference from the record which applicant does. Actual experience is the criterion by which the reasonableness of rates, or a return flowing from such rates, may be tested. We find that the schedule of rates which was prescribed for applicant by Decisions Nos. 50258 and 50402 has not been subjected to a fair and reasonable test period.¹ Additionally, it must be kept in mind that, as applied to both rates and return, there is a zone of reasonableness. Based upon the record before us we find that said rates heretofore prescribed, when subjected to a fair test of experience, will produce a reasonable return.

For these reasons we find that the second supplemental application should be denied.

¹ Applicant's earning position, before and after the effect of the 1954 wage increase, pension revision and 1954 stock issue, has been computed from basic figures in Exhibits Nos. 149 and 152, and is set forth in Appendix B attached hereto.

The City of Los Angeles, at the commencement of the hearing, made a motion to dismiss this proceeding. Due to the conclusion of the Commission on the merits of this matter, such motion is denied.

Exhibit No. 158 filed by the Telephone Answering Services of California, Inc., contained two suggestions for increased revenues from telephone answering equipment. The first suggestion is to increase the monthly rental rate from \$12.50 to \$17.50 for automatic answering sets or devices. The second suggestion is to remove the restriction on 120-line, cord-operated switchboards so as to permit the termination of concentrator-identifier lines. Applicant later filed an answer to Exhibit 158 stating that the monthly rate of \$12.50 is appropriate in light of current estimated costs, and that it appeared feasible to modify the switchboards in a certain manner. In light of our action herein we find no reason to increase the monthly rate for the automatic answering set at this time. However, based upon the cost set forth in the applicant's answer to Exhibit No. 158 an increase in the installation charge from \$15 to \$35 is justified and the applicant should, by advice letter, make this change. We will also permit applicant to modify its rate tariffs for switchboards.

SECOND SUPPLEMENTAL ORDER

The Pacific Telephone and Telegraph Company having filed its second supplemental application with the Commission for a supplemental order authorizing increases in rates and charges for telephone service, public hearings having been held, the matter having been submitted and the Commission having fully considered the record; therefore,

IT IS HEREBY ORDERED that the second supplemental application by The Pacific Telephone and Telegraph Company for authorization to increase intrastate rates be, and it hereby is, denied.

IT IS HEREBY FURTHER ORDERED that modification of rates for answering service equipment to the extent indicated above be processed under separate appropriate advice letter filing in accordance with General Order No. 96.

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

Dated at San Francisco, California, this 1st day of March, 1955.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners

APPENDIX A

LIST OF APPEARANCES ON
SECOND SUPPLEMENTAL APPLICATION

For Applicant: Pillsbury, Madison & Sutro, by Arthur T. George
and Francis N. Marshall.

Interested Parties: California Farm Bureau Federation, by
J. J. Deuel; City of San Francisco, by Dion R. Holm and Paul L.
Beck; City of Los Angeles, by Roger Arnebergh, Alan Campbell,
T. M. Chubb and R. W. Russell; City of Pasadena, by Clarence A.
Winder; City of San Diego, by Aaron W. Reese and Clarence A.
Winder; General Services Administration, U. S. Government, by
Maxwell H. Elliott and Clarence W. Hull; Telephone Answering
Services of California, Inc., by Lew Lauria and Bert Levy.

Commission Staff: Boris H. Lakusta, John Donovan and Charles W.
Mors.

LIST OF WITNESSES ON
SECOND SUPPLEMENTAL APPLICATION

Evidence was presented on behalf of the applicant by: Ben S. Gilmer,
A. E. Ellison, J. M. Riddle, C. S. Mason, H. L. Kertz and
S. W. Campbell.

Evidence was presented on behalf of Telephone Answering Services of
California, Inc., by Lew Lauria.

Evidence was presented on behalf of the Commission staff by
D. F. LaHue.

APPENDIX B

Application No. 33935
Second Supplemental

The Pacific Telephone and Telegraph Company

EARNINGS SUMMARIES
FROM EXHIBITS NCS. 149 AND 152

Item	1952 Test Level	First 8 Mos. 1954 Annual Basis	First 4 Mos. 1954 Annual Basis	Second 4 Mos. 1954 Annual Basis
Revenue				
As Recorded	\$365,590,000	\$416,777,000	\$404,562,000	\$428,991,000
Rate Incr. & Minor Items	18,109,000	17,681,000	19,088,000	16,278,000
Total	383,699,000	434,458,000	423,650,000	445,269,000
Expenses				
Operating	238,429,000	261,558,000	257,686,000	265,429,000
Depreciation	29,778,000	35,409,000	34,861,000	35,959,000
Taxes	67,698,000	79,366,000	75,940,000	82,791,000
Total	335,905,000	376,333,000	368,487,000	384,179,000
A. Net Revenue	47,794,000	58,125,000	55,163,000	61,090,000
Depreciated Rate Base	764,703,000	921,222,000	906,569,000	935,875,000
Rate of Return	6.25%	6.31%	6.08%	6.53%
B. 1954 Wage Increase (After Tax Effect)	<u>\$(2,170,000)</u>	<u>\$(2,273,000)</u>	<u>\$(2,276,000)</u>	<u>\$(2,269,000)</u>
Revised Net Revenue	45,624,000	55,852,000	52,887,000	58,821,000
Revised Rate of Return	5.97%	6.06%	5.83%	6.29%
C. Effect of Revised Pension		\$ 560,000	\$ 562,000	\$ 558,000
Revised Net Revenue		56,412,000	53,449,000	59,379,000
Revised Rate of Return		6.12%	5.90%	6.34%
D. Effect of 1954 Stock Issue		<u>\$(1,114,000)</u>	<u>\$(1,042,000)</u>	<u>\$(1,186,000)</u>
Revised Net Revenue		55,298,000	52,407,000	58,193,000
Revised Rate of Return		6.00%	5.78%	6.22%

(Red Figure)