

**ORIGINAL**

Decision No. 54277

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE WESTERN UNION	)	
TELEGRAPH COMPANY, a corporation,	)	
for an order authorizing it to	)	
increase and revise certain intra-	)	Application No. 38385
state rates and regulations	)	
applicable to telegraph service	)	
within the State of California.	)	

Pillsbury, Madison & Sutro by John A. Sutro  
 and Noel Dyer, for applicant;  
 Dion R. Holm and Paul L. Beck, for City  
 of San Francisco, interested party;  
 Henry E. Jordan, for City of Long Beach, pro-  
 testant;  
 William W. Dunlop, for the Commission staff.

O P I N I O N

Applicant's Request

The Western Union Telegraph Company, hereinafter referred to as applicant, engaged in the transaction of telegraph business within the State of California and throughout the United States, filed the above-entitled application on September 5, 1956, for authority to increase rates applicable to its intrastate telegraph services within the State of California which will result in an over-all increase in annual revenues of approximately \$712,500, or 15.63 per cent, based on the level of operations for the 12 months ending May 31, 1956. Applicant requests authority to effect increases in the following schedules, in the manner shown in Exhibits 6 and 8 attached to the application:

<u>Schedule No.</u>	<u>Description</u>
C-1	Full Rate Telegraph Service
C-2	Day Letter Service
C-3	Night Letter Service
C-10	Commercial News Service
C-12	Money Order Service
C-14	Press Service
C-16	Message Telegraph Service, Rules and Regulations

Public Hearing

After due notice, public hearing was held on this application on November 26, 1956 in San Francisco before Commissioner Ray E. Untereiner and Examiner M. W. Edwards. Applicant presented six exhibits and testimony by three witnesses in support of its application. The Commission staff, represented by its telephone and telegraph engineer, participated in the hearing and through cross-examination of applicant's witnesses brought out important facts to aid the Commission in deciding this matter. A representative for the City of San Francisco also participated in the hearing and cross-examined the witnesses. A representative for the City of Long Beach appeared as a protestant in the hearing, testifying that substandard service was being rendered in Long Beach and urging that the Commission require the applicant to improve its service before any increase in rates is granted.

Applicant's Position

Applicant represents that new labor contracts, to replace the labor contracts which expired May 31, 1956, will add approximately \$14,736,000 to its total system-wide operating expenses on an annual basis, and that the effect of this increase, if reflected for the full year 1956, would be to reduce its system-wide landline rate of return from 6.18 to 2.68 per cent. Applicant also represents that with the proposed rate revisions in effect, both interstate and intrastate, its indicated landline rate of return would be approximately 5.72 per cent.

Applicant states that the Federal Communications Commission has permitted rate revisions, corresponding to those proposed for California, to become effective for interstate service without formal hearing and that such new interstate rates became effective August 26, 1956, except for intra-U.S. press telegraph message service revisions which became effective September 14, 1956. Applicant's position is that the proposed rate revisions will maintain existing

rate uniformity between interstate and intrastate services and will result in a fair and equitable distribution throughout the United States of the increased revenue requirement.

Evidence on Earnings

For the State of California, applicant represents that the intrastate operations showed a loss of approximately \$247,000 for the 12 months ended May 31, 1956 and that after allowing for the effect of the new labor contract and the proposed rate revisions the net revenue will be only \$12,300, without any allowance for traffic shrinkage resulting from the higher rates. On an intrastate rate base of approximately \$4,365,000 such net revenue is equivalent to a rate of return of 0.28 per cent. Applicant's summary of intrastate operating results for the 12 months ended May 31, 1956 as experienced and as adjusted follows:

Item	Intrastate Operating Results	Adjustments on Annual Basis	Adjusted Operating Results
Operating Revenues	\$5,641,143	\$746,452	\$6,387,595
Operating Revenue Deductions			
Operating Expenses	5,423,700	478,062	5,901,762
Uncollectible Operating Rev.	8,749	-	8,749
Depreciation Expense	305,370	-	305,370
Operating Taxes	150,544	-	150,544
Federal Income Tax	-	8,870	8,870
Total Deductions	5,888,363	486,932	6,375,295
Net Revenue	(247,220)	259,520	12,300
Intrastate Rate Base	4,365,422		4,365,422
Rate of Return		-%	0.28%

(Red Figure)

The above revenue adjustments consist of \$712,543 in proposed rate increases, \$28,392 in private wire system increases and \$5,517 in errand service revisions. The operating expense adjustments consist of \$452,100 for new labor contracts, \$14,120 for Fair Labor Standards Act minimum wage effective March 1, 1956, and \$11,842 for the wage increase of December 1, 1955.

The representative for the City of San Francisco questioned applicant's failure to show an income tax credit in the non-adjusted results. He contended that the loss in California would reduce the income tax requirement on the remainder of the system. The applicant disagreed with this method of allowing for income taxes. In reality it does reduce the loss shown for California intrastate operations, but still does not alter the conclusion that the intrastate operations currently are not showing a fair rate of return. Further, even with the increased rates the evidence does not indicate that applicant will be earning a reasonable return on its California intrastate plant devoted to the public service.

#### Separations Procedures

It should be pointed out that the above California intrastate results are arrived at by formalized state separation studies, because the applicant does not maintain its books and records so as to distinguish between interstate and intrastate operating plant, revenues, and expenses. The same telegraph equipment and facilities are used to transmit and receive intrastate as well as interstate messages and most operators, clerks and messengers handle both types of messages. A copy of the Manual of Instructions - State Separations Studies, as revised January 1, 1956, is a part of the record in this proceeding as Exhibit No. 2

The Commission has considered the method which applicant uses to separate revenues and expenses several times in rate cases since the end of World War II in 1945. Certain changes and refinements have been made in the study and generally applicant's studies have been accepted. In this proceeding the staff obtained copies of applicant's work papers and did not object to the results of its separation study. For the purpose of this proceeding applicant's

separation study is accepted; however, future experience may show that further changes or refinements are justified.

Applicant's witness on cross-examination testified that Western Union had taken advantage of accelerated depreciation for Federal income tax purposes using the sum of the digits method for certain classes of plant and the declining balance method for other plant classes. Applicant's income tax accruals and applicant's earning exhibits presented in this proceeding reflect Federal income taxes as paid. According to the witness, the effect of accelerated depreciation on applicant's operations was equivalent to a reduction in Federal income tax rate from 52 per cent to approximately 41 per cent. By applicant's method the customers would receive the benefit of this reduction in taxes.

Rates, Present and Proposed

The greater part of the proposed \$712,543 rate increase is accounted for by public rate telegraph message service in the amount of \$628,026, or a 16.15 per cent increase. Applicant proposes to reduce the number of rate zones by combining the present first and second zones and to increase the rate schedules applicable to full rate, day letter and night letter messages, but retaining the present form and base rate word allowances as follows:

Public Message Telegraph Rates  
(Expressed in Cents)

Mileage Zones		Full Rate Message: 15 Words or Less		Day Letter 50 Words or Less		Night Letter 50 Words or Less	
From	To	Present	Proposed	Present	Proposed	Present	Proposed
0	- 75	75¢	75¢	100¢	100¢	60¢	60¢
76	- 125	85 )	95¢	115 )	135¢	65 )	80¢
126	- 225	95	105	130	150	75	90
226	- 425	110	115	150	165	85	100
426	- 750	125	130	170	185	95	110
751	- 1,125	140	145	190	205	110	120

The above basic rate increases account for approximately 88 per cent of the proposed total revenue increase. In addition, the other proposed rate changes are:

1. Retain the present reduction of 20 cents per message on tie lines for sent paid intra-U.S. messages, applying such reduction to messages in excess of 50 per month instead of to those in excess of 100 per month as at present.
2. Eliminate "other-line" charges published in the Directory of Stations for two-star, three-star and four-star points.
3. Eliminate the practice of collecting telephone toll charges on messages delivered by telephone to places where the telegraph office has closed for the day.
4. Retain the present basis for telegraph toll charges on telegraphic money orders, that is, to add the money order charge to the 15-word full rate message or 50-word night message and increase the money order charges.
5. Revise upward the charges for press messages, retaining the present form of schedule.
6. Revise upward the charges for C.N.D. (Commercial News Department) quotation service by message, retaining the same form as the present schedules based on the same mileage rate zones as apply to regular telegraph message traffic.
7. Revise upward the charges for C.N.D. Full Descriptive reports of baseball games played at organized league parks, and a surcharge in cases where the customer requires that the telegraph company furnish a receiving operator.

As may be noted, some of the changes result in reductions. These are designed to improve the acceptance of the service by the public but in total do not represent a large amount.

#### Service

The representative of Long Beach testified that the service was substandard in Long Beach and as an example presented a copy of a night letter telegram received in Long Beach at 9:11 p.m. on November 20, 1956 that was not received by the party to whom the telegram was addressed until the afternoon of the 21st. He contended

that this message should have been telephoned to the party addressed on the night of the 20th.

The applicant investigated this matter and offered the following explanation: "This was a night letter and was not delivered until the next day in accordance with the applicant's tariff schedules. The message was delivered shortly after 10 a.m. The party concerned was not at home, but another person living there accepted the message and later turned it over to the party addressed. This message happened to be a death message, and it is the applicant's policy not to telephone death messages, except in unusual circumstances."

With regard to the charge of substandard service, applicant's witness testified that its supervisors and managers are continually checking and inspecting the performance of its various offices. Its last check in Long Beach on November 1, 1956 showed that 96 per cent of its business messages were dispatched within 10 minutes after arrival and 86 per cent of its social messages were dispatched within 45 minutes after arrival. The witness testified that these performances are better than the Federal Communications Commission service standards of 75 per cent within 10 and 45 minutes respectively.

#### Findings and Conclusions

Applicant's studies indicate that earnings nationwide on the basis of the proposed rates and the current level of expenses will be less than a 6 per cent rate of return and on the California intrastate business less than one per cent. While there may be some question as to the propriety of the level of certain allocations to California, an analysis indicates that if the home office allocation of \$447,625 is completely ignored the California return after income tax effect would not show an excessively high return. It is clear that the rates requested in this proceeding are justified. This is particularly true in view of the fact that these rates are no higher than those currently in effect for intrastate service in a number of states.

While the representative from Long Beach requested an improvement in service before granting any increase, the testimony and the operating policy outlined by applicant's witness did not show service to be substandard in Long Beach. True, applicant has had to operate efficiently and devise means to reduce expenses, particularly since the wages of messenger boys have gone from a prewar level of 25 cents per hour to a current level of \$1 per hour. It has extensively mechanized its operations to reduce the effect of continually rising wage levels. It realizes that at the level of rates as proposed much business may be lost to other forms of communication. After thorough cross-examination of applicant's witness on service matters, it is our finding and conclusion that the service currently being performed by applicant is within the standards and rules on file with the Commission, and we find no basis for withholding the granting of this application as requested by the City of Long Beach.

The Commission finds that the increases in rates and charges authorized herein are justified; that the existing rates, in so far as they differ therefrom for the future are unjust and unreasonable; and that an order should be issued authorizing the increases proposed by applicant.

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 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, 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 January 20, 1957.

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

Dated at San Francisco, California, this 18<sup>th</sup> day of DECEMBER, 1956.

*Edna E. Mitchell* President  
*Laurel K. Kinterman*  
*Michael J. ...*  
*R. H. ...*  
*E. L. ...* Commissioner