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**ORIGINAL**

Decision No. 54702

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
CALIFORNIA WATER & TELEPHONE COMPANY )  
for authority to file a revised basic )  
tariff schedule for classified tele- )  
phone directory advertising service, )  
and to increase its rates for such )  
service. )

Application No. 38611

Claude N. Rosenberg of Bacigalupi, Elkus  
and Salinger for applicant.  
Bert Buzzini for California Farm Bureau  
Federation, interested party.  
William W. Dunlop for the Commission staff.

O P I N I O N

Applicant's Request

California Water & Telephone Company engaged in the business of rendering public utility telephone service in various areas in the counties of Los Angeles, Riverside and San Bernardino, and in rendering public utility water service in various areas in the counties of San Diego, Los Angeles and Monterey, filed the above-entitled application on November 26, 1956, seeking an order of the Commission authorizing it to file and make effective an increase in rates for classified telephone directory advertising service as set forth in Exhibit "C" attached to the application, which also provides for a change in circulation groupings. To expedite the effective date of the new rates applicant requested an ex parte order or such other order or relief as the Commission deems proper. In view of the importance of this matter applicant's request for an ex parte order was not granted and the matter was set for public hearing.

Public Hearing

After due notice a public hearing was held on February 20, 1957, before Examiner M. W. Edwards at Los Angeles. Applicant through one witness presented testimony and ten exhibits in support of its application. The Commission staff through one witness presented two exhibits and cross-examined applicant's witness for the purpose of developing a complete record to aid the Commission in deciding this matter. A representative of the California Farm Bureau Federation appeared and participated in the hearing.

Directory Advertising Service

In connection with its regular telephone service, applicant generally provides telephone directories that contain alphabetical listings of subscribers and a classified advertising section. The advertising is sold at rates which cover the entire costs associated with the publication of the directories, and provides net revenue which affords some contribution towards the support of telephone service generally. Presently there are eight directories serving 16 exchanges. The directories, exchanges contained therein, the number of stations in the largest exchange as of December 31, 1956, and the present and proposed circulation rate groups are as follows:

<u>Directory</u>	<u>Exchange</u>	Company Stations in Largest Ex- change <u>12-31-56</u>	Circulation Rate Group	
			<u>Present</u>	<u>Proposed</u>
Banning	Banning-Beaumont	4,530	C	D
Hemet	Elsinore ) Hemet-San Jacinto ) Idyllwild ) Moreno ) Murrieta ) Perris ) Temecula )	5,033	D	D
Monrovia	Monrovia	17,284	F	G
Palm Springs	Palm Springs ) Desert Hot Springs)	10,830	E	E
Redlands	Redlands	16,414	F	G
San Fernando	San Fernando	44,522	I	J
Sierra Madre	Sierra Madre	9,266	E	E
Twenty-nine Palms	Twenty-nine ) Palms ) Joshua Tree)	1,300	A	A

Applicant publishes these directories by means of a contract with the General Telephone Directory Company, a wholly owned subsidiary of the General Telephone Corporation. A copy of this contract is contained in this record as Exhibit No. 10. This contract provides that General Telephone Directory Corporation shall compile, proofread, print, deliver the directories and sell the advertising space. For these services the applicant pays the Directory Corporation 59% of the revenues from the sale of advertising, the balance, or 41% is retained by the applicant. Billing and collecting functions are performed by the applicant.

Reason for Request

Applicant alleges that the rate of return in its telephone division has shown a rapid decline and presently is below a just and reasonable rate of return. It has applied in a separate proceeding for authority to increase its rates for telephone service generally,

and seeks an increase in directory advertising rate levels in this proceeding to be duly considered and given effect in the establishment of regular telephone service rates. The present level of telephone directory advertising rates was set in 1952.

Applicant represents that since 1952 there have been substantial increases in the cost of printing, paper, wages and salaries and all other expenses incident to the preparation, publication, and distribution of telephone directories, and the procurement of classified advertising for insertion therein. In justification of an increase, applicant contends that since 1952 the rates for advertising through mediums other than telephone directories have increased substantially, and on the average some 33%. Therefore applicant contends that the existing rates for classified telephone directory advertising service are inadequate, unjust and unreasonable.

#### Present and Proposed Rates

Advertisers seek representation in classified telephone directories in order to obtain business from the market of telephone users. Applicant's present rates are set for 12 circulation groups: Group A, the smallest circulation, covers one to 1,500 stations, while Group L, the largest, covers 120,001 to 155,000 stations. Circulation is measured by the total number of telephones in the exchange as distinguished from the actual number of directories distributed, and where two or more exchanges are served by a single classified directory, the number of telephones in the larger or largest exchange determines the circulation. A comparison of the present and proposed circulation grouping follows:

<u>Present</u>		<u>Proposed</u>	
<u>Group</u>	<u>Stations</u>	<u>Group</u>	<u>Stations</u>
A	1 - 1,500	A	1 - 1,500
B	1,501 - 2,500	B	1,501 - 2,500
C	2,501 - 4,500	C	2,501 - 4,500
D	4,501 - 7,500	D	4,501 - 7,500
E	7,501 - 12,500	E	7,501 - 11,000
F	12,501 - 20,000	F	11,001 - 15,000
G	20,001 - 30,000	G	15,001 - 20,000
H	30,001 - 40,000	H	20,001 - 30,000
I	40,001 - 65,000	I	30,001 - 40,000
J	65,001 - 90,000	J	40,001 - 55,000
K	90,001 - 120,000	K	55,001 - 75,000
L	120,001 - 155,000	L	75,001 - 100,000

Applicant's largest directory is for San Fernando with approximately 45,000, and it has no present requirement for groupings over 100,000.

Applicant seeks increases in most items of advertising except for certain listings for the smallest group. Examples of certain present and proposed monthly rates for small, medium and large circulations follow:

	<u>Number of Stations</u>					
	<u>1,000</u>		<u>12,000</u>		<u>60,000</u>	
	<u>Pres.</u>	<u>Pro.</u>	<u>Pres.</u>	<u>Pro.</u>	<u>Pres.</u>	<u>Pro.</u>
Regular Type Listing	\$0.25	\$0.25	\$ 0.40	\$ 0.50	\$ 0.60	\$ 0.75
Bold Type Listing	.40	.60	1.00	1.15	1.55	1.65
Trade Name Listing	.50	.80	1.25	1.40	1.75	1.90
Trade Mark Heading	1.75	2.25	4.00	4.50	6.50	8.00
Informational Inch	1.25	1.75	3.00	3.50	5.00	5.55
Display Advertising						
1/4 column	1.75	2.25	4.50	5.75	9.50	11.50
1/2 column	3.50	4.50	9.00	11.50	19.00	23.00
2-1/2 column	7.00	9.00	18.00	23.00	38.00	46.00

Applicant's present rates are at levels generally effective by most independent telephone companies in California. Applicant represents that the proposed level of rates is similar to those effective in some 35 other states for independent telephone companies.<sup>1</sup> Applicant's proposed rates generally are 20 per cent or more higher than those presently effective by The Pacific Telephone and Telegraph Company in California for principal advertising items.

<sup>1</sup> It should be pointed out that directory advertising rates in these other states generally are not subject to State or Federal regulation.

Revenue Effects

It is estimated by the applicant that the proposed rates would result in a gross annual increase of approximately \$152,000 on an annual basis or 22.8% on the average. After giving effect to a reduction of approximately \$62,000 estimated to result from reduction or cancellation of advertising space and services due to the higher rate levels, applicant estimates that the realized revenue would aggregate approximately \$90,000. Of this net increase applicant would pay the directory publishing company \$53,000 under its present contract, leaving applicant \$37,000 of realized increase. The estimate is based on the items in the directories in service as of November, 1956, and contain no allowance for growth or new advertisers.

The issue dates of the various directories are staggered throughout the year. The proposed rates would not be applied until new directories are issued. Applicant's proposed effective dates for new directories follow:

Monrovia	December, 1957
Banning	January, 1958
Redlands	June, 1957
San Fernando	March, 1958
Sierra Madre	December, 1957
Twenty-Nine Palms	December, 1957
Hemet	November, 1957
Palm Springs	December, 1957

The Commission staff was concerned over the fact that the applicant did not present unit cost data on completed directories to substantiate its requested increase. The only cost data is contained in Exhibit No. 2 which shows general increases since 1952 as follows:

Printing Costs	15.1%
Salaries of Directory Personnel	
Sales	33.5%
Publishing	22.8%
Paper Costs	
White	5.7%
Yellow	14.3%
Cover	7.2%

Applicant's contract with the directory company is not on a cost bid basis but is on a percentage of revenue, being 59% of directory advertising billings by the applicant. The applicant retains only 41% of the billing and must stand the cost of billing and collecting.

Findings and Conclusions

Applicant's primary justification of its proposed increase rests on value of service concept, general increases in cost, and a percentage of revenue contract. The contract with the directory company bears no definite relationship to directory publishing costs and consequently does not allow for offsetting economies nor reduced unit cost with increased productivity. The staff showed that since 1952 there have been eight individual directory rate increases placed in effect by applicant as a result of increased circulations. Between 1952 and 1956, annual revenues per station have increased from \$3.86 to \$5.59 for directory advertising or by 45% and the unit directory expenses (based on revenue allocation) have increased from \$2.45 to \$3.38 or by 38%. Based on this analysis it is apparent that the unit increase in revenues has more than covered the increase in unit cost during the 5-year period.

Furthermore, it is not apparent from applicant's analysis whether increases in advertising rates in newspapers as shown in Exhibit No. 3 are due to increases in unit costs or from increases in circulation. From a comparison standpoint applicant's proposed rates are so much higher than those charged by The Pacific Telephone and Telegraph Company in California that before authorizing the proposed rate increases the Commission must have considerable more information as to necessary costs involved. Applicant takes the view that directory publishing is done under a contract at arms-length bargaining and it is not proper for the Commission to question the propriety of the contract and the directory company's costs. In the

past the Commission has not looked with favor upon contracts providing for a percentage of revenue payment which has the effect of making a larger payment on a revenue increase without a corresponding supported cost increase.

The staff pointed out that applicant can increase its receipts from directory advertising in several ways besides increasing rates, such as: from increased advertising per subscriber and from an improved settlement arrangement. Another possible method may be by switching over to a cost-bid per directory basis.

The Commission finds that the applicant has not sufficiently supported its requested increase with unit cost information to warrant Commission approval.

O R D E R

California Water & Telephone Company, having applied to this Commission for an order authorizing increases in directory advertising rates, a public hearing having been held, the matter having been submitted and the Commission being of the opinion that the applicant's request should be denied; therefore,

IT IS HEREBY ORDERED that Application No. 38611 be and it is denied.

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

Dated at Los Angeles, California, this 26th day of March, 1957.

[Signature] President  
[Signature]  
[Signature]  
[Signature] Commissioners