

ORIGINAL

Decision No. 50652

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)
and charges applicable to telephone)
service furnished within the State of)
California.)

Application No. 39309

Appearances are listed in Attachment 1 hereto.

O P I N I O N

NATURE OF PROCEEDING

The Pacific Telephone and Telegraph Company, a California corporation, filed the above-entitled application on August 7, 1957, and an amendment thereto on November 29, 1957, seeking authority to increase rates and charges for telephone service rendered by it in the State of California by approximately \$40,799,000 or 7.1 per cent on the basis of a test period of the first six months of 1957 annualized. Applicant is a Bell System affiliate and operates in the States of Oregon, Washington, a portion of Idaho and, through a wholly owned subsidiary, in Nevada, as well as in California. Its operations are both interstate and intrastate. This proceeding relates to applicant's operations within the State of California. In this state applicant served approximately 4,914,673 company stations as of December 31, 1956, and employed 71,926 persons as of the same date.

PUBLIC HEARINGS

After due notice,^{1/} 32 days of public hearing in this matter were held before Commissioner Matthew J. Dooley and Examiner F. Everett Emerson during the period September 25, 1957, to March 10, 1958 in San Francisco and Los Angeles. Submission of the matter was taken after oral argument before the Commission en banc and subject to receipt of written statements on March 20, 1958.

In the course of this proceeding 58 witnesses testified and 155 exhibits were received in evidence. The reporters' transcript of the application proceeding consists of approximately 4990 pages. In addition, as explained in the interim decision in this matter, the record in this proceeding contains, by reference, the record thus far made in Case No. 5974 and Case No. 5983.^{2/}

APPLICANT'S POSITION

Applicant contends the repricing of its telephone services is required if applicant is to (1) keep pace with the rising costs of employment and of materials and equipment, (2) arrest deterioration and restore the appropriate high level of its credit and the

1/ Notice of hearing was given to state officials, the League of California Cities, County Supervisors Association of California, District Attorneys Association of California, California Farm Bureau Federation, California Independent Telephone Association, California Manufacturers Association, California State Grange, General Services Administration of the United States Government, Board of Public Utilities and Transportation of the City of Los Angeles, City Attorney and Chief Rate Engineer of the City and County of San Francisco, Telephone Answering System and Services of California, Army, Navy and Executive Agencies of the United States Government, all telephone companies in California, certain individual subscribers, the Board of Supervisors and the District Attorney of each of the 51 California counties served by applicant and the City Attorney and Chief Administrative Officer of each California city in which applicant renders telephone service. In addition, notices of filing of the application were published in approximately 239 California newspapers.

2/ See Decision No. 55936, issued December 10, 1957.

market standing of its securities, and (3) to enable itself to accomplish the greater-than-ever expansion of plant and capital necessary to meet the generally increasing public demand for telephone service.

Applicant points to the fact that adding to a telephone system to meet public demands for service tends to increase unit costs instead of reducing them, as is the case in most industries, since the integration of each new telephone into the system requires additional facilities for interconnection with all other telephones in the system in geometrical progression.

Applicant alleges that during all of the years since the end of World War II, it has been attempting to meet unprecedented demands for increased telephone service in the face of rapidly rising costs. Since applicant's last California rate proceeding,^{3/} it has increased its capital by approximately \$487,202,000 to reach a total of \$1,896,902,000 as of December 31, 1956. It estimates that by 1965 its total capital will approximate \$4,000,000,000, or about double the present amount. The bulk of this new capital, according to applicant, must be obtained through additional investment by investors that demand earnings which are attractive.

Applicant alleges that while in recent years the earnings of businesses, which are in active competition for investors' dollars, generally have gone up, the securities of applicant have experienced a serious loss in relative market position. Moreover, applicant claims that its common stock dividends have not kept pace with the rising dividends of other companies.

^{3/} Application No. 33935, in which Decision No. 50258 was issued July 6, 1954.

Applicant's original application in this matter sought an increase of \$28,781,000 in gross annual revenues. By its amendment thereto, applicant sought an additional \$12,018,000 in order to offset a newly granted wage increase and to adjust for a revised pension accrual rate and revised depreciation rates.

Finally, applicant basically seeks a rate of return of 6.91 per cent on its claimed net-book-cost intrastate rate base of \$1,316,740,000, or \$90,931,000 in net revenues and \$612,852,000 in gross revenues based on the test year 1957. Applicant alleges that this is a minimum request.

GENERAL NATURE OF EVIDENCE

Evidence was offered by witnesses for applicant, three other telephone utilities, the Commission staff, the Cities of San Francisco, Los Angeles and San Diego, the federal government the telephone answering services, and by certain individuals. Applicant and the Commission staff presented evidence respecting all phases of applicant's operations and the results of such operations as they pertain to applicant's financial position. The evidence presented by other parties pertained to certain limited phases of applicant's operations, to their own operations, or to such subjects as rate of return, standing of securities, rate area treatment and individual problems. Extensive cross-examination was undertaken by all active appearances.

EVIDENCE RESPECTING RESULTS OF OPERATIONS

The following tabulations will serve to summarize the exhibits introduced by applicant and by the Commission staff to reflect applicant's earning position for California intrastate operations under the rates in effect during the year 1957, and under the

rates which applicant seeks to make effective. The summary is taken from Exhibits Nos. 74 and 87 and supporting data and is for the test year 1957 (first six months of 1957, adjusted and annualized).

SUMMARY OF EARNINGS - TEST YEAR 1957

At 1957 Telephone Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 572,252,000	\$ 573,115,000
Operating Expenses		
Before Taxes and Depreciation	326,055,000	323,791,000
Taxes	101,016,000	102,892,000
Depreciation	72,738,000	70,966,000
Total Oper. Expenses	<u>499,809,000</u>	<u>497,649,000</u>
Net Revenue	72,443,000	75,466,000
Rate Base (depreciated)	1,316,740,000	1,276,418,000
Rate of Return	5.50%	5.91%

At Applicant's Proposed Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 612,852,000	\$ 614,813,000
Operating Expenses		
Before Taxes and Depreciation	326,461,000	323,791,000
Taxes	122,722,000	125,402,000
Depreciation	72,738,000	70,966,000
Total Oper. Expenses	<u>521,921,000</u>	<u>520,159,000</u>
Net Revenue	90,931,000	94,654,000
Rate Base (depreciated)	1,316,740,000	1,276,418,000
Rate of Return	6.91%	7.42%

RATE BASE

The difference of \$40,322,000 between the respective rate bases of applicant and the Commission staff arises from five principal items. These involve the following:

Plant Acquisition Adjustment. Applicant has included and the staff has excluded from the respective rate base computations an intrastate amount of \$103,000 in Account 100.4. Such amount represents the difference between the purchase price and the appraised value of certain lands principally acquired many years

ago (some dating to 1904) as well as a few acquired more recently. The question of the exclusion of this account from rate base has been before this Commission in a number of prior rate proceedings and each time the account has been excluded. The amount clearly does not represent the original cost of plant in service. It will not be included as a component of the rate base to be adopted herein.

Property Held For Future Use. A relatively minor exclusion, amounting to \$32,000, has been made by the staff as an intrastate adjustment for a \$35,517 parcel of land in Eureka which applicant is holding for future use. We have previously set forth the principle to be followed in this respect (Decision No. 50258). The evidence in this proceeding is not convincing that any departure therefrom is now warranted. The amount of \$32,000 will not be included as a component of the rate base to be adopted herein.

Working Cash. Applicant included in its rate base an amount of \$26,315,000 as representing intrastate working cash. Essentially, such amount was derived by taking one twelfth of annual operating expenses (excluding taxes and depreciation). The method used and the resulting amount thereby derived is discretionary. In our opinion, the evidence in no way discloses that such method derives an amount equivalent to that which investors may have provided for the operation of the business, for which they are not otherwise compensated. Applicant's claimed working cash component of rate base is unsupported in the record by any convincing evidence as to applicant's requirement for a working cash allowance. The burden of proof in this respect was not met. We find from the evidence, therefore, that an additional allowance for working cash is not justified and no amount therefor will be included as a component of the rate base to be adopted herein.

Western Electric. Western Electric Company manufactures and procures telephone equipment and materials for the operating Bell System companies. It installs central office equipment and also reconditions and stores equipment for them. Western Electric is owned 100 per cent by American Telephone and Telegraph Company which also owns over 90 per cent of applicant. Bell System companies make approximately 90 per cent of their purchases through Western Electric.

In this proceeding, the Commission staff has reduced net intrastate plant and material and supplies figures by the total amount of \$17,100,000 as an adjustment representing the costs of plant which are in excess of those costs which would have resulted had Western Electric earned the same rate of return on its business that applicant has been authorized to earn. It is the same kind of adjustment made by the staff in prior proceedings involving applicant. It follows the principle and the methods heretofore adopted by this Commission.

The evidence in this proceeding is not convincing that this Commission should depart in any respect from its heretofore established conclusions as to the principles or the methods to be applied to the problems presented by the Western Electric Company affiliation with applicant.

It is our opinion and we so find that all of the adjustments made by the staff are reasonable. Such adjustments assure that applicant's ratepayers will not be unduly burdened with the manufacturer's profits of an affiliated company. They produce a fair and reasonable result, which is in the public interest. The staff adjustments are hereby adopted for rate-making purposes. They will be revised only in so far as is necessary to recognize the rate of return to be accorded applicant herein.

Depreciation Reserve. The balance of the difference between the respective rate bases is to be found in staff-calculated adjustments to the reserve for depreciation. Essentially these are two adjustments. The first, in the amount of \$2,942,000 represents the difference between the book reserve and that reserve which would have been accrued under the remaining-life method of depreciation accounting. The second, in the amount of \$286,000 results from the recent revision of the depreciation rates affecting Account 232. In view of the evidence we find that each of these adjustments should be made. Accordingly, a depreciation reserve adjustment of \$3,228,000 will be included in the rate base to be adopted herein.

Applicant presented an exhibit titled "Current Value of Telephone Plant as of January 1, 1957" for the purpose of showing what applicant's proposed rates would produce as earnings on such so-called current value of plant. Applicant disclaimed any offering of such study for the purpose of asking the Commission to depart from the Commission's traditional consideration of an historical cost rate base. Nevertheless, the introduction of the study occasioned considerable cross-examination as well as a lengthy affirmative presentation by the federal government in its attempted refutation. The study is of little, if any, probative value as respects the determination of a rate base in this proceeding and is entitled to no weight in arriving at such determination.

To summarize: In view of the evidence, of which the more important elements at issue have been discussed above, the Commission hereby finds a depreciated rate base of \$1,276,418,000 to be fair and reasonable for the test period before the Commission in this proceeding.

REVENUES

Differences between the respective revenue estimates of applicant and the Commission staff, apparent in the foregoing summary tabulations, amount to a basic \$863,000 difference under applicant's 1957 rates. Applicant accepts the staff estimate in so far as revenues from installation charges, uncollectibles and directory advertising are concerned. The staff estimates of toll revenues, revenues resulting from base rate area expansions and revenues from message unit settlements were not contested by applicant. The principal issues, then, concern (1) a staff-calculated adjustment for private mobile communication service and (2) estimated increased revenues under applicant's proposed rates for exchange message and multi-message unit service.

With respect to applicant's private mobile service, this Commission has heretofore placed applicant on notice that such service would not be permitted to place a burden on applicant's telephone subscribers.^{4/} The evidence indicates that such service has fallen far short of the rate of return applicant had anticipated for it (1.3 per cent as compared with 6.8 per cent). Since applicant is not now seeking increased rates for such service, the staff adjustment has the effect of removing any effect of the deficient revenues of this service from the revenues required to be supplied by the regular telephone users. The adjustment is proper and will be adopted herein. It will be revised only to the extent necessary to recognize the rate of return to be accorded applicant herein.

^{4/} Decision No. 54438 in Case No. 5754, issued January 29, 1957

With respect to message unit revenues, applicant projected growth in the direct ratio of the number of main telephone stations. The staff, on the other hand, projected revenues from the growth of the total revenue account. Both applicant and staff appear to have been somewhat handicapped by lack of precise traffic data for the San Francisco-East Bay Extended Area segment of this business. Up to-date traffic data (1957) were available for the balance of the business. The primary difference between applicant and staff thus lies in the estimates at applicant's proposed rates for the San Francisco-East Bay Extended Area. The account specifically in question is Account 500-02, Message Charges. This account contains revenues from both single unit and multi-message unit business. In view of the evidence, we are of the opinion that applicant's method of projection for this business understates the amount of revenues reasonably to be expected therefrom and that the staff's method overstates the amount. The testimony in this proceeding indicates that single unit traffic is essentially a constant. It follows that the increase in such business should be essentially in direct proportion to the number of main station telephones. We believe it to be reasonable to assume, therefore, that single unit business will increase in proportion to the number of main telephones (as does applicant) and that multi-unit business will increase in proportion to the multi-message unit revenues in the account (as does the staff), particularly in view of the continued expansion of the direct dialing offerings of applicant and the increased usage which the record discloses has resulted therefrom in the past. We shall, therefore, adopt an amount of \$4,250,000, for which there is ample

justification in the record, as reasonable for this segment of the business rather than either the \$3,665,000 urged by applicant or the \$4,561,000 estimated by the staff for the San Francisco-East Bay extended area.

To Summarize: In view of the evidence respecting revenues, the Commission hereby finds that the amount of \$573,115,000 represents a fair and reasonable estimate of the intrastate annual gross revenues which applicant's rates and charges in effect during the year 1957 should normally produce during the test period before the Commission in this proceeding. The Commission further finds that \$614,500,000 reasonably represents the corresponding amount under the rates and charges which applicant seeks to make effective.

EXPENSES

The respective operating expense presentations of applicant and the Commission staff differ in five principal categories.

Maintenance Expenses. A basic difference of \$1,600,000 arises in intrastate maintenance expense, the staff's estimate being lower than applicant's by such amount. Three items are involved, (1) the expense portion of the staff's Western Electric adjustments, (2) a transfer of certain station parts from materials and supplies to station repairs, and (3) the expenses occasioned by the destruction of a central office by fire.

With respect to Western Electric, the staff adjusted applicant's expenses consistent with the staff's treatment of rate base. Applicant charges to expense approximately 17 per cent of its purchases from Western Electric. Having adjusted plant items for the

Western Electric component, it necessarily follows that maintenance and depreciation expenses and taxes should be consistently treated. We find that the staff maintenance expense adjustment for Western Electric, in the amount of \$1,477,000 is fair and reasonable and it will be adopted herein.

An intrastate adjustment in the amount of \$100,000 was made by the staff in order to eliminate a continuing effect of a wholly nonrecurring transfer of certain station parts from the materials and supplies account to the station repairs account at the first of the year 1957. We find such adjustment to be proper and it will be adopted herein.

Applicant's Sharp Park central office was destroyed by fire and the expenses associated therewith appear in applicant's accounts during the first six months of the test period. Applicant made no adjustment for the maintenance expense involved, with the result that, by the doubling of the first six months' expenses to make the test year period, applicant has in effect doubled the cost of the fire. Such treatment is improper. Using a test period for rate-fixing purposes should entail either the elimination or normalization of nonrecurring and abnormal expenses. The staff intrastate adjustment of \$23,000 is for such purposes and is a fair and reasonable treatment of these abnormal expenses. It will be adopted herein.

Traffic Expenses. The staff has made a \$69,000 adjustment in intrastate traffic expenses. This adjustment is solely for the Sharp Park fire and will be adopted herein for the reasons above stated.

General Expenses. There is a basic difference of \$595,000 (under 1957 telephone rates) between applicant's and the staff's estimates of this category of expenses. This difference essentially lies in General Services and Licenses.

Under a license contract, applicant pays its parent one per cent of its gross revenues (except miscellaneous revenue). For the test period in this proceeding the total California license fee would amount to \$6,124,000. The California intrastate portion of such fee, which this state's ratepayers would provide for payment to American Telephone and Telegraph Company, would amount to \$5,281,000 under the telephone rates in effect during the test period. Under applicant's proposed telephone rates such fee would be increased by approximately \$406,000. This Commission has heretofore found that a flat percentage of revenue is an inappropriate way of determining service and license expense for rate-making purposes.^{5/} None of the evidence in the instant proceeding leads the Commission to a contrary finding. Allocated intrastate service costs amount to \$5,181,000. Such allocated service costs we find to be reasonable and will be recognized herein as one element of operating expenses for rate-fixing purposes; the excess of the license fee over service costs will not. We find it to be fair and reasonable that applicant's ratepayers should not be required to pay more than the cost of the services furnished plus a fair return on the property devoted to such services.

5/ Decision No. 50258 in Application No. 33935, issued July 6, 1954.

Depreciation. Applicant's estimated depreciation expense for intrastate plant is \$1,772,000 greater than that developed by the staff. The greater proportion of this difference lies in the respective treatments accorded depreciation accruals for Account 232, Station Connections. This account was made depreciable as of January 1, 1957, by the Federal Communications Commission. Depreciation rates with respect thereto were prescribed in August 1957 by that Commission and were applied to the account as of the first of the year.

Account 232 is largely composed of the labor charges associated with installing telephones on subscribers' premises, there being no more than a small amount of physical plant involved. Retirements to the account are primarily caused by rearrangement of equipment on subscribers' premises, and by subscribers' changes of residence or office. Retirements due to normal wear and tear or obsolescence of telephone plant seldom occur. The account, therefore, has unusual depreciation characteristics. Retirements are largely within the control of applicant. In view of these circumstances, as disclosed by the record in this proceeding, it is the opinion of this Commission that depreciation accruals for this account should so closely equal retirements in any particular year as substantially to maintain the depreciation reserve, assignable to this account, at zero. We find it to be fair and reasonable, therefore, to adopt the staff-calculated expense for this account.

The only other depreciation differences of significance are those resulting from the Western Electric adjustments hereinabove adopted and that involving the general method of depreciation accounting. The former, as developed by the staff, will be adopted consistent with other adopted Western Electric adjustments. As to the general method of depreciation accounting, applicant has used

the straight-line total life method and at depreciation rates prescribed by the Federal Communications Commission, whereas the staff followed the straight-line remaining life method heretofore found by this Commission to be reasonable and the proper one to be applied to applicant's accounts for intrastate rate-fixing purposes. No evidence has been produced in this proceeding which would alter this Commission's earlier conclusions on this subject. Accordingly, we find the staff-derived amounts to be fair and reasonable and they will be adopted herein.

By Decision No. 50258 in Application No. 33935 applicant was ordered to maintain memorandum records showing depreciation expenses, with related reserves, by accounts and subaccounts, computed according to the straight-line remaining life method and in accordance with Exhibit No. 117 in that proceeding. Among other things, said exhibit set forth procedures for carrying forward the remaining-life depreciation rates and included recommended intervals for periodic reviews and studies. Applicant has largely neglected to make the periodic reviews as directed, although it makes extensive depreciation studies for its own purposes. In the instant proceeding applicant raised objection to making periodic reviews of depreciation rates by reviewing a portion of these rates each year and claimed that unrealistic results are obtained by so doing. The obvious solution is to review all accounts every year. In view of the evidence, we find that it is reasonable that such should be done and that applicant can reasonably make such annual review. The order herein will so provide.

Taxes. As will be noted from the summary tabulations, the differences between the tax estimates of applicant and the staff amount to \$1,876,000 under 1957 rates and to \$2,680,000 under

applicant's proposed rates. These differences result from an accumulation of a number of items. In view of the evidence we shall adopt the staff's basic calculations of total taxes, adjusted, however, (1) to reflect the adopted revenues and expenses, (2) to reflect the income tax effect of the staff treatment of depreciation on Account 232 (a net intrastate tax increase of \$529,000) and (3) to reflect changes in the method of calculating additions to book net income with respect to depreciation on certain capitalized items (a net intrastate tax increase of \$91,000). We find, therefore, that the sums of \$103,512,000 and \$125,853,000 represent respectively the fair and reasonable totals of all intrastate taxes, for rate-fixing purposes during the test year, under 1957 telephone rates and under company proposed telephone rates.

To summarize: In view of the evidence respecting operating expenses, the more important elements of which have been discussed above, the Commission hereby finds that the following tabulation sets forth the fair and reasonable intrastate operating expenses of applicant for the test period, under 1957 rates and under the rates proposed by applicant.

<u>Category of Expense</u>	<u>1957 Rates</u>	<u>Proposed Rates</u>
Maintenance	\$120,023,000	\$120,023,000
Traffic	84,277,000	84,277,000
Commercial	59,432,000	59,432,000
General & Other	60,059,000	60,059,000
Depreciation	70,966,000	70,966,000
Taxes	<u>103,512,000</u>	<u>125,853,000</u>
Total Operating Expenses	498,269,000	520,610,000

RATE OF RETURN

Further summarizing results of operations, from the hereinabove adopted elements, indicates the following for the test year 1957:

<u>Item</u>	<u>1957 Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$573,115,000	\$614,500,000
Operating Expenses	498,269,000	520,610,000
Net Revenue	74,846,000	93,890,000
Rate Base	1,276,418,000	1,276,418,000
Rate of Return	5.86%	7.36%

The evidence is clear, as the above tabulation indicates, that applicant's operations, on the test year basis and under 1957 telephone rates, produce a rate of return below that which was found to be fair and reasonable in applicant's last rate proceeding (6.25%). The evidence is also clear and the Commission hereby finds the fact to be, that applicant is in need of and entitled to increased revenues.

The record contains extensive evidence respecting the level of rate of return which applicant should be accorded. No fewer than eleven witnesses testified directly on this subject. The testimony of others also may be applied to it. The Commission, in addition, has had the benefit of both oral and written argument on the subject.

Applicant's rate of return witnesses testified that applicant's securities, particularly its common shares, lack investors' appeal and that it is essential that earnings be increased so as to permit growth in the stock. They maintain that applicant's securities have deteriorated in quality and in the appraisal accorded by investors. Greatly increased earnings over a long period, with regularly increasing dividends would be necessary, in their

opinions, before applicant's stock would be an attractive investment to them. In general, they testified that applicant should have earnings which would produce an amount equivalent to \$12 a share on the shares outstanding at any time. Such earnings would allow applicant to pay an \$8 dividend with a 66 2/3 per cent payout ratio, a situation which they presently recommend.

Witnesses for other parties urged rates of return ranging from 5.61 per cent to 6.35 per cent. To a considerable extent, their conclusions were predicated on market prices of common stock and were derived by a series of calculations involving earnings-price ratios and dividend-price ratios and relating yields at prices at which the stock was traded in the market to arrive at estimated costs at which additional securities could be placed. By so doing, an overall cost for additional securities was derived which, according to one witness, would be sufficient to allow applicant "to raise all of its capital requirements and to maintain its financial integrity for the foreseeable future"^{6/}.

^{6/} It is interesting, in passing, to note that three of the witnesses testified on the same subject during applicant's 1953-54 rate proceeding. While two of them have interpreted financial conditions as warranting them to increase their recommended rates of return at this time, the third apparently has interpreted the same financial conditions as warranting a decrease in rate of return.

In viewing the testimony of all of the witnesses on rate of return, we see two basic limitations. Applicant's witnesses seem to see rate of return only as it pertains to their own profits as investors. In other words, their view is limited to one aspect of the subject. The witnesses of protestants and interested parties seem to see rate of return only as it pertains to the needs of the utility as measured by the past market. Their view is also limited to one aspect of the subject. A broader view is needed. The interests of the telephone subscriber must not be ignored. A balancing of investor and subscriber interests must be obtained.

This Commission has so often and so variously stated those elements which collectively determine its judgment as to what may constitute a fair and reasonable rate of return on plant investment that it should be unnecessary to restate them here. Suffice it to say, therefore, that this Commission does not fix the return to be allowed a utility on the basis of outstanding shares of common stock and the annual dividends paid on such shares. The number of issued and outstanding shares of stock and the annual dividends paid reflect the exercise by applicant of its managerial judgment. This judgment

is not to be substituted for the Commission's judgment when the Commission is called upon to fix rates for service. The Commission does, however, carefully weigh the evidence and such facts as may pertain to security issues and earnings thereon. The Commission considers a utility's past financing success and its future prospects in any rate proceeding. It considers many other elements as well.

The record indicates that the return of 12 per cent on equity urged by applicant is disproportionate to the return earned by other Bell System telephone companies. It also indicates that applicant has financed itself under favorable terms when its returns on equity were much lower than that now sought. In fact, during the period of its greatest expansion (post World War II), applicant's earnings on common stock equity have increased from 6.11 per cent in 1946 to 9.23 per cent in 1955.^{7/} During the period 1952 to 1956, which was the period of highest earnings, the average return on equity capital was 8.3 per cent. Applicant's book value per share has increased year by year even though it has sold additional shares of its common stock at par rather than at market value. Clearly, the evidence shows that applicant's past financing has been successful under the rate-fixing policies of this Commission.

The continued expansion of applicant's plant facilities will require substantial financing from time to time; some in the immediate future, some at longer range. Applicant would be remiss in its duties if it did not conserve its borrowing capacity so as to maintain itself in a position where it could finance itself when necessary to do so under varying, including unfavorable, conditions. Although

^{7/} Earnings in 1947, however, were only 2.95 per cent.

its capital structure, as pointed out by several witnesses, is different from that of other utilities with which it was compared, we do not, on the basis of the evidence in this proceeding, find that such structure is improper and we will not substitute an hypothetical structure therefor, as some parties would have us do.

After fully considering the evidence, it is the opinion of this Commission that applicant has not justified its claim for a rate of return of the magnitude requested and that the rates of return urged by other parties are unjustifiably low. The Commission finds that a return of approximately 6.75 per cent, on the depreciated rate base of \$1,276,418,000 hereinabove found to be reasonable, is warranted by the evidence and we hereby find such rate of return to be fair and reasonable. Such rate of return, in our opinion, will provide net revenues sufficient adequately to service applicant's debt and allow a reasonable return on equity capital including a reasonable provision for surplus.

AUTHORIZED REVENUE INCREASE

Applying the above-adopted rate of return to the rate base found to be reasonable, indicates the need for approximately \$86,158,000 in net revenues, or \$11,312,000 more than the net revenues produced at test period rate levels. After giving consideration to recent revenue trends, we find an increase is required in gross revenues of approximately \$27,500,000 before uncollectibles to yield the rate of return hereinabove found reasonable. Such gross revenues represent an increase of approximately 4.8 per cent over those produced at the rates in effect during the test year.

SPREAD OF RATES

The Commission has considered all of the evidence respecting size of exchanges, permissible calling distances, subscriber densities, usage, calling characteristics, specific and relative rate levels, station availability, extent of dial conversions, costs of service, relative exchange earnings, historical support of rural by urban areas and relative value of the service.

In view of the evidence, the Commission will spread increased revenues as set forth in the following sections.

Toll Rates. Applicant's proposed intrastate toll rates would provide increased revenues of approximately \$7,081,000. Under an alternative set of toll rates, introduced by applicant at the request of the Commission staff, a toll revenue increase of about \$8,766,000 would be produced and a rate of return of 7.7 per cent would result from such business. In view of the evidence we find it to be fair and reasonable to authorize the latter.^{8/}

Message Unit Rates. Applicant's rate proposals for local message and multi-message unit service are, basically, to increase the message unit rate from 4.25 to 4.3 cents in the Los Angeles Extended Area, to leave unchanged the existing 4.4 cents unit rate in the San Francisco-East Bay Extended Area and to reduce the length of mileage steps for extended service in each of these areas. Applicant also proposed a uniform rate of 4.3 cents per unit for the San Diego

8/ Applicant is the tariff filing utility for toll service generally throughout the state and accordingly has the obligation and responsibility of seeing that each of the connecting independent telephone companies receives its costs and a fair return on the plant devoted to the service. The increases in toll rates authorized herein apply both to the intrastate toll traffic of applicant and to the intrastate toll traffic interchanged between applicant and the connecting companies. Toll rates for traffic wholly over the lines of the independent companies, however, are in no manner changed by the order herein since the record contains no evidence respecting the cost of furnishing such service.

Extended Area and other southern California exchanges and a uniform rate of 4.4 cents per unit for other exchanges in northern California.

The subject of message unit rates, insofar as it pertains to the Los Angeles Extended Area, was treated in this Commission's Decision No. 55936, issued December 10, 1957. Such decision authorized reduced mileage steps in the Los Angeles Extended Area but made no other rate changes. The evidence on which that decision was based concerned interchanged message unit traffic and multi-message unit operations, of the four telephone utilities serving the area, during the year 1956 and as estimated for the year 1957. Evidence adduced during days of hearing subsequent to the issuance of said decision indicates that the revenue effect of said decision was to provide applicant with increased revenues totaling \$12,016,000 for the test year period. The evidence also shows that a settlement ratio of 7.09 per cent is indicated for interchanged multi-message unit operations in the Los Angeles Extended Area of the four utilities, based on fourth quarter 1957 annualized cost reviews, at the interim rate levels authorized by said Decision No. 55936. We hereby find such settlement ratio to be within a zone of reasonableness.

The additional evidence leads the Commission to the further conclusion that Decision No. 55936, which authorized rate changes on an interim basis, should now be made permanent. The Commission finds, therefore, that the rate relief granted under Decision No. 55936 was justified and said decision as amended by Decision No. 56048 with respect to its effective date is hereby affirmed and made permanent. Further, the Commission now finds, in view of the complete record in this proceeding, that it is fair and reasonable and in the public

interest to make rates and charges for local message and message unit service uniform throughout the state. Accordingly, the tariffs to be authorized herein will reduce the mileage steps and the message unit rate in the San Francisco-East Bay Extended Area to those presently in effect in the Los Angeles Extended Area. Further, the local message rate in other areas of the state will be made uniform at the same 4.25 cents per unit charge.

The overall effect of this action is (1) to increase message unit revenues in the San Francisco-East Bay Area by \$2,942,000, (2) to make permanent the heretofore authorized increase of \$12,016,000 in the Los Angeles Extended Area, and (3) to increase revenues by \$16,000 in the San Diego Extended Area and by \$2,000 in other exchanges in northern California.

The present charges for service between San Francisco and East Bay essentially comprise message unit and message toll service. We find it to be appropriate, therefore, that separate tariffs for such service be discontinued and that the traffic be classified as message unit and message toll traffic with corresponding message unit and message toll rates. The revenue effect of this change amounts to \$42,000 and is included in the overall message unit revenues for the area above-stated. In the interest of tariff simplification, the two zones will be designated as separate exchanges.

On the basis of the test year, at the rates herein authorized, applicant's message unit operations would produce an overall revenue increase of \$14,976,000.

Service Connections - Moves and Changes. Applicant proposed to increase service connection and move and change charges by \$4,230,000. We find that no increase in these rates is justified at this time.

Installation Charges. Applicant proposed increases in installation charges for various items, totaling \$780,000. We find applicant's proposals regarding discontinuance of extra charges for retractile telephone cords and increased installation charges for teletypewriters to be justified. The overall effect of the charges found justified in installation charges after recognizing an increase of \$100,000 previously authorized for line extension charges^{9/} is a reduction of \$951,000.

Extension and PBX Stations. Applicant proposed to increase rates for extension and PBX stations so as to produce \$2,005,000 in additional revenues. We find that no increase in these rates is justified at this time.

Equipment and Public Mobile Rates. Applicant proposed increases in a number of charges for miscellaneous equipment items and for public mobile service in the overall amounts of \$604,000 and \$3,000 respectively. In view of the evidence, we find these increases to be justified and applicant's proposed rates and charges for these items will be authorized without modification.

Foreign Exchange Rates. Applicant proposed to increase rates for Los Angeles foreign exchange service so as to produce \$810,000 of additional revenue. The Commission staff introduced an alternate schedule which would apply the same increase proposed by applicant for Los Angeles foreign exchange service to all foreign exchange service uniformly throughout the state. The alternate schedule would produce \$191,000 of revenues additional to that which applicant's proposed schedule would produce.

^{9/} Decision No. 55892, in Case No. 5337, issued December 3, 1957.

Foreign exchange service, in effect, constitutes a commuted toll service. In view of the higher level of toll rates and the shortening of the mileage steps on message unit service, we find it to be reasonable correspondingly to increase rates for foreign exchange service. Accordingly, the order herein will authorize rates for such service which, on a state-wide basis, will increase revenues by \$500,000.

Basic Exchange Rates. Applicant proposed increases in basic exchange rates totaling \$8,838,000 of which \$2,584,000 was apportioned to business service. In addition to applicant's proposals and showing respecting business service, the Commission has before it two alternate schedules relating to business flat rate service which would produce \$4,106,000 and \$5,335,000, respectively. In view of the evidence, we find that an increase of no more than \$1,753,000 is justified for business service and rates to produce such amount will be authorized. The rate effect on the business subscriber will be to increase the individual line flat rate by \$1 where the subscriber has the choice of selecting business message rate service or a higher flat rate and to increase the individual line flat rate by only 50 cents where no such option is available. Such situation, in our opinion, is fair and reasonable.

Applicant proposed that rates for residence service be increased so as to produce \$6,254,000 in additional annual revenue. In our opinion no increase in any residence service rate is justified at this time in the Los Angeles and San Francisco-East Bay extended areas. We find, however, that an increase in rates for residence service in other areas of the state is justified at this time in the overall amount of \$1,871,000 and rates to produce such amount will be authorized.

To Summarize. The rate spread treatment discussed above may be visualized more clearly by reference to the following tabular summaries:

A. Increases Spread By Major Categories

<u>Category</u>	<u>Authorized Increase</u>
Toll (intrastate only)	\$ 8,766,000
Local Messages & Message Units	14,976,000
Service Connections - Moves and changes	-----
Installation Charges	(951,000)
Extension and PBX Stations	-----
Equipment and Public Mobile Rates	607,000
Foreign Exchange Rates	500,000
Basic Business Rates	1,753,000
Basic Residence Rates	1,871,000
 Total	 <u>\$27,522,000</u>

(decrease)

B. Basic Business Rate Increases

Business Service - Each Primary Station	<u>Increase Per Month</u>
Individual line flat rate	
All exchanges where business individual line message rate service is offered	\$1.00
All exchanges where business individual line message rate service is not offered	0.50
Individual line message rate	
All exchanges in San Diego Extended Area35
Two-party line flat rate	
All exchanges where offered35
Suburban - All exchanges, where offered35
Farmer line - All exchanges where offered05
Trunk rate - (Existing relationships)	\$0 to \$1.50

C. Basic Residence Rate Increases

All Exchanges Except Exchanges Within
Los Angeles and San Francisco-East Bay Extended Areas

Residence Service - Each Primary Station	<u>Increase Per Month</u>
Individual line flat rate	\$0.35
Two-party line flat rate	.10
Four-party line flat rate	.05
Suburban	.05
Farmer Line	.05
Trunk rate - (existing relationships)	.50

OTHER MATTERS

In a proceeding as extensive as this one a wealth of information is placed before the Commission. The greater part bears directly upon the fundamental issue as to whether applicant is in need of and entitled to rate relief. Lesser parts pertain to ancillary issues which, while of importance in themselves, are not fully dependent upon the fundamental issue. They engender the following expressions of this Commission's opinions thereon.

Settlement Agreement. As discussed in our Decision No. 55936 in this proceeding, the four companies furnishing service in the Los Angeles Extended Area mutually entered into an agreement, dated September 23, 1957, covering the division between them of revenues derived from interchanged traffic. In that decision the Commission found, among other things, that the agreement then before it should not be approved for reasons therein stated. Since the issuance of that decision, the four companies have entered into a new agreement^{10/} on the same subject, effective January 20, 1958. The new agreement is essentially the same as the prior agreement except that certain provisions which the Commission pointed out were objectionable are not now present. The new agreement is presently in force and the four companies are operating in accordance with its terms. Such situation will not be disturbed by the order herein. The parties are reminded, however, that, in accordance with the provisions of Section 766 of the Public Utilities Code, if the utilities do not agree upon the division between them of joint charges this Commission, after further hearing, may establish such division by supplemental order.

Separation Methods. Since most telephone facilities are used for both interstate and intrastate communications and this Commission has jurisdiction only over intrastate operations, it is 10/ Exhibit No. 145 in this proceeding.

necessary to segregate revenues, expenses and plant for jurisdictional and rate-making purposes. It is generally agreed that, as between interstate and intrastate operations, procedures set forth in the "Separations Manual" published by the National Association of Railroad and Utilities Commissioners should be closely followed.^{11/} Both applicant and the Commission staff did so respecting interstate-intrastate separations. With respect to separation of intrastate operations to toll and exchange components, however, applicant's methods depart from the procedures of the "Separations Manual".

Applicant contends that the separation of Category A plant (outside plant used for subscriber lines, interlocal trunks, toll connecting and number checking trunks, and station equipment) should be made on the basis of relative message-mile-minutes of use rather than on message-minutes of use. The latter is prescribed in the manual for jurisdictional separations. In the sense that applicant's method follows the manual in certain instances and departs therefrom in others, applicant has produced a hybrid separations method. In our opinion it has no merit. In addition, it is contrary to this Commission's earlier finding^{12/} that "the separation of Category A exchange plant between intrastate toll and exchange on the basis of message-minutes of use for each service is reasonable so long as the same basis is used for the separation of Category A exchange plant between interstate and intrastate operations" and the Commission's directive that "future reports of separated intrastate operating results required of applicant by this Commission should be prepared in accordance with this finding".

^{11/} The Separations Manual of October 1957 is Exhibit No. 90 in this proceeding.

^{12/} Decision No. 50258, Supra.

The subject of separations has many facets and has received the most careful consideration of this Commission. There is no evidence in this proceeding which leads this Commission to revise its former findings in the slightest respect. We fully expect applicant to adhere to the principles enunciated in the decisions of the Commission.

Only one other comment seems necessary with respect to separations and that is cautionary in nature. The evidence in this proceeding includes calculations and tabular results of the so-called results of operations of some 200 of applicant's California exchanges. In our opinion this evidence is of value at the present time for an indication of the relativity of 1956 earnings by groups of exchanges but should not be considered as establishing absolute quantities, as some of the parties seem to conclude.

Free or Reduced Rate Service. Evidence presented by the Commission staff indicates that the value of the free service which applicant extends to its employees, retired employees, their families and to similar persons associated with other Bell System companies has a value of approximately \$3,106,000 annually at applicant's present level of telephone rates and charges. Under applicant's proposed rates such value would become about \$3,280,000 annually. The evidence is clear that applicant has offered this type of concession for about 50 years. Applicant points to Section 529 (b) of the Public Utilities Code as sanctioning the practice. While the Commission at this time does not find that the evidence in this proceeding is sufficient to warrant disturbing the existing situation, we call applicant's attention to the wording of that portion of the section relied upon which seems to sanction the providing of free service to no more than the "officers, agents, employees, attorneys, physicians, and members of their families" of the corporation. In any event, we are of the opinion that applicant should, on its own initiative, see that no abuses of this privilege, granted

by the legislature of this state, occur or that any element of unreasonable discrimination between classes of service arise. The value of the service is of no little magnitude and future proceedings, either rate or investigative, may explore this situation more fully.

Advertising. In this proceeding, as in prior proceedings, applicant's expenditures for advertising occasioned testimony and cross-examination. Applicant's advertising objectives are five-fold; (1) to educate the public on how to use the telephone in specific instances, (2) to recruit new employees, (3) to promote the use of long distance service and stimulate the sale of other telephone services, (4) to sell classified advertising and (5) to inform the public of applicant's plans, operations and objectives. Of these five, the latter is most often criticized. It is what is most frequently referred to as "institutional" advertising. Its essentiality is gravely questioned by many telephone subscribers. Heretofore this Commission has expressed the opinion that the total advertising expenditures of applicant have not been excessive considering the results achieved.^{13/} We are presently of the same opinion. However, we are also of the opinion that applicant should earnestly and closely scrutinize and control expenditures for advertising to the end that it and the public may be assured that no greater amounts are expended for such purposes than are reasonably justified.

Answering Services. The telephone answering and secretarial services of this state, as represented by individuals as well as by their industry associations, introduced evidence respecting the needs and growth of their businesses. In so far as the charges made by applicant to the answering or secretarial bureaus themselves are concerned, no issue was raised nor was any objection made as to the

^{13/} Decision No. 50258, Supra.

reasonableness of those charges. The answering services seek, however, an adjustment in those charges which applicant makes directly to the customer of the bureau for the service which applicant provides in connecting its own subscriber to the bureau. In essence, then, these answering bureaus are not seeking rate relief for themselves but for a certain limited segment of applicant's subscribers. The end result, of course, would be to make answering services more attractive to some telephone subscribers and enhance the saleability of the answering bureaus' services. The bureaus' specific proposal is to establish a flat rate of \$3 per month as the charge which applicant would make to its own subscriber for connection with the bureau. In some instances such a rate would represent an increase in charges and in others a decrease.

This subject concerns a specialized and highly competitive phase of communications service. At the present we see no merit in the bureaus' proposal and the evidence thereon is not convincing that the present basis of charges which applicant makes to its own subscribers for such service should in any way be altered.

Itemized Billing. The matter of detailed or itemized billing, as contrasted with bulk-billing, of message units in the Los Angeles and in the San Francisco-East Bay extended areas was explored in considerable detail in this record. The evidence discloses that detailing of message unit charges so as to provide the subscriber with the called number, the date of the call, or further information is a more costly process than that now in effect where automatic or machine tallying and bulk-billing of message unit charges is used. The record indicates that if applicant were to be required to adopt detailed billing of all message unit charges, additional plant investment of more than \$5,000,000 and additional annual expenses of \$5,800,000 might be incurred.

Although certain parties claimed that a great many subscribers require itemized billing of multi-message unit calls, the evidence is not convincing that such requirement comes from a substantial proportion of the subscribers utilizing such service. There is an indication, however, that some subscribers do require itemized billing in either some or all of their multi-message unit calls. For those who do, applicant's existing tariffs provide a simple solution, providing the subscriber is properly made aware of it. Calls to points outside of the local calling area may now be handled and billed as station toll messages. If those desiring or requiring itemized billing would take advantage of such presently existing service, they could readily obtain itemized billing. The cost effect to the subscriber would be that charges for calls to points outside the local calling area would be computed at station toll rates rather than at multi-message unit rates. The effect to applicant would be that the slightly higher toll rate would tend to offset the cost effect of departing from the economies gained under the bulk-billing process.

Those subscribers who neither desire nor require itemized billing will continue to call points outside of the local calling area (but within the extended calling area) as heretofore and will thereby continue to receive the effect of the economies of message-unit service with bulk billing.

In view of the evidence on this subject, the Commission finds that it is in the public interest to require that applicant adequately inform its subscribers as to the availability of itemized billing through the use of station toll message calling. This may be accomplished by bill inserts and by appropriate instructions in the telephone directories in the Los Angeles and San Francisco-East Bay extended areas and the order herein will so provide.

Rulings and Motions. In a proceeding as extensive as this one it is not practicable to rule individually on all the various points brought before us for consideration. Our objective, as heretofore, has been to discuss and rule on those matters of major importance in deciding the validity of applicant's request and the manner in which our findings relative thereto are to be implemented. However, consideration has been given to all points raised and to all requests though each may not have been specifically treated herein. Accordingly, the Commission now rules that all motions consistent with the findings and conclusions of this opinion and order are granted; those not consistent therewith are denied.

Corrections of the official transcript of this proceeding were accomplished from time to time during the course of the hearings in the matter. All parties were at the time duly informed thereof. In this connection, however, applicant's fourth motion pertaining to corrections was made just prior to submission and time did not permit of ruling thereon. We find that it is proper to make the requested corrections and the motion is therefore granted.

OVERALL CONCLUSION

The State Constitution, the Public Utilities Code and cognate statutes charge this Commission with the duty of regulating and supervising public utilities in such manner as to protect the public interest. The Commission has carefully weighed all of the evidence of record and has considered the statements of the parties with equal care. The findings hereinabove set forth produce an overall result which we find to be fair and reasonable and in the public interest. Further, we hereby find as a fact that the increases in rates and charges authorized herein are justified and that present rates and charges in so far as they differ from those herein prescribed, for the future are unjust and unreasonable.

O R D E R

The Pacific Telephone and Telegraph Company having applied to this Commission for an order authorizing increases in rates and charges for telephone service rendered by applicant in California, public hearings having been held, the matter having been submitted and the Commission having been fully informed thereon, the matter is now ready for decision based upon the evidence and the conclusions and findings contained in the foregoing opinion; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized and directed to file in quadruplicate with the Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, revised tariff schedules with rates, charges and conditions modified as set forth in Appendix A attached to this order and, on not less than five days' notice to the public and to this Commission, to make said revised tariffs effective for all service rendered on and after June 1, 1958, excepting that increases in installation and move and change charges shall be made effective on applications received by the utility on and after June 1, 1958.

2. Applicant shall notify, within 60 days of the effective date of this order, each of its subscribers in the Los Angeles and San Francisco-East Bay extended areas by means of bill inserts and shall prominently place in its telephone directories for such areas, on the page or pages devoted to explanation of message unit rates and message unit calling areas, commencing with any issues thereof made 90 days or more after the effective date of this order, a notice to the following effect:

"If an itemized bill is desired on any call made outside of the local calling area but within the message-unit calling area, such call should be placed with the operator by dialing and asking the operator to place such call as a station toll call".

3. Commencing with the year 1958, applicant shall review annually the straight-line remaining life depreciation rates used in the memorandum depreciation records ordered maintained by paragraph 8 of the order in Decision No. 50258, dated July 6, 1954, in Application No. 33935. Where a change is justified by such reviews, the straight-line remaining life rates shall be revised. Results of these reviews shall be submitted to the Commission annually.

4. This Commission's Decision No. 55936 issued December 10, 1957, as amended by Decision No. 56048 with respect to its effective date, is hereby affirmed and made permanent.

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

Dated at San Francisco, California, this 5th day of May, 1958.

[Signature]
President

[Signature]

[Signature]

Commissioners

Commissioner C. Lynn Fox, being necessarily absent, did not participate in the disposition of this proceeding.

Attachment 1

LIST OF APPEARANCES

APPLICANT:

Pillsbury, Madison & Sutro, by Francis N. Marshall and Arthur T. George for The Pacific Telephone and Telegraph Company;

PROTESTANTS:

General Services Administration for Executive Agencies of United States Government, by Donegan Mann, Clarence W. Hull and Malcom D. Miller; County of San Joaquin, by Bruce McKnight; Telephone Answering Services of California, Inc., and Certified Telephone Secretarial Exchanges, Inc., by Edward M. Berol and Bruce R. Geernaert of Berol & Silver; Telephone Answering System of California, Inc., by Bert Levy, L. E. Langlois and George W. Smith; Telephone Answering Services of California, Inc., by Lew Lauria; Certified Telephone Secretarial Exchanges, Inc., by B. M. McCormick; City of San Pablo, by Leland F. Reaves; Bay Area Management Group, California-Nevada Conference of National Electrical Contractors' Association and International Brotherhood of Electrical Workers, by Raymond H. Levy; Carl J. Ellis, Bert Levy and Edward L. Blincoe, in propria personae;

INTERESTED PARTIES:

California Farm Bureau Federation, by J. J. Deuel and Bert Buzzini; City and County of San Francisco, by Dion R. Holm, Paul Beck and Thomas A. Toomey, Jr.; City of Los Angeles, by Roger Arnebergh, Alan G. Campbell, Ralph J. Eubank, T. M. Chubb, Robert W. Russell and Manuel Kroman; City of Long Beach, by Walhfred Jacobson, Leslie E. Still and Henry E. Jordan; City of San Diego, by Frederick B. Holoboff, Aaron W. Reese and Clarence A. Winder; City of Berkeley, by Fred C. Hutchinson and Robert T. Anderson; City of Oakland, by John W. Collier and Edward A. Goggin; City of Richmond, by Sherrill D. Luke; City of Sacramento, by Everett M. Glenn; City of Sunnyvale, by Robert P. Berkman; City of Seaside, by Saul M. Weingarten; City of Pasadena, by Frank L. Kostlan, Wendell R. Thompson and David E. Golay; City of Lakewood, by Carl J. Ellis; California Independent Telephone Association, by Neal C. Hasbrook; Sunkist Growers, Inc., and Exchange Orange Products Company, by W. D. MacKay; Western California Telephone Company, by Harold O. Davis; E. A. Hosmer & Co., by E. A. Hosmer; San Joaquin County Board of Supervisors, by C. P. Kenyon; International Brotherhood of Electrical Workers, by O. A. Reiman; California-Nevada Conference of National Electrical Contractors' Association, by W. J. Varley; California Water & Telephone Company, by Claude N. Rosenberg and William Fleckles of Bacigalupi, Elkus & Salinger; General Telephone Company of California, by John Robert Jones and Albert M. Hart; Sunland-Tujunga Telephone Company, by Alan R. Stacey and by Warren A. Palmer of Orrick, Dahlquist, Herrington & Sutcliffe; Roger Arnebergh, Richard W. Fahler, Ronald J. Herzig, John D. Dinsmore and Harriet B. Davis, in propria personae;

COMMISSION STAFF:

Mary Moran Pajalich, Hector Anninos, M. J. Kimball and John F. Donovan.

APPENDIX A
Page 1 of 6RATES

The presently effective rates, charges, and conditions are changed as set forth in this appendix.

All Schedules Affected

Revise all schedules to the extent necessary to accomplish a change in designation from San Francisco Zone and East Bay Zone of the San Francisco-East Bay exchange to San Francisco exchange and East Bay exchange.

Schedules Nos. 4-T and 5-T
Individual and Party Line Service

	<u>Increase Per Month</u>
Business Service - Each Primary Station:	
Individual line flat rate:	
All exchanges where business individual line message rate service also is offered	\$ 1.00
All exchanges where business individual line message rate service is not offered	.50
Individual line message rate:	
All exchanges in San Diego extended area	.35
Two-party line flat rate:	
All exchanges where offered	.35
Suburban ten-party line flat rate:	
All exchanges where offered	.35
Residence Service - Each Primary Station:	
All exchanges, except exchanges within the Los Angeles and San Francisco-East Bay extended areas:	
Individual line flat rate	.35
Two-party line flat rate	.10
Four-party line flat rate	.05
Suburban ten-party line flat rate	.05
	<u>Rate Per</u>
	<u>Exchange Message</u>
Message Rate Service:	
Rate for each exchange message over allowance, except for semipublic service:	
All exchanges where offered	42¢

APPENDIX A
Page 2 of 6

Schedule No. 7-T
Message Unit Service - Northern California

Each Message Unit

Rates (2)(b), Other services

~~47~~

Rates (3)(b), Number of Message Units Per Initial and Additional Periods:

Where the Air-Line	The Number of	The Initial	The Number of	The
Toll Rate Mileage	Message Units	Period	Units Per	Additional
Between Toll	Per Initial	Is	Additional	Period
Rate Centers Is (a)	Period Is	Is	Period Is	Is
Over : Including				
0 - 8	2 message units	3 minutes	1 message unit	2 minutes
8 - 12	3 message units	3 minutes	1 message unit	1 minute
12 - 16	4 message units	3 minutes	1 message unit	1 minute
16 - 20	5 message units	3 minutes	1 message unit	1 minute
20 - 25	6 message units	3 minutes	2 message units	1 minute
25 - 30	7 message units	3 minutes	2 message units	1 minute
30 - 35	8 message units	3 minutes	2 message units	1 minute
35 - 40	9 message units	3 minutes	3 message units	1 minute
40 - 50	10 message units	3 minutes	3 message units	1 minute
50 - 60	11 message units	3 minutes	3 message units	1 minute

(a) Outside the local service area.

Rates (3)(c), Number of Message Units Per Initial Period:

Revise rates to conform with authorized Rates (3)(b) above.

Schedule No. 8-T
Interzone Service - San Francisco-East Bay

This schedule is to be canceled. Service presently offered under this schedule is to be offered under message toll telephone service and other appropriate schedules.

Schedules Nos. 9-T and 10-T
Farmer Line Service

Increase Per Month

Each business farmer line station:

All exchanges where offered

\$ 0.05

Each residence farmer line station:

All exchanges where offered, except exchanges within the Los Angeles and San Francisco-East Bay extended areas

.05

Schedule No. 12-T
Private Branch Exchange Service

Commercial, Hotel and Residence Manual and Dial PBX Service:

Night Answering Arrangements:

Increased rates per month set forth on Page 8 of Exhibit D attached to the application for night answering arrangements are authorized.

Business and Residence Key Station Dial PBX Service:

Order Receiving Equipment - Type D:

Increased rates per month set forth on Page 55 of Exhibit G attached to the application are authorized.

Schedule No. 13-T
Private Branch Exchange Trunk Line Service - Northern California

Exchanges Where Offered:

Trunk Rate:

Flat Rate Service:

Each trunk line - 150% of the individual line primary station flat rate rounded to the lower 25¢ multiple.

Exchange Message Rates:

Commercial manual and dial private branch exchange service, business key station dial private branch exchange service, and order receiving equipment message rate service

Rate Per
Exchange Message

4¢

Schedule No. 14-T
Private Branch Exchange Trunk Line Service - Southern California

Exchanges Where Offered:

Trunk Rate:

Flat Rate Service:

Each trunk line - 150% of the individual line primary station flat rate rounded to the lower 25¢ multiple.

Exchanges Within San Diego Extended Area:

Trunk Rate:

Message Rate Service, Except Hotel:

First two trunk lines - business individual line message primary station rate with no message allowance.

Each additional trunk - 50% of the rate for first two trunk lines rounded to the lower 25¢ multiple.

Exchange Message Rates:

Commercial Manual and Dial PBX, business key
station dial PBX, and order receiving equipment
message rate service

Rate Per
Exchange Message

4¹/₂¢

Schedule No. 18-T
Intercommunicating System Service

Trunk Rate:

Flat Rate Service:

Each trunk line - 150% of the individual line primary station flat
rate rounded to the lower 25¢ multiple.

Exchange Message Rate:

East Bay
San Francisco

4¹/₂¢
4¹/₂¢

Schedule No. 22-T
Key Equipment Service

Key Cabinet Rate:

Increases in monthly rates for key cabinets as set forth on Page 56 of
Exhibit G attached to the application are authorized.

Schedule No. 32-T
Supplemental Equipment

Automatic Answering and Recording Equipment, and Special Type Telephone Sets:

Increases in monthly rates set forth on Page 14 of Exhibit D attached to
the application are authorized.

Call Volume Indicators, Code Calling Equipment, Emergency Reporting Telephone
Arrangements, Signal Circuits, and Station Auxiliary Signal Equipment:

Increases in monthly rates set forth on Page 57 of Exhibit G attached to the
application are authorized.

Cords - Retractable:

The present installation charge of \$1.50 for hand set proper retractile cord
not exceeding 4 feet is canceled.

Schedules Nos. 34-T and 35-T
Foreign Exchange Service

Primary service rates for all foreign exchange services are to be adjusted to the extent required by changes in the basic individual and party line rates and in addition all primary service rates for foreign exchange services are to be increased by 50 cents per month.

Schedule No. 41-T
Mobile Telephone Service

The changes in rates set forth on Page 58 of Exhibit G attached to the application are to be made. A condition shall be added indicating the mileage between rate centers included in Zones A, B, and C of mobile service areas.

The present installation charge of \$1.50 for hand set proper retractile cord not exceeding four feet furnished with dispatching terminal or extension telephone is canceled.

The monthly rate for keys furnished with dispatching terminal or extension telephone is increased to 35 cents.

Schedule No. 43-T
Teletypewriter Exchange Service

Increases in charges set forth on Page 16 of Exhibit D attached to the application are authorized to be made effective.

Schedule No. 46-T
Private Line Teletypewriter and Morse Service

Increases in charges set forth on Page 17 of Exhibit D attached to the application are authorized to be made effective.

Schedule No. 50-T
Private Line Supplemental Equipment

Automatic Answering and Recording Equipment:

Increases in monthly rates authorized under Schedule No. 32-T are to be made effective.

Retractile Cords:

The installation charge of \$1.50 for a retractile cord with nominal usable length not exceeding four feet is canceled.

The changes in rates and charges set forth on Page 59 of Exhibit G attached to the application are to be made effective

Schedule No. 51-T
Private Line Move and Change Charges

Increases in move charges for teletypewriter, automatic transmitter and reperforator or reperforator-transmitter set forth on Page 22 of Exhibit D are authorized to be made effective.

Schedule No. 53-T
Message Toll Telephone Service

Two-Point Service California Schedule A:

The increases and changes in message toll telephone service rates set forth on Page 2 of Exhibit No. 76 are authorized to be made effective.

Conference Service:

Rates and conditions applicable to conference service are authorized to be revised to the extent necessary by the authorized changes in two-point service.

No increases in rates or charges are authorized herein for message toll telephone service handled wholly over the lines of independent telephone utilities.

Schedule No. 83-T
Special Assemblies of Equipment

Answering Cabinets and Order Turrets, and Miscellaneous:

Increases in monthly rates set forth on Page 62 of Exhibit G attached to the application are to be made effective.

PBX and Order Receiving Systems:

Increases in rates and charges set forth on Page 25 of Exhibit D attached to the application are to be made effective.

Schedule No. 98-T

This schedule is to be canceled. Schedule No. 34-T shall be revised to the extent necessary to provide foreign exchange service between San Francisco and East Bay. The increases in foreign exchange service rates authorized under Schedule No. 34-T are applicable to foreign exchange service furnished between San Francisco and East Bay.

All Schedules Affected

Changes in applicant's rates heretofore authorized by the Commission but not yet made effective are to be revised to the extent necessary to conform with the changes in rates and charges set forth in this appendix.

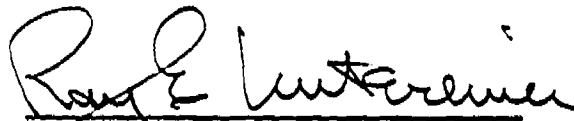
I concur in the above order. The authorized increase in revenues, and the rates prescribed to produce such increase, are within the zone of reasonableness and are amply supported by the record.

I write this concurring opinion for the sole purpose of emphasizing my understanding of the language and intent of the opinion in two respects. The total disallowance from the rate base of the \$26,315,000 of working cash claimed by the applicant is predicated on applicant's failure to sustain its burden of proof that there is need for working cash provided by the investors. It cannot, I believe, properly be interpreted as indicating a conclusion of the Commission either that adequate working cash is unnecessary, or that working cash made available by the lag in payments by the utility to Western Electric should be excluded from the rate base. The former conclusion is one to which, I believe, no member of the Commission would subscribe. The latter issue cannot be decided herein because of applicant's failure to provide adequate evidence respecting its needs and the sources from which they can be met.

The Western Electric adjustment, by which \$17,100,000 is excluded from the rate base on the grounds that Western Electric might have charged that much less and still have earned the rate of return allowed to the utility, is likewise predicated on the applicant's failure to sustain its burden of proof. It is not clear from the record what part of Western Electric's charges was for manufactured products, and what part was for installations and other services the utility might reasonably have performed for itself. The adjustment embraced in the decision does not, in my opinion, commit the Commission either to a position that an affiliated manufacturing company should be restricted to the same rate of return as that allowed a utility, or to the position that the Commission should give primary attention to the profits earned by a manufacturing affiliate rather than ^{to} the fairness and reasonableness of the prices paid to the affiliate by the utility.

Where a utility buys from or contracts with an affiliate, it must clearly prove the reasonableness of the prices it pays. This the applicant failed to do to the Commission's satisfaction.

For the reasons stated above on the two issues discussed, and on the grounds set forth in the decision on other issues, I concur in the findings, conclusions and order herein.



Ray E. Untereiner
Commissioner

San Francisco, California

May 6, 1958