

ORIGINAL

Decision No. 57660

## 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- )  
 state rates and regulations appli- )  
 cable to telegraph service and )  
 leased facility service within the )  
 State of California. )

Application No. 40334

Pillsbury, Madison & Sutro by Noel Dyer, for applicant.  
Frank L. Kostlan, for the City of Pasadena; Henry E. Jordan, for Bureau of Franchises and Public Utilities, City of Long Beach; Wahlfred Jacobsen by Leslie E. Still, for the City of Long Beach; Bert Buzzini, for California Farm Bureau Federation; Alan G. Campbell, for City of Los Angeles; Dion R. Holm and Robert E. Laughhead, for City and County of San Francisco, interested parties.  
William W. Dunlop, for the Commission staff.

O P I N I O NApplicant's Request

The Western Union Telegraph Company, a telegraph corporation engaged in the transaction of telegraph and other services within the State of California and throughout the United States, filed the above-entitled application on August 8, 1958 requesting 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 revenue of approximately \$448,500, or 7.3 percent, based on estimated intrastate revenues of \$6,181,372 for the year ended December 31, 1957. Applicant's proposed revised rates are set forth in Exhibit No. 6 attached to the application.

Public Hearing

After due notice, public hearing upon this application was held before Examiner Manley W. Edwards on October 14, 1958, in San Francisco. Applicant presented seven exhibits and testimony by four witnesses in support of its application. The Commission staff,

represented by its Telephone and Telegraph Engineer, cross-examined the applicant's witnesses for the purpose of developing a full record to aid the Commission in deciding this request. Also, certain of the interested parties cross-examined applicant's witness and presented statements of position. The matter was submitted for Commission consideration at the close of the day's hearing and now is ready for decision.

#### Applicant's Position

Applicant represents that labor and other expenses have increased materially during the past year. Labor contracts expired on May 31, 1958 and the new contracts which became effective June 1, 1958 will add approximately \$10,838,000 to system landline (entire United States) operating expenses on an annual basis. Applicant states that its rate of return system-wide for landline operations for the calendar year 1957 was approximately 5 percent. Based on conditions existing prior to June 1, 1958, applicant estimated its 1958 rate of return at approximately 3.6 percent; however, the effect of the new wage rates for the period June 1, 1958 to December 31, 1958 is to reduce the rate of return from 3.6 percent to 2.8 percent. If the wage adjustments were used in computing expenses for the full year, applicant would have an indicated landline rate of return of only 0.4 percent.

Western Union has elected to use accelerated depreciation for federal income tax purposes, and its income tax accruals and earning exhibits presented in this proceeding reflect federal income taxes as paid.

Based upon this showing, applicant states it sought and obtained from the Federal Communications Commission increases in rates covering the interstate portion of its telegraph message and money order services, press services and various other minor services.

New interstate rates became effective August 1, 1958, except for those covering press service which became effective August 13, 1958.

Applicant represents that its California intrastate operations result in a loss and it takes the position that similar rate increases to those granted by the Federal Communications Commission should be authorized by the California Public Utilities Commission. The effect of the new labor contracts is to increase California intrastate operating expenses by \$336,521.

California Intrastate Earning Position

Applicant estimates that the effect of the new wage contract and the revised rates for its California intrastate operations is to reduce the loss incurred for the 12 months ended December 31, 1957 from \$298,941 to \$186,639 as shown in the following tabulation:

STATE OF CALIFORNIA - INTRASTATE OPERATIONS

	Operating Results Year Ended <u>12/31/57</u>	Adjust- ments Annual- ized	Adjusted Intrastate Operating Results
Operating Revenues	\$ 6,181,372	\$448,823	\$ 6,630,195
<u>Operating Expenses</u>			
Operation and Maintenance	5,077,616	336,521	5,414,137
General and Administrative	849,066	-	849,066
Uncollectible Oper. Rev.	9,549	-	9,549
Depreciation	367,468	-	367,468
Operating Taxes	176,614	-	176,614
Federal Income Tax	-	-	-
Total Expenses	\$ 6,480,313	\$336,521	\$ 6,816,834
Net Revenue	( 298,941)	112,302	( 186,639)
Intrastate Rate Base	5,327,810	-	5,327,810
Rate of Return	( 5.61%)	-	( 3.50%)

(Red Figure)

Applicant's intrastate revenues amount to about 15 percent of its interstate revenues.

Separation Procedures

It should be pointed out that the above results for California intrastate operations are arrived at by separation procedures. 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. The separation studies are performed by Western Union in accordance with its "Manual of Instructions - State Separation Studies," issued August 1, 1950. There have been several revisions to the manual since August 1, 1950, the latest being January 1, 1956. A copy of this latest revised manual is included in this record as Exhibit No. 2.

Applicant represents that its interstate and intrastate operations are practically inextricable, that it is practically impossible to maintain its books and records so as to distinguish between interstate and intrastate operating revenues and expenses, and that the manual provides a procedure which enables equitable and realistic separation or allocation of revenues and operating expenses as between the various state and federal regulatory jurisdictions.

Counsel for the California Farm Bureau Federation questioned if the separations method showed intrastate operations in all states to be conducted at a loss. One of applicant's witnesses answered that some 24 states showed earnings as great as 4 percent, principally where the haul is shorter than in California.

The Commission's staff gave particular attention to the separation study and pointed out that in each of the prior rate proceedings of the applicant subsequent to 1947, the staff has made analyses and tested the separations methods; that the methods used by applicant in this proceeding are the same as in the most recent

prior proceeding which was in 1956; that over a period of years the staff engineers have made suggestions to applicant with respect to the separation of specific accounts; and that the most recent separation procedures incorporate these staff suggestions. The staff also gave particular attention to the applicant's estimate of wage increases and the effect of the proposed rates. The staff took the position that, for the purposes of this proceeding, the separation methods used to allocate the plant, revenue and expenses to California intrastate operations in applicant's exhibits produce results which may be used by the Commission to test the reasonableness of applicant's request; and that such adjustments as the staff might have made if it were to make a detailed investigation and independent report would not adjust revenues upward sufficiently to produce a high rate of return on California intrastate operations. The staff did point out, however, that, with changes in the arts and methods of operation, further study of applicant's separation procedures may indicate that improvements or refinements should be made in the future.

#### Positions of Certain Interested Parties

The City of Los Angeles, after hearing the staff's statement of position, pointed out that we were faced with the practicalities of the situation where only some 15 percent of the applicant's operations are subject to state regulation, that nation-wide rates may cause losses in certain types of operations, and that this is not an appropriate case to insist upon the principle that every service ought to carry its own way. Therefore, the City of Los Angeles does not oppose the total increase requested nor does it support the particular proposals made by the applicant.

The City of Long Beach took the position that any utility is entitled to a reasonable rate of return on a fair rate base and that, since this is a deficit case and applicant seeks only a uniform

system of rates throughout the country, it had no reason to object to applicant's proposal.

The City of San Francisco also took the position that a utility should be allowed a fair rate of return on a fair rate base, and the fact that the applicant apparently has set its rates on an interstate basis and would not make a fair intrastate return, even if some revenues or expenses were adjusted, indicates that the rate increase requested is justified.

The California Farm Bureau Federation expressed the view that there is need for uniformity in rates and it did not offer any objection to the proposed rate increase.

#### Service Complaint

The City News Service in Los Angeles entered a protest (by means of a telegraph message) against intrastate rate increases requested by the applicant, particularly insofar as Intra-Fax service is concerned. Applicant was requested to investigate and report on this complaint. Applicant's report of October 28, 1958 does indicate some trouble with respect to the Intra-Fax private line service for this patron. The principal trouble was from paper jamming in the equipment because the patron was tearing off the paper before the machine had completed its cycle and had automatically cut the paper. Also, there have been a few occasions in connection with the service to this patron where dim copies of messages were being received. These dim copies can be attributed to fluctuations of line current, unbalance in cable pairs, tube deterioration, or even a fluctuation of power. These conditions are not always readily apparent.

Applicant has assured this patron of its earnest desire to provide a continuous, uninterrupted service and of its intention to keep a very close watch to detect any equipment troubles so that necessary correction can be made promptly to minimize the outages.

There may be occasions beyond the applicant's control that will cause brief interruptions, but these difficulties, in the Commission's opinion, are not sufficient reason for denying the requested increase in rates.

#### Findings and Conclusions

After considering the evidence of record, the Commission finds and concludes:

1. That earnings on the new nation-wide, interstate rate levels, when applied to California intrastate traffic and after adjustment for increased wage levels, would not result in an unreasonably high rate of return for the immediate future;

2. That the increases in rates and charges authorized herein are justified;

3. That the present rates, insofar as they differ from those herein prescribed, for the future are unjust and unreasonable; and

4. That an order should be issued increasing the rates in the manner hereinafter discussed.

#### Rates, Present and Proposed

Approximately \$361,000 or 80 percent of applicant's proposed rate increase of \$448,500 is accounted for by increases in rates for public message telegraph service. Applicant proposes to increase the base rate applicable to full-rate day letter and night letter messages as follows:

<u>Mileage Zones</u>		<u>Full Rate Message</u>		<u>Day Letter</u>		<u>Night Letter</u>	
<u>From</u>	<u>To</u>	<u>15 Words or Less</u>		<u>50 Words or Less</u>		<u>50 Words or Less</u>	
		<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
0	125	\$0.95	\$1.05	\$1.35	\$1.50	\$0.80	\$0.90
126	225	1.05	1.15	1.50	1.65	.90	1.00
226	425	1.15	1.25	1.65	1.80	1.00	1.10
426	750	1.30	1.40	1.85	2.00	1.10	1.20
751	1,125	1.45	1.55	2.05	2.20	1.20	1.30

No changes are proposed in the mileage rate zones, base rate word allowances, or in the additional word rates applicable to public message full-rate day letter and night letter messages.

In addition to the above-indicated increases in public message base rates, applicant proposes increases in rates for press message telegraph service, telegraph money order service, singogram service, commercial news department service, and leased facility service. The total amount of these increases, exclusive of public message service, is estimated at \$87,500 segregated as follows:

<u>Service</u>	<u>Annual Increase</u>
Press Message Service .....	\$ 9,400
Money Order .....	51,800
Singogram .....	6,400
Commercial News .....	500
Leased Facility .....	<u>19,400</u>
Total, exclusive of public message service .....	\$87,500

We find applicant's proposed increases in rates to be reasonable and they will be authorized by the order herein.

### 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 herein as amended at the hearing, 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 1, 1959, excepting that

increases in installation charges shall be made effective on applications received by the utility on and after January 1, 1959.

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

Dated at San Francisco, California, this 2nd day of December, 1958..

E. Lynn Fox President  
E. E. Ditchell  
Paul Winterstein  
William J. ...  
 Commissioners

Commissioner Theodore H. Jenner, being necessarily absent, did not participate in the disposition of this proceeding.