ET

Decision No. 58085

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

CALIFORNIA STATE HOTEL ASSOCIATION, LTD.,
Complainant,

vs.

CALIFORNIA INTERSTATE TELEPHONE COMPANY,
CALIFORNIA-PACIFIC UTILITIES COMPANY,
CALIFORNIA WATER & TELEPHONE COMPANY,
CENTRAL CALIFORNIA TELEPHONE COMPANY,
CITIZENS UTILITIES COMPANY OF CALIFORNIA,
COACHELLA VALLEY TELEPHONE COMPANY,
COLORADO RIVER TELEPHONE COMPANY,
EVANS TELEPHONE COMPANY,
GENERAL TELEPHONE COMPANY OF CALIFORNIA,
GILROY TELEPHONE COMPANY,
KERN MUTUAL TELEPHONE COMPANY,
THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY,
SANGER TELEPHONE COMPANY,
SAN JOAQUIN TELEPHONE COMPANY,
SUNLAND-TUJUNGA TELEPHONE COMPANY,
WEST COAST TELEPHONE COMPANY OF CALIFORNIA,
WESTERN CALIFORNIA TELEPHONE COMPANY,
Defendants.

Case No. 6085

(Appearances are listed in Appendix B)

O P I N I O N

Complainant, an association which includes 261 California hotels, requests, because of rising costs, an increase in maximum charges for hotel guest intrastate private branch exchange telephone service. Present charges, contained in tariff schedules of defendant telephone utilities, were ordered filed by the Commission, after investigation and hearing, by Decision No. 48171, dated January 19, 1953, in Case No. 5338 (52 Cal. P.U.C. 363). That order was based on a record in which costs of providing the service in 1951 were developed for the same 23 test hotels used as criteria in the instant proceeding.

On the basis of cost data in the present record, the association has requested authority to collect 20 cents for each outgoing local call and to levy surcharges on intercity intrastate calls, in addition to message charges, ranging from 15 cents to 30 cents. The proposed charges, in each case, are 5 cents higher than presently authorized maxima.

Defendant telephone utilities do not oppose recovery by hotels of reasonable costs of rendering guest telephone service by a specific charge to guests. The Pacific Telephone and Telegraph Company, however, has urged that determination of what is a "reasonable cost" should not include the cost of handling incoming calls.

The Commission staff, in an exhibit which analyzed complainant's cost studies and compared them with those developed by the hotel association in the earlier case, has concluded that present telephone utility tariffs are more than adequate to cover the hotel costs, on the average, of handling outgoing guest telephone service, and that the proposed increase of 5 cents per local and intercity intrastate guest message would more than offset the hotel costs, on the average, of handling both outgoing and incoming guest telephone service.

The case was submitted at the conclusion of public hearings held at San Francisco on July 7 and August 11, 1958, before Commissioner Ray E. Untereiner and Examiner John M. Gregory, subject to the filing of a written statement on behalf of complainant and a written request by the Commission staff representative for inclusion in the record, by reference, of certain portions of the testimony adduced in the earlier investigation proceeding, Case No. 5338. The statement and the former transcript references have since been filed and have been considered together with the other evidence and argument of record in disposing of the issue submitted for decision.

The issue, as stated by complainant, is the determination of how hotels should recover the cost of handling incoming guest telephone calls. It is our opinion, however, that the basic issue to be decided is whether the record justifies any increase in optional maximum charges which hotels may make by virtue of the rule adopted in 1953 by Decision No. 48171 for telephone utilities, including defendants and others, which maintain schedules of rates and conditions applicable to hotel private branch exchange service. That rule, or condition, with its schedule of optional maximum charges, is presumed to be reasonable unless and until its unreasonableness under prevailing conditions has been established in an appropriate proceeding. The burden of showing the rule to be unreasonable rests on complainant hotel association in the instant case.

Of the 23 hotels used to develop cost data in the present and prior cases, 11 are located in the Los Angeles Extended Area, 8 in the San Francisco-East Bay Extended Area, and 1 each in Bakersfield, Fresno, Sacramento and San Diego. Five are provided flat-rate telephone service while the remaining 18 receive telephone service on a message rate basis. Three of the hotels have more than 500 rooms, seven have between 250 and 500 rooms, eight have from 125 to 250 rooms, and five have less than 125 rooms. The following table indicates comparative data for the group, all hotels in which receive service from The Pacific Telephone and Telegraph Company, as developed by exhibits in the prior and present cases (Exhibit 8):

Item	Case No. 5338	Case No. 6085	C. 6085 Exceeds C. 5338
Hotel Rooms	6,934	6,938	4
Guest Stations	6,842	6,835	(7)
Non-Guest Stations	1,196	1,386	190
Trunks	563	626	63
Switchboard Positions	83	76	(7)
Guest Outgoing Messages:			
Local	1,999,364	1,830,915	(168,449)
Intrastate Intercity	579,317	520,058	(59,259)
Message Charges Paid to Tel. Co.:			
Local	$111,140	$ 91,943	$(19,197)
Intrastate Intercity	414,305	418,151	3,846
Interstate Intercity	495,864	531,389	35,525

(Red Figure)

Comparison between the 1951 and 1957 studies of telephone revenue and total hotel telephone costs, including all costs of guest and management telephone service both state and interstate, reveals that net sales declined $58,144 or 4.1 percent, while hotel telephone costs, including charges paid the telephone company, increased $115,515, or 6.6 percent. Roughly two-thirds of the increased costs resulted from higher hotel operating expenses and one-third from increased equipment rental and message charges, with three of the hotels accounting for the major portion of the increase in rental for switchboards and associated equipment.

For guest outgoing local service, the comparative studies show that while local message charges declined 17.2 percent the allocated hotel handling costs increased 23.4 percent. Total charges paid to the telephone company for local messages, as well as allocated equipment rental, decreased 10.9 percent; however, the allocated rentals for switchboards and associated equipment increased 53.2 percent.

On guest outgoing intercity intrastate service, the comparative studies indicate that while total allocated charges paid to the telephone company remained fairly constant, the allocated hotel operating expenses declined 18.9 percent, resulting in a decrease in hotel handling costs of 15.5 percent for this class of service.

The studies also show that, dollarwise, the hotel group's costs of handling guest telephone service, excluding message charges paid to the telephone company, have decreased slightly for outgoing local and intrastate intercity flat rate calls and intrastate intercity message rate calls, but have increased substantially for local message rate service. For both outgoing and incoming service, including reference to the hotel directory, the hotel handling costs exhibit a similar pattern, with the cost of local message rate service showing a like substantial increase but, unlike the case of outgoing calls only, with intrastate intercity message rate service showing slightly increased handling costs.

The table below compares average hotel handling costs per message, excluding the local message charge of the telephone utility, for the 23 study hotels as shown by the 1951 and 1957 exhibits. The studies reveal rather wide variations in individual hotel costs per message, both for outgoing calls and for incoming and outgoing service including reference to the hotel directory. The total average amounts shown are from the staff's analysis (Exhibit 8) of complainant's exhibits and they include both flat rate and message rate service.

	C. 5338 Study	C. 6085 Study	C.6085 Exceeds C. 5338
Local Calls			
1. Outgoing and Incoming	10.55¢	14.27¢	3.72¢
2. Outgoing Only	4.84	6.52	1.68
Intrastate Intercity Calls			
1. Outgoing and Incoming	16.59	18.56	1.97
2. Outgoing Only	9.96	9.38	(.58)

(Red Figure)

The following summary, from the staff's analysis (Exhibit 8), indicates the net revenue retained by the hotels for guest local and intrastate intercity service in the 1957 study, based upon amounts actually collected by the hotels from their guests. Also shown is the average amount per message collected from guests. The tabulation reveals that the amounts actually collected exceed the hotel costs for outgoing service. The summary, in addition, indicates the amounts by which guest charges would be increased under complainant's proposal as well as similar data for both outgoing and incoming guest telephone service.

Net Revenue of Hotel Telephone Service

Item	Charges Collected From Guests	Average Amount Per Message	Total Hotel Costs	Net Revenue
Guest Local Service				
1. Outgoing Service				
(a) At Present Level of Collections	$261,979	14.31¢	$196,828	$ 65,151
(b) Proposed Increase	91,546	-	-	91,546
(c) Total	353,525	-	196,828	156,697
2. Outgoing and Incoming Service				
(a) At Present Level of Collections	261,979	-	338,685	(76,706)
(b) Proposed Increase	91,546	-	-	91,546
(c) Total	$353,525	-	$338,685	$ 14,840
Guest Intercity Intrastate Service				
1. Outgoing Service				
(a) At Present Level of Collections	73,263	14.09	48,764	24,499
(b) Proposed Increase	26,003	-	-	26,003
(c) Total	99,266	-	48,764	50,502
2. Outgoing and Incoming Service				
(a) At Present Level of Collections	73,263	-	96,538	(23,275)
(b) Proposed Increase	26,003	-	-	26,003
(c) Total	$ 99,266	-	$ 96,538	$ 2,728

We find from the evidence in this proceeding that:

1. Present telephone utility tariffs are more than adequate to cover the hotel costs, on the average, of handling outgoing guest telephone service, but they are not adequate to cover the hotel costs, on the average, of handling both outgoing and incoming guest telephone service.

2. Between 1951 and 1957 the hotel per message handling costs for guest telephone service increased, on the average, from 10.55 cents to 14.27 cents for local outgoing and incoming calls, and from 16.59 cents to 18.56 cents for intercity intrastate calls.

3. Among the 23 test hotels in the 1957 study, the variation in hotel costs allocated to the handling of guest telephone service has ranged from a low of 3.45 cents to a high of 20.37 cents per local outgoing message, and from a low of 2.08 cents to a high of 39.18 cents per intercity intrastate outgoing message.

4. Imposition of a specific charge on incoming guest telephone calls would tend to increase hotel gross revenues; however, the record does not show the amount by which handling costs, including accounting costs, would be increased by imposition of such a charge, or the amount of net revenue which might thereby be retained by the hotels.

The Commission, in the previous investigation proceeding, concluded that though hotels incur certain costs in rendering guest telephone service which should be recoverable by reasonable charges, it appeared to be impracticable, as a matter of guest relations, for hotels to place a specific charge on incoming guest calls. We find nothing in the present record to disturb that conclusion. Moreover, we are of the opinion that we have fulfilled our regulatory function by providing a rule and an optional schedule of charges by which telephone utilities may make available to hotel private branch exchange subscribers a feasible method of recovering the costs of providing telephone service for their guests. For us to go further, and by prescription of surcharges on incoming telephone calls attempt to determine the internal processes by which telephone services, like other guest services, are provided and charged for, would in our view constitute an unwarranted encroachment in the field of hotel managerial competence and discretion.

The record here, however, fully justifies us in finding and concluding that the present scale of maximum optional charges is insufficient to cover the hotel costs, on the average, of providing both incoming and outgoing guest telephone service through private branch exchange facilities. Since, as stated above, we adhere to our former conclusion that imposition of a specific charge on incoming guest calls is infeasible and to the further conclusion that for us to impose such a charge is unwarranted, at the same time being of the view that hotel costs of rendering guest telephone service should be recoverable by reasonable charges, it remains to consider what increases, if any, in the present scale of maximum charges are justified by this record.

The evidence shows that, at present levels of hotel costs and collections for guest incoming and outgoing telephone service, the total hotel costs and total net losses in revenue, on the average, are substantially greater for local than for intercity intrastate calls. At the same time, the individual test hotels exhibit a rather wide variation in costs allocated to guest telephone service as well as in amounts charged for that service. All of this suggests that type, size or location of the respective test hotels, or a preponderance of local or intercity interstate traffic may well be factors which, in the case of any one of the hotels, could result in over-compensation or under-compensation for reasonable costs by application of a scale of fixed charges based upon average costs of rendering the service.

The added charges set forth in the telephone utilities' tariffs, however, are maximum charges. They may be applied up to the maximum or not at all, at the discretion of the subscriber hotels. Since the record shows the present scale of these charges to be insufficient, on the average, to cover hotel costs for outgoing and incoming service and that hotel handling costs are greater for local than for intercity intrastate calls, any increases in maximum charges should take into account both of those conditions to the extent we consider to be reasonable.

We conclude that present telephone utility schedules for hotel private branch exchange service should be modified to permit subscribers to that service optionally to apply charges or surcharges up to a level not in excess of the maximum rates authorized herein, or to make no charge if desired.

The charges authorized herein will result in an increase of not to exceed 3 cents for local calls and an increase of not to exceed 2 cents in each of the existing graduated surcharges or intrastate toll messages and multi-message unit messages. Present schedules will not be disturbed in other respects. We find that said increases in rates or charges are justified and that present rates, in so far as they differ from those herein prescribed, for the future are unjust and unreasonable.

C. 6085 ET

ORDER

Public hearing having been held herein, evidence and argument having been received and considered, the matter having been submitted for decision and the Commission now being fully advised,

IT IS ORDERED that:

1. Each of the defendant telephone corporations having on file with this Commission a schedule of rates and conditions applicable to hotel private branch exchange service is authorized and directed to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, a revised schedule of rates and charges for telephone service by hotels, apartment houses or clubs as set forth in Appendix A attached hereto, and after not less than five days' notice to this Commission and the public to make said rates effective for service rendered on and after April 1, 1959.

2. Each defendant telephone corporation having on file with this Commission a schedule of rates and conditions applicable to hotel private branch exchange service, shall, on or before April 1, 1959, notify each of its subscriber hotels, apartment houses and clubs which renders guest telephone service as to the provisions of Appendix A attached hereto, and shall submit to the Commission, on or before April 20, 1959, a list of the subscribers so notified.

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

Dated at San Francisco, California, this 2nd day of March, 1959.

Commissioner Matthew J. Dooley, being necessarily absent, did not participate in the disposition of this proceeding.

C. Lyn Fox
President

Theodore H. Jenner
Everett C. McKeage
Commissioners

APPENDIX A

RATES

Add the Following Condition to Hotel Private Branch Exchange Schedule:

Hotel Private Branch Exchange Service is furnished to hotels, apartment houses, and clubs under either of the following conditions at the option of the subscriber:

a. Hotels, apartment houses, and clubs may charge guests, tenants, members and others not to exceed 13 cents (total charge) for each local exchange or zone message from hotel private branch exchange telephones in guest rooms, provided no charge is made in addition to those set forth in filed tariffs for multi-message unit and intrastate toll messages.

b. Hotels, apartment houses, and clubs may charge not to exceed 18 cents (total charge) to guests, tenants, members and others for each local exchange or zone message from hotel private branch exchange telephones in guest rooms and an amount, in addition to the filed tariff charge for each intrastate toll or multi-message unit message sent paid or received collect from such telephone, not to exceed the charges tabulated below; provided the hotels, apartment houses, and clubs post a schedule of charges for local exchange and zone messages and the additional charges for intrastate toll and multi-message unit messages in a conspicuous manner and location adjacent to each guest room telephone which contains the following statement:

"These charges are included at the option of the hotel management and do not exceed legally authorized charges."

Where the tariff charge for an intrastate toll or multi-message unit message is:	The maximum additional charge that may be made by the hotel is:
50 cents or less	12 cents
51 cents to $1.00	17 cents
$1.01 to $2.00	22 cents
Over $2.00	27 cents

The above charges are maximum amounts and the subscriber may at his option post such lesser amounts as he deems appropriate.

APPENDIX B

LIST OF APPEARANCES

Brobeck, Phleger & Harrison, by George D. Rives and Gordon E. Davis, for complainant.

Arthur T. George and Pillsbury, Madison & Sutro, by Charles B. Renfrew, for The Pacific Telephone and Telegraph Company; H. Ralph Snyder, Jr., for General Telephone Company of California; Claude N. Rosenberg, of Bacigalupi, Elkus & Salinger, for California Water & Telephone Company and West Coast Telephone Company of California; Neal C. Hasbrook, for California Independent Telephone Association, interested party, and for California Interstate Telephone Company, California-Pacific Utilities Company, Central California Telephone Company, Citizens Utilities Company of California, Coachella Valley Telephone Company, Colorado River Telephone Company, Evans Telephone Company, Gilroy Telephone Company, Kern Mutual Telephone Company, Sanger Telephone Company, San Joaquin Telephone Company, Sunland-Tujunga Telephone Company, and Western California Telephone Company, defendants.

Dion R. Holm and Robert R. Laughead, for City and County of San Francisco, interested party.

William W. Dunlop, for the Commission staff.