

**ORIGINAL**

Decision No. 61058

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 intrastate rates and regulations applicable to telegraph service within the State of California.

Application No. 42564  
Amended

Pillsbury, Madison & Sutro, by Noel Dyer, for The Western Union Telegraph Company, applicant.  
Dion R. Holm and Robert R. Laughead, for the City and County of San Francisco; and Wendell R. Thompson, for the City of Pasadena, interested parties.  
R. T. Perry, for the Commission staff.

O P I N I O N

Applicant'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 15, 1960, and an amendment thereto on September 27, 1960, 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 revenues of approximately \$460,100, or 7.3 per cent, based on estimated intrastate revenues of \$6,325,144 for the year 1959. Applicant's proposed increased rates are set forth in Exhibit No. 6 attached to the application as revised by the amendment thereto. The effect of the amendment is to reduce the amount sought in the original application by some \$85,000.

Public Hearing

After due notice, public hearing upon this application was held before Examiner William W. Dunlop on October 13, 1960 in San Francisco. Applicant presented six exhibits and testimony through two witnesses in support of its request. The Commission staff cross-examined applicant's witnesses for the purpose of developing a full record. The representative of the City and County of San Francisco also cross-examined applicant's witnesses and stated that while he was not necessarily agreeing with applicant's separation procedures or the California intrastate operating results presented by applicant, he was entering no objection to the rate increases as sought. There was no protest entered at the hearing to a granting of the application.

At the conclusion of the day's hearing the matter was submitted for Commission consideration subject to the receipt of one late-filed exhibit. Such exhibit having been received, the matter 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, 1960 and the new contracts which became effective June 1, 1960 will add approximately \$14,578,000 to system-wide landline (entire United States) operating expenses on an annual basis. For the year 1959 applicant states its rate of return system-wide for landline operations approximated 6 per cent. Based on conditions existing prior to June 1, 1960, applicant estimated its 1960 system-wide rate of return at approximately 5.6 per cent and, if the wage rate increases effective June 1, 1960 and to be effective January 1, 1961 were used in computing expenses for the full year, its landline rate of return would decline to 2.7 per cent. It further estimated

that if the rate relief is granted in full by the various regulatory bodies, the company could be expected to earn a landline rate of return of about 5.0 per cent.

Western Union has elected to use accelerated depreciation for federal income tax purposes, and its 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 (FCC) increases in rates covering the interstate portion of its telegraph message and money order services, press service and various other minor services. New interstate rates became effective August 17, 1960, except for those covering press service which became effective August 26, 1960. Thereafter, at the request of the FCC, applicant filed minor revisions in its interstate rates which became effective October 17, 1960. Applicant now seeks authority to increase rates for California intrastate traffic to the same level as its October 17, 1960 interstate rates.

Applicant represents that its California intrastate operations result in a loss and it takes the position that similar rate increases to those made effective for interstate service should be authorized by the California Public Utilities Commission. The effect of the new labor contract is to increase California intrastate operating expenses by approximately \$445,000.

California Intrastate Earnings 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 year 1959 from \$410,771 to \$390,002 as shown in the following tabulation:

State of California - Intrastate Operations

Item	Operating Results Year 1959	Adjustments Annualized	Adjusted Intrastate Operating Results
Operating Revenues	\$6,325,144	\$465,704*	\$6,790,848
Operating Expenses			
Operation, Maintenance, General and Administrative	6,113,305	444,935	6,558,240
Uncollectible Oper. Revenue	12,823	-	12,823
Depreciation	379,853	-	379,853
Operating Taxes	229,934	-	229,934
Federal Income Tax	-	-	-
Total Expenses	6,735,915	444,935	7,180,850
Net Revenue	(410,771)	20,769	(390,002)
Intrastate Rate Base	5,020,926	-	5,020,926
Rate of Return	(8.18)%	-	(7.77)%

(Red Figure)

\* Includes proposed rate increases of \$460,104 and increases in errand service charges of \$5,600 already made effective.

If recognition is given to the savings in income taxes for the utility as a whole resulting from the loss in the California intrastate segment of Western Union's operations, the loss of \$390,002 shown in the above tabulation is reduced to approximately \$187,000.

Separation Procedures

The above results for California intrastate operations are arrived at by separation procedures since 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. Western Union makes its separation studies in accordance with its "Manual of Instructions - State Separation Studies," originally issued on August 1, 1950. There have been several revisions to the manual since August 1, 1950, the latest being July 1, 1959. The separated results introduced in this

proceeding reflect the July 1, 1959 revision. A copy of the latest revised manual is included in this record as Exhibit No. 2.

Among the principal changes incorporated in the July 1, 1959 revision of the manual, is the direct assignment of plant, revenues, and expenses devoted to leased wire services as between state and interstate operations. This refinement has been made, according to applicant's witness, because of the increasing amount of leased wire services in Western Union operations.

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, operating expenses and rate base as between the various state and federal regulatory jurisdictions.

Fundamentally, applicant's state cost separation study is predicated on four basic conclusions. These are set forth in the manual as follows:

1. That the reperforator center is a huge machine serving two or more states, the relative use of which is determined by the volume of traffic passing through the machine; and that the expense of such reperforator center operation should be allocated to each of the area states served on the basis of the ratio of its traffic volume to total area traffic volume.
2. That the physical location of the reperforator center affects distances and costs of transmission within the area, which, if based on actual distance traveled, would penalize certain states and benefit others; and which, therefore, should be equalized and borne by the area states in proportion to traffic volume.
3. That terminal costs relating to the origination and termination of public message traffic incurred within a state are a direct assessment

against the traffic of that state; such costs to be allocated between interstate and intrastate operations on the basis of the relative number of message handlings within the state.

4. That all expenses, other than those associated with public message services, are to be separated according to service classification and assessed against the state in which such expenses are incurred; allocation between interstate and intrastate operations will be made on the basis of equipment and facility utilization studies or some other method consistent with the source of revenue to which the particular expense is related.

Applicant's separation study is accepted for the purpose of this proceeding; however, with changes in the art and methods of operation, further experience may indicate that improvements or refinements should be made in the future.

Rates, Present and Proposed

Increases in rates are proposed in public message telegraph services, press message service, money order services and commercial news service, which are estimated to yield \$460,104 of additional annual revenues segregated as follows:

	<u>Annual Increase</u>
Public message telegraph services	\$400,302
Press message service	8,172
Money order services	50,017
Confirmation copies of recorded messages	1,555
Commercial news service	58
Total .....	<u>460,104</u>

The increases proposed in the base rate applicable to full-rate, day letter, and night letter messages are as follows:

Increase in Base Rates

		:Full Rate Message:		Day Letter		: Night Letter :	
		:Mileage Zone:		:50 Words or Less:		:50 Words or Less:	
:From	: To	:Present	:Proposed:	:Present:	:Proposed:	:Present:	:Proposed:
0	125	\$1.05	\$1.10	\$1.50	\$1.60	\$0.90	\$0.95
126	225	1.15	1.20	1.65	1.75	1.00	1.05
226	425	1.25	1.30	1.80	1.90	1.10	1.10
426	750	1.40	1.45	2.00	2.10	1.20	1.25
751	1,125	1.55	1.60	2.20	2.30	1.30	1.40

No changes are proposed in the mileage rate zones or in the base rate word allowance. Additional word rates are proposed to be increased for full-rate telegrams by 1 cent per word in the first two zones, 1.5 cents in the next two zones, and by 2 cents in the fifth zone; for night letters by 1.5 cents for each five additional words in the first three rate zones, 2 cents in the fourth zone and 2.5 cents in the fifth zone; and for day letters by 2.5 cents for each five additional words in the first two zones, 3 cents in the third zone, and by 4 cents in the fourth and fifth zones.

An increase is proposed from the present 10 cents to 15 cents in the service charge for furnishing confirmation copies of messages filed by telephone.

Increases in rates for press messages aggregating approximately 7.8 per cent are proposed. With respect to money order charges, an increase approximating 9 per cent is proposed. The proposed increase in commercial news service rates approximates 10 per cent.

#### Findings and Conclusions

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

1. That earnings on the new nationwide 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 and present rates, in so far as they differ from those herein prescribed, for the future are unjust and unreasonable; and
3. That an order should be issued authorizing rate increases in the manner sought and as discussed above.

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 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 revised by the amendment thereto, and after not less than five days' notice to the public and to this Commission, to make said rates effective for service furnished on and after December 10, 1960.

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

Dated at San Francisco, California, this 15th day of November, 1960.

[Signature]  
President

[Signature]

[Signature]

[Signature]  
Commissioners