NB

ORIGINAL

Decision No. 65209

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of WEST COAST TELEPHONE COMPANY OF CALIFORNIA to increase its rates and charges for telephone service.) Application No. 44162

Bacigalupi, Elkus & Salinger, by Claude N. Rosenberg, for West Coast Telephone Company of California, applicant.
Ralph Hubbard, for California Farm Bureau Federation, interested party.
James M. McCraney and L. L. Thormod, for the Commission staff.

O P I N I O N

Nature of Proceeding

The West Coast Telephone Company of California seeks authorization to institute extended area service between its Crescent City and Smith River exchanges and between its Crescent City and Klamath exchanges and to increase its rates and charges for exchange telephone and for telephone directory advertising services.

This application was heard after due notice before Examiner Coffey, at Crescent City, on May 15 and 16 and August 9, 1962. It was submitted on September 19, 1962, upon the receipt of a late-filed exhibit. Applicant presented 11 exhibits and testimony through four witnesses in support of its request. The Commission staff presented the results of its independent study and investigation of the applicant's operations through two witnesses. Nineteen public witnesses testified, 15 of whom were called by counsel for the California Farm Bureau Federation. All but two of the public witnesses made service complaints; two witnesses opposed extended area service; one witness favored extended area service; and 12 witnesses opposed the proposed rate increases. No protests were made in opposition to the requested charges for telephone directory advertising services.

Applicant's Operations

Applicant is a wholly owned subsidiary of West Coast Telephone Company which has headquarters at Everett, Washington. Applicant's telephone system furnishes exchange telephone service in Crescent City, Smith River, Klamath, Orick, and contiguous territories in Del Norte and Humboldt Counties. Toll telephone service is furnished over applicant's toll lines and through connections with facilities of The Pacific Telephone and Telegraph Company (Pacific) and the West Coast Telephone Company which operates in Oregon and Washington. Crescent City is the principal dial exchange, having been converted from manual service in 1959. This office also serves as the operator office for unattended dial units at Smith River and Klamath. Orick is operated as an unattended dial unit with operator services at the Eureka office of Pacific.

As of September 30, 1961, there were 65 employees on the applicant's payroll and 4,945 stations were being served. These stations are distributed as follows:

Exchange	Residence	Business	Total
Crescent City	2,568	1,216	3,784
Klamath	318	143	461
Orick	178	85	263
Smith River	334	103	437
Total	3,398	1,547	4,945

Subscriber billing and all accounting is performed for the applicant by the Accounting Department of the West Coast Telephone Company at Everett, Washington.

Applicant's Request

Applicant avers that its wage and salary expenses have risen substantially each year since its present rates and charges were established in 1958. Also, during this time there have been substantial increases in the amount of ad valorem taxes paid by applicant on its properties. Further, since the year 1958, applicant's fixed capital, telephone stations in service, and plant investment per station have increased substantially. Applicant represents that its rate of return on local exchange, intracompany toll operations and special services for the year 1962 would be 0.97 percent under existing rates and would have been 4.38 percent under the proposed rates and with extended area service.

In Exhibit D of the application and in Exhibit A of the amendment to the application are set forth in detail the proposed rates and charges for exchange telephone service with extended area operations and for telephone directory advertising service. The present and proposed graded exchange services are compared in the following tabulation:

Present and Proposed Rate Comparison
(Including proposed extended area service)

Item	Rate Per Month: Business Present	Business Proposed	Residence Present	Residence Proposed
Crescent City Exchange				
PBX Trunks	$13.75	$19.50	$ -	$ -
1-Party	9.25	13.10	5.25	7.35
2-Party	7.75	10.35	-	6.10
4-Party	-	-	3.55	4.90
10-Party Suburban	6.75	8.90	3.80	5.25
Extension Station	1.75	1.90	1.25	1.35
Klamath & Smith River Exchanges				
PBX Trunks	13.75	24.25	-	-
1-Party	9.25	16.25	5.25	8.65
2-Party	7.75	12.60	-	7.10
4-Party	-	-	3.55	5.70
10-Party Suburban	6.75	10.25	3.80	6.05
Extension Station	1.75	1.90	1.25	1.35
Orick Exchange				
PBX Trunks	13.75	17.35	-	-
1-Party	9.25	11.55	5.25	6.50
2-Party	7.75	9.25	-	5.50
4-Party	6.75	7.80	3.55	4.50
10-Party Suburban	6.75	8.15	3.80	4.85
Extension Station	1.75	1.90	1.25	1.35

The foregoing proposed rates were designed to compensate for extended area service between the Crescent City and Smith River exchanges, and between the Crescent City and Klamath exchanges. Due to customer reaction to the proposed extended area service, applicant requested, as set forth in Exhibit 3, that the following alternative local service rates be authorized to apply to all exchanges if the proposed extended area service is not deemed by the Commission to be feasible or advisable.

Alternative Present and Proposed Exchange Rates
(If extended service not authorized)

Item	Rate Per Month			
	Business		Residence	
	Present	Proposed	Present	Proposed
All Exchanges				
PBX Trunks	$13.75	$18.20	$ -	$ -
1-Party	9.25	12.15	5.25	6.85
2-Party	7.75	9.70	-	5.85
4-Party	6.75	8.25	3.55	4.80
10 Party	6.75	8.60	3.80	5.15
Extension Station	1.75	1.90	1.25	1.35

Extended Area Service

The distance between Crescent City and Smith River is approximately 13 miles and between Crescent City and Klamath is approximately 18 miles. Applicant, after conducting feasibility studies, concluded that it would be in the public interest for free calling privilege between these respective exchanges to be included in the exchange service rates. At the request of the Commission staff, the customers in these exchanges were afforded an opportunity to express whether or not they were desirous of having extended area service. All subscribers in the affected exchanges were polled in this regard. Approximately 40 percent of those polled responded with an indication of their preference. The following tabulation indicates the results of this public opinion survey:

Results of Public Opinion Survey
on Extended Area Service

Exchange	Business		Residence	
	In Favor	Opposed	In Favor	Opposed
Crescent City	36%	64%	20%	80%
Smith River	73	27	66	34
Klamath	69	31	40	60
All Exchanges	44	56	27	73

The applicant alleged that the original and alternative proposed rates would yield the same earnings, with and without extended area service. Approximately one third of the revenue requirement under the rates originally proposed results from the effects of the proposed extended area service.

Taking into account, among other things, the relative lack of public support for such service, the substantial and burdensome increases in rates which would result therefrom, and the comparatively long toll routes which would be displaced by such service, the Commission finds that extended area service is not in the public interest at this time and it will not be authorized herein.

Earning Position

The following tabulation summarizes the evidence respecting applicant's rate of return on an average depreciated rate base, realized in the recent past and estimated for the test year 1962 for its total California operations and for its California intrastate operations:

Summary of Rate of Return
(Without extended area service)

Item	Present Rates: Calif. Company: Exhs. 4 & 12	Present Rates: CPUC Staff Exh.12	Proposed Rates: Calif. Company: Exhs. 4 and 12	Proposed Rates: CPUC Staff Exh.12
Year Ending September 31, 1961				
Recorded Total Calif. Operations	5.67%	-%	-%	-%
Adjusted Total Calif. Operations	5.20	-	6.27	-
Adjusted Intrastate Operations	3.72	-	5.47	-
Year 1962 Estimated				
Total Calif. Operations	5.16	5.97	6.23	7.10
Interstate Operations	7.50	8.62	7.50	8.62
Intrastate Operations				
Exchange	2.24	3.46	5.26	6.59
Bell-Independent Message Toll and Teletypewriter	7.79	7.83	7.79	7.83
Intracompany Interstate Toll	(1.30)	(3.48)	(1.30)	(3.48)
Special Service	-	(0.78)	-	(0.78)
Total Intrastate	3.64	4.24	5.41	6.10

(Red Figure)

From the foregoing, the Commission finds that the applicant is in need of increased revenues.

The estimates for the test year 1962 at proposed rates, without extended area service, for the operations in California and segregated to interstate and intrastate operations as developed by applicant and by the Commission staff are compared in more detail in the following tabulation:

SUMMARY OF EARNINGS
Proposed Rates
Year 1962 Estimated
(Without extended area service)

Item	Total California Operations		Interstate Operations		Intrastate Operations	
	Company Exh.4	Staff Exh. 12	Company Exh.4	Staff Exh.12	Company Exh. 4	Staff Exh.12
Oper.Revenues						
Local Service	$ 507,557	$ 492,000	$ 101,767	$ 89,000	$ 405,790	$ 403,000
Toll Service	786,380	774,600	447,247	453,400	339,133	321,200
Miscellaneous	39,100	42,600	3,384	3,400	35,716	39,200
Uncollectibles	(13,553)	(14,000)	(3,528)	(3,630)	(10,025)	(10,370)
Total	1,319,484	1,295,200	548,870	542,170	770,614	753,030
Oper.Expenses						
Maintenance	199,330	204,400	78,381	80,530	120,949	123,870
Traffic	135,070	135,700	57,568	54,060	77,502	81,640
Commercial	63,525	68,000	13,905	11,050	49,620	56,950
Gen.& Other	98,280	99,300	41,723	39,160	56,557	60,140
Depreciation	211,342	210,900	84,238	84,410	127,104	126,490
Total	707,547	718,300	275,815	269,210	431,732	449,090
Oper. Taxes						
Other than Income	151,419	139,700	70,104	52,930	106,644	86,770
Income Taxes	239,831	189,800	98,401	101,400	116,101	88,400
Total	391,250	329,500	168,505	154,330	222,745	175,170
Total Util.Exp.	1,098,797	1,047,800	444,320	423,540	654,477	624,260
Net Oper. Rev.	220,687	247,400	104,550	118,630	116,137	128,770
Avg.Rate Base	3,542,161	3,485,800	1,393,566	1,375,430	2,148,595	2,110,370
Rate of Return	6.23%	7.10%	7.50%	8.62%	5.41%	6.10%

(Red Figure)

The foregoing tabulation does not reflect the changes in separation procedures approved by the Federal Communications Commission and placed into effect by the Bell System on April 1, 1962, except for the point of measurement of minutes of use. While this record does not show the precise dollar effect of such changes in separation procedures on the operations of applicant, the testimony reveals that such changes will tend to increase somewhat applicant's rate of return for exchange operations and for total intrastate operations compared with the results shown above.

The above estimates of applicant and the staff reflect the classification of toll traffic either as interchanged with Pacific or "intracompany intrastate toll." The cost basis of toll settlement was applied only to the portion of toll traffic interchanged with Pacific. The staff indicated in Exhibit 12 that if the intracompany intrastate toll traffic were to be included under the cost basis of settlement, gross revenues of applicant for test year 1962 would be increased $32,480.

The above comparative summary of earnings shows that staff estimates of revenues, taxes and rate base for the test year 1962 were lower than those of the applicant, and that staff estimates of operating expenses were higher. Except for income taxes, these differences result mainly from the staff's use of more recent data and operating and construction plans. Except for income taxes, applicant did not challenge the staff's estimates.

In its estimate of income taxes for the test year 1962, the staff took into account that, as a wholly owned subsidiary of West Coast Telephone Company, West Coast Telephone Company of California's capital structure consists solely of common stock and surplus. Applicant has, in the past, financed expansion by obtaining funds on open account from its parent corporation. These advances were repaid by applicant issuing common stock to the parent. In 1959 common stock amounting to $750,000 was authorized to be issued, and in 1961 $1,000,000 in common stock was authorized. As of

December 31, 1961, only $127 was payable to affiliated companies by the applicant. Applicant's Exhibit 6 indicates that for the year ending September 30, 1961, interest, amounting to $20,463, was paid to the parent company on an open note at 4 percent and reduced the net income for income taxes. For the estimated test year 1962, no interest payments were projected by applicant. The parent's interest on funded debt, other interest charges, and amortization of debt discount (net of premium) were calculated and prorated by the staff in determining West Coast of California's 1962 estimated income taxes.

A staff witness testified that although the capital structure of West Coast Telephone Company of California is 100 percent equity, the capital structure of the parent corporation presents a more representative capital structure, that is, one composed of debt and preferred stock, as well as common stock equity. Applicant took the position that this Commission, in its Decision No. 59926 in Case No. 6140, had announced the principle that "rates should be determined on the basis of the tax which a utility actually pays." Applicant itself does file income tax returns and pays income taxes.

Decision No. 59926 dealt with the issue of liberalized depreciation for income taxes. The issue here is whether the capital structure of the parent corporation should be substituted for that of its subsidiary in the calculation of income taxes to be allowed for rate-making purposes. In view of the fact that applicant has obtained the bulk of its capital requirements from the parent corporation, and that the sources of such funds are not identifiable and must be considered as coming from the parent's general corporate funds, it appears reasonable to substitute the capital structure of the parent for the capital structure of the subsidiary in determining income tax expense for rate-making purposes. The benefits of income tax reductions which the parent derives from a representative capital structure will then be shared with applicant and its customers.

The Commission finds that the staff's estimates of operating revenues, expenses, including taxes and depreciation, and the rate base as submitted by the staff for the year 1962 reasonably represent the results of applicant's operations for the purposes of this proceeding.

Rate of Return

By Decision No. 57667, dated December 2, 1958, in Application No. 39988, the Commission found a rate of return of 6.5 percent to be reasonable for applicant's intracompany intrastate operations. Applicant contends, and the evidence shows, that on a test year basis the proposed rates would produce a rate of return lower than that last authorized.

A staff witness testified that in view of the fact that applicant's capital structure consists entirely of equity and since it effects all of its outside financing through its parent, it would be appropriate to consider the parent's capital structure in determining a fair rate of return for applicant. Accordingly it was the opinion of this staff witness that, based upon the pro forma capital structure and the effective weighted interest and preferred dividend cost of applicant's parent and taking into account such factors as the actual earnings on common stock equity of other telephone utilities, rates of return authorized by this Commission for other telephone utilities, the ratio of applicant's toll revenues to total revenues, and other factors, applicant required a rate of return on total operations in the range of 6.23 to 6.70 percent. No recommendation was made regarding an appropriate rate of return on applicant's intrastate operations, however. In view of the fact that this Commission's rate-making jurisdiction is limited to applicant's intrastate operations, it becomes necessary to appraise this recommendation in such terms.

First of all, it should be observed that there is a greater risk associated with interstate telephone business because it is preponderately toll and therefore relatively more susceptible to changes in the general economic pace. Next, it should be noted that in this case, almost 40 percent of applicant's total California rate base is allocated to its interstate operations, with approximately the same division of revenues. (See page 7, supra.) Thus, a substantial portion of applicant's overall operations are of the higher risk character and afford the basis for investors demanding a higher return thereon. While it is true that a substantial portion of applicant's revenues are derived from intrastate toll, it is largely toll traffic which is interchanged with the Pacific Company. (See Exhibit 12, Table 9-D.) Revenues for this traffic are based upon Pacific's intrastate toll rates which already reflect higher risk since Pacific is authorized to earn 7.7 percent on its intrastate toll operations.

The Commission is jurisdictionally precluded from determining what a reasonable rate of return is on applicant's total operations and, therefore, cannot fix applicant's intrastate rates on such a basis. But, even assuming that applicant is entitled to a rate of return on total operations in the upper range of the staff witness's recommendation, when the fact is taken into account that almost 40 percent of its operations are subject to relatively greater risk associated with interstate business, it must be concluded that such portion of the business should earn a rate of return substantially higher than the 6.7 percent constituting the upper limit of the range recommended. We do not here decide what return applicant should be entitled to earn on its interstate operations nor on its total operations, for that matter. We observe, however, that the staff's test year results under proposed rates for total California operations show that applicant would realize more than the upper limit of the rate of return range recommended by the staff witness for such total California operations and that its return on interstate operations is estimated to be substantially higher than the return on its intrastate operations (Exhibit No. 12, Table 9-D). Based upon these considerations and others, we find that the 6.1 percent estimated to be realized on intrastate operations under proposed rates reasonably reflects the lesser risk involved in applicant's intrastate operations, and further find that said rate of return on staff's test year average intrastate rate base of $2,110,370 to be fair and reasonable for the future.

Service Matters

Service complaints from public witnesses centered on the Smith River and Orick exchanges.

Witnesses from Smith River complained of excessive operator answering time, party line misuse, and week-end service outages.

Witnesses from Orick complained relative to:

1. Failure to be included in the Trinidad exchange of Pacific because that is their community of interest since their children's school is in the Trinidad directory and since Pacific's rates are lower;

2. Their names and telephone numbers not being listed in the Trinidad directory;

3. Delays in placing toll calls;

4. Telephones being out of order for extended periods;

5. Static, buzzing, poor connections, and generally poor transmission both on local and long distance calls;

6. Excessive delays in billing toll charges.

A petition with 119 signatures was presented at the hearing in support of the complaints from the Orick area.

Applicant investigated the complaint of each public witness and reported thereon in late-filed Exhibit No. 7. Corrective action has been initiated by applicant in the matters of party line misuse, Trinidad directory listing, circuit noise and poor transmission, and in toll billing delays. Applicant has arranged with Pacific to provide foreign exchange service if desired by its customers.

The ensuing order will require applicant to submit six half-yearly reports on Smith River and Orick customer complaints.

Findings

Upon consideration of the evidence the Commission finds that the increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

O R D E R

IT IS ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformity with General Order No. 96-A, tariff schedules with rates and charges as set forth in Appendix A attached hereto, and upon not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after May 15, 1963, except that rates for telephone directory advertising service shall be made effective on the date new directories are issued on or after February 1, 1963.

2. The request of applicant to institute extended area service is denied.

3. Within thirty calendar days after July 1, 1963, applicant shall file with this Commission a report setting forth all service complaints received from customers in the Smith River and Orick exchanges between January 1, 1963 and July 1, 1963. Said report shall set forth the action taken to satisfy each complaint, the elapsed time from the making of the complaint until the disposition of the complaint, an explanation of the status of any unresolved complaints and an explanation of the need for a period in excess of 24 hours to satisfy any complaint. Applicant shall file with this Commission six consecutive half-yearly reports, within thirty calendar days after January 1 and July 1 of each year.

4. On or before July 1, 1963, applicant shall submit a written report setting forth the results of its negotiations with The Pacific Telephone and Telegraph Company to have applicant's intracompany intrastate toll traffic included in their toll cost settlement.

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

Dated at San Francisco, California, this 9th day of April, 1963.

George G. Grover
President

Frederick B. Holoboff

William M. Bennett
Commissioners

RATES

The presently effective rates and charges of West Coast Telephone Company of California are changed to the level and to the extent prescribed in this appendix.

Schedule No. A-1, Individual and Party Line Service

RATES - All Exchanges

	Rate Per Month
1. Each Primary Station	
Business Service	
Individual line	$12.15
Two-party line	9.70
Four-party line	8.25*
Residence Service	
Individual line	6.85
Two-party line	5.85
Four-party line	4.80
2. Each Extension Station	
Business	1.90
Residence	1.35

* Condition 3 of presently filed schedule to remain in effect.

Schedule No. A-2, Suburban Service

RATES* - All Exchanges

	Rate Per Month
1. Each Primary Station	
Business Service	$ 8.60
Residence Service	5.15
2. Each Extension Station	
Business	1.90
Residence	1.35

* To supersede entire presently effective rates of this schedule.

RATES--Contd.

Schedule No. A-4, Mileage Rates

RATES	Rate Per Month For Each One-Quarter Mile Or Fraction Thereof
1. Within the Suburban Areas	
Each four-party line primary station ..	$ 0.35
2. Off Subscribers' Premises	
Each extension station, private branch exchange station and intercommunicating system station line	.75

Schedule No. A-6, Service Connection Charges

A. New and Additional Service	Nonrecurring Charge
1. Individual or Party Line Service	
a. Each primary station	
(1) Business	$15.00
(2) Residence	10.00
b. Each business or residence extension station or left-in stations*	5.00
2. Private Branch Exchange Service	
a. Each trunk, line, or circuit used for ringing power or battery supply	15.00
b. Each primary, extension or left-in station	5.00
3. Dial Private Branch Exchange Service	
a. Each trunk or tie line, off premise dial PBX primary or extension station	15.00
b. Each on premise primary dial PBX station	10.00
c. Each on premise dial PBX extension station or left-in station	5.00

* Condition No. 5 of presently effective Schedule No. A-6 to remain in effect.

RATES--Contd.

Schedule No. A-7, Move and Change Charges

CHARGES

	Charge
1. Subscribers' Telephone Sets	
All categories shown in presently effective Schedule No. A-7	$ 5.00
2. Dial PBX Primary Extension Station	
On premises, each	5.00
Off premises, each	15.00
3. Other Equipment and Wiring	
NOTE: Same language as in presently effective Schedule No. A-7	5.00

Schedule No. A-8, Private Branch Exchange Service

	Rate Per Month
2. Trunks	
Each PBX Trunk	$18.20
3. Stations	
a. Commercial	
Each station within building in which switchboard is located except stations in hotel guest rooms	1.90
b. Hotel Guest Room Stations	
Each wall or handset station	1.25

RATES--Contd.

Schedule No. A-11, Supplemental Equipment Service

RATES	Rate Per Month
A. Signal Service	
1. Ordinary extension bell	$ 0.55
5. Auxiliary signal, vibrating horn type with relay	2.50
C. Key and Switch Service	
1. Keys, cutoff	.50
D. Subscribers' Transfer Service	
1. Subscribers' transfer service	3.50
E. Miscellaneous Equipment	
4. Foot switch	.50
H. Special Telephone Sets	
3. Self-contained volume control telephone ...	3.00*

* With same footnote as in presently effective Schedule No. A-11.

Schedule No. A-15, Push Button Telephone Service

	Rate Per Month
J. PBX Lines	$ 1.90

Schedule No. A-16,
Dial Private Branch Exchange Service

3. Attendant's switchboard positions, including up to 50 feet of connecting cable to the common equipment:

	Installation Charge	Rate Per Month
a.		
1. Each cordless type console including attendant's telephone, 10-trunk capacity*	$ 80.00	$15.00
2. Each cordless type console including attendant's telephone, 20-trunk capacity	100.00	25.00

* Closed to prospective service.

RATES--Contd.

Schedule No. A-21, Toll Terminal Service

RATES AND CHARGES - CRESCENT CITY

	Rate Per Month
1. Rate	
a. Each toll terminal located within the principal base rate area of the toll office	$ 7.00

Schedule No. D-1
Telephone Directory Advertising Service

RATES - All Exchanges - Local Service

(1) CLASSIFIED SECTION	Rate Per Month
Full page	$30.00
Double half column	15.00
Half column	7.50
Quarter column	3.75
One and one-half inch listing	2.95
One-inch listing	2.25
Bold type listing	.75
Regular type listing	.40
Extra line	.40
Trade mark heading	3.15
Trade mark bold type	.75
Trade mark regular type	.40
Trade mark extra line	.40
Trade name listing	1.00
Special cross reference headings, including regular type listing	1.00
(2) ALPHABETICAL SECTION	
Alpha bold type	1.00

Schedule No. G-1
Local Private Line Telephone Service

RATES	Rate Per Month
Station Equipment:	
Each telephone with first complement of battery	$ 1.90
Each termination on customer owned equipment	1.25

Installation Charge:

Each Station

Business	$10.00
Residence	7.50