

ORIGINAL

Decision No. 69491

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

CALIFORNIA HOTEL AND MOTEL
TELEPHONE COMMITTEE,

Complainant,

vs.

CALIFORNIA INTERSTATE TELEPHONE COMPANY,
CALIFORNIA-PACIFIC UTILITIES COMPANY,
CALIFORNIA WATER & TELEPHONE COMPANY,
CENTRAL CALIFORNIA TELEPHONE COMPANY,
CITIZENS UTILITIES COMPANY OF CALIFORNIA,
COLORADO RIVER TELEPHONE COMPANY,
DELTA TELEPHONE & TELEGRAPH COMPANY,
DOS PALOS TELEPHONE CO., INC.,
EVANS TELEPHONE COMPANY,
GENERAL TELEPHONE COMPANY OF CALIFORNIA,
GILROY TELEPHONE COMPANY, KERNAN TELEPHONE
COMPANY, KERN MUTUAL TELEPHONE COMPANY,
LIVINGSTON TELEPHONE COMPANY,
MARIPOSA COUNTY TELEPHONE COMPANY, INC.,
THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY,
PARKER VALLEY TELEPHONE COMPANY, INC.,
SANGER TELEPHONE COMPANY, SAN JOAQUIN
TELEPHONE COMPANY, SUNLAND-TUJUNGA TELEPHONE
COMPANY, WEST COAST TELEPHONE COMPANY OF
CALIFORNIA, WESTERN CALIFORNIA TELEPHONE
COMPANY, and THE WESTERN TELEPHONE COMPANY,

Defendants.

Case No. 7864
(Filed March 19, 1964)

Crimmins, Kent, Bradley & Burns, by John L. Bradley; for complainant.
Arthur T. George, and Pillsbury Madison & Sutro, by Richard W. Odgers, for The Pacific Telephone and Telegraph Company, defendant.
Cyril M. Saroyan and James G. Shields, for the Commission staff.

O P I N I O N

Private branch exchange (PBX) telephone service is supplied to hotels and motels ^{1/} in California subject to a 1/ Hotels and motels will hereinafter be referred to simply as hotels.

condition in the tariff limiting the amounts which hotels may charge their guests or others for making intrastate telephone calls through the hotel system.

Complainant, a commercial organization representing 13 local or regional associations having more than 625 hotel members throughout the state, requests the Commission to find that the maximum permissible charges for intrastate telephone service as limited by said condition in the tariffs are unjust and unreasonable, and to issue an order establishing such maximum charges for the service as it may find to be just and reasonable.

A tariff condition establishing maximum permissible surcharges was first established by Decision No. 48171, dated January 19, 1953, in Case No. 5338 (Telephone Surcharges, 52 Cal. P.U.C. 363), and was modified to effect an increase in permissible charges by Decision No. 58085, dated March 2, 1959, in Case No. 6085 (Hotel Assn. v. Cal. Interstate et al., 56 Cal. P.U.C. 798).

The complaint alleges that since 1957, the year on which the present allowable charges were based, the costs to hotels of providing telephone service for guests have risen substantially, and that as a result the maximum permissible charges do not provide sufficient revenue to compensate the hotels for the costs of providing telephone service. The complaint did not specify the amount of increases being sought and, pursuant to request of the Commission staff, complainant filed Item A, which specified the exact amount of surcharges requested. Comparison of the requested schedule with the presently authorized schedule follows:

Local Exchange or Zone Message Calls

| <u>Per Call</u> | <u>Present Schedule</u> | <u>Requested Schedule</u> |
|--|-------------------------|---------------------------|
| Telephone Company charge | \$.05 | \$.05 |
| Federal excise tax | <u>.005</u> | <u>.005</u> |
| Total | \$.055 | \$.055 |
| Maximum permissible hotel charge to guest | <u>.18</u> | <u>.25</u> |
| Maximum reimbursement of hotel's costs ^{2/} | \$.125 | \$.195 |

Intrastate Toll or Multi-message Unit Calls

Where the tariff charge for a call is:

The maximum permissible surcharge by the hotel is:

| | <u>Present Schedule</u> | <u>Requested Schedule</u> |
|------------------|-------------------------|---------------------------|
| 50 cents or less | \$.12 | \$.20 |
| 51 cents to \$1 | .17 | .25 |
| \$1.01 to \$2 | .22 | .30 |
| Over \$2 | .27 | .35 |

Public hearings were held before Examiner Patterson in San Francisco on June 24, October 28, December 10, 21, and 22, 1964, and on January 20, 21, February 15 and March 10, 1965. The matter was submitted subject to receipt of a late-filed exhibit and concurrent briefs. Said exhibit and briefs were received and subsequently, on April 21, 1965, complainant filed a Petition to Set Aside Submission and for Leave to File a Reply Brief. The staff, on April 30, 1965, filed an answer requesting that said petition be dismissed.

^{2/} Maximum reimbursement shown applies to message rate hotels only. Flat rate hotels retain entire charge of 18¢ present and 25¢ requested, paying, however, a monthly trunk rental charge to the telephone company.

All of the defendants filing answers to the complaint took essentially neutral positions with the exception of California Interstate Telephone Company which asked for dismissal. The Pacific Telephone and Telegraph Company,^{3/} the only defendant which appeared at the hearings, assumed a neutral position, did not present any evidence, but did supply substantial amounts of information for both the complainant's and the staff's studies. Two of its employees also testified for complainant.

Complainant's study was prepared in a manner similar to that used for the studies introduced in the 1953 and 1959 telephone surcharge proceedings, using 11 of the hotels included in those prior studies and 15 additional hotels. Complainant claimed that the 26 hotels represent a fair sample of hotel operations in the state as to size, geographical distribution and type of telephone equipment used.

As to size, the hotels consist of:

| | |
|-----------------|-----------------------|
| 4 large | (more than 500 rooms) |
| 11 medium-large | (250 to 500 rooms) |
| 6 medium | (125 to 249 rooms) |
| 5 small | (less than 125 rooms) |

By geographical distribution, they are situated:

| |
|---------------------------|
| 7 in San Francisco |
| 5 in Los Angeles |
| 3 in Beverly Hills |
| 2 in Sacramento |
| 9 in other smaller cities |

As to equipment, 18 of the hotels handle outgoing and incoming guest calls through manually operated switchboards, and 8 have full guest dialing of outgoing local, toll, and MMU calls.

^{3/} Hereinafter sometimes referred to as Pacific Telephone Company.

Complainant's evidence is contained principally in Exhibit 1 which presents an analysis of the costs incurred by the 26 study hotels in providing intrastate telephone service to guests. According to that exhibit as amended, the hotels' costs of handling intrastate calls exceed allowable surcharges on the average by 9.2 cents per local call and 10.8 cents per intrastate toll call. Those figures were developed by a complex series of steps involving a multitude of allocations of costs between interstate and intrastate and between guest usage and hotel management usage. Basic data for allocation percentages was obtained from a seven-day traffic study which was made with the assistance of Pacific Telephone Company in each of the 26 study hotels in October and November 1963.

A staff engineer made an exhaustive analysis of complainant's study, compiled additional information and presented the results of his study and his recommendations in Exhibit 11, a document which appears to be equivalent to complainant's study in detail and complexity. The staff witness found certain errors in complainant's study and he took exception to many of the assumptions and details employed by the complainant in allocating costs. He enumerated 17 alleged defects in complainant's showing. In an endeavor to reconstruct what he believed to be more appropriate cost data the staff engineer completely reallocated the costs for 11 of the 26 study hotels and the trunk rental charges for six others. He testified that he was not able to reallocate costs for a number of the other hotels

as the traffic data for such hotels was no longer available. It was his opinion, therefore, that his adjustments were extremely conservative and probably did not measure the full extent of errors and improper allocations.

An important refinement brought out by the staff study is a separation of the hotel costs of handling incoming calls from the costs of handling outgoing calls. Complainant's and staff's evidence of hotel handling costs separated between outgoing and incoming calls may be summarized substantially as follows:

| | 26 Test Hotels Handling Costs per Call | | |
|----------------------------------|---|---------------------------|---------------------------------|
| | <u>Outgoing Costs</u> | <u>Incoming Costs</u> | <u>Total Handling Costs</u> |
| <u>Local</u> | | | |
| Complainant | 10.77c | 11.06c | 21.83c |
| Staff | 8.79 | 8.59 | 17.38 |
| <u>Intrastate Toll & MMU</u> | | | |
| Complainant | 13.73 | 13.90 | 27.63 |
| Staff | 9.48 | 9.30 | 18.78 |

Complainant made minor concessions to the staff's charges of defects, and revised its showing so as to reduce the total handling costs for local calls from 21.83 cents to 21.68 cents and for intrastate toll calls from 27.63 cents to 27.54 cents, but no breakdown was given between outgoing and incoming costs.

The full effects of the staff's adjustments are diluted in the foregoing tabulation as only 11 of the 26 hotels' costs have been fully reallocated. A comparison of the staff's and complainant's results for only those 11 hotels, for which full reallocations have been made, follows:

| 11 Test Hotels | | | |
|----------------------------------|---------------------------|---------------------------|---------------------------------|
| <u>Handling Costs per Call</u> | | | |
| | <u>Outgoing Costs</u> | <u>Incoming Costs</u> | <u>Total Handling Costs</u> |
| <u>Local</u> | | | |
| Complainant | 9.05c | 11.54c | 20.59c |
| Staff | 7.54 | 8.76 | 16.30 |
| <u>Intrastate Toll & MMU</u> | | | |
| Complainant | 11.63 | 14.96 | 26.59 |
| Staff | 6.15 | 9.01 | 15.16 |

The staff engineer's report was based not only upon analysis of complainant's study, but also upon a considerable amount of field work, a two-day traffic study of 12 of the study hotels made by Pacific Telephone Company and an analysis of a staff questionnaire sent to the 625 member hotels of the associations represented by complainant and also to 362 nonmember hotels. This questionnaire disclosed wide variation in the practices of hotels in applying the permissible surcharges. He also ascertained that a surprisingly large amount of revenue to which the hotels would be entitled under the tariffs is simply not collected. The reasons for noncollection, aside from some hotels' decisions not to apply maximum charges, include guests denying calls, mass check-outs of guests, delayed receipt of time and charges on toll calls, and failure to apply charges on credit card calls or on calls charged to other numbers. He was of the opinion that the complexity of the present tariff was a large factor in contributing to failure of some hotels to charge the full permissible surcharge or in foregoing completely application of surcharges for calls charged to credit cards or to other numbers. He concluded that the present rate schedule is cumbersome,

undesirable and not used by all hotels. He testified that a 15-cent-flat-per-message charge would be simpler to administer, would provide a reasonable source of revenue to offset hotel costs and, because of more universal application, should result in better understanding by guests, better collection, particularly on credit card calls, and increased revenue for hotels now charging 15 cents, or less, for local calls and allowing credit card calls free. He recommended, therefore, that the present schedule of charges be replaced with a maximum 15-cent message charge to be made applicable for all outgoing intrastate guest calls and for incoming collect calls. His proposed 15-cent maximum charge on local calls would apply for both flat rate and message rate service hotels and, therefore, would include message rates charged the hotel by the telephone company. He also suggested that if anything beyond the 15-cent flat rate were to be considered he would recommend that the hotels have the option of applying a surcharge of 10 per cent of the cost of the call where the message charge is over \$2.00.

The staff witness stated that in his opinion incoming call costs should be absorbed by the hotel through room rentals, or a sufficient portion of such incoming costs to permit application of the proposed 15-cent uniform charge. According to his study total incoming call costs, both local and intrastate toll, can be absorbed for approximately 12 cents per occupied room-day. Application of his proposed 15-cent uniform charge, without the 10 per cent option on toll calls would produce revenues

exceeding handling costs for outgoing calls to the extent that the remaining revenue deficiency assignable to handling costs for incoming calls could be absorbed for less than 9 cents per occupied room-day.

Average room rates per occupied room per day for the year 1962 for the 22 study hotels which supplied such information, were shown in Exhibit 18 as ranging from \$5.60 to \$26.70 with a median of approximately \$12.

At this point in the proceeding there had been no cross-examination of any of the witnesses, nor had any rebuttal testimony been offered. Complainant had made minor revisions in its exhibits to reflect corrections for one defect and a portion of another defect alleged by the staff. Counsel for complainant had previously stated that none of the other alleged defects would be accepted, and rebuttal testimony would be prepared in connection therewith. Nevertheless, at this juncture, in response to requests initiated by counsel for complainant, continuances were granted to enable the parties to attempt to reach agreement on acceptable surcharges and upon other issues necessary to conclude the proceeding.

Subsequently complainant made a proposal to accept the staff engineer's recommendation of essentially a 15-cent charge on all calls, including the alternative option of a 10 per cent surcharge, but not to exceed 50 cents on toll calls over \$2.00, except that for local calls the maximum permissible charge would be 20 cents including any message rate charges and taxes where applicable.

The staff agreed to complainant's proposal provided it would be acceptable to the Commission, and provided agreement could also be reached on basic data requirements to be met for any future presentation before the Commission in support of any change in hotel guest telephone surcharge rates. Agreement was reached on such basic data requirements by complainant, the staff, and Pacific Telephone Company, as set forth in Exhibit 29, Section B, prepared by the staff engineering witness and which is entitled "Basic Requirements for Any Future Cost Study in Support of a Filing for Increase of Hotel Guest Telephone Surcharge Rates." Pacific Telephone Company had previously agreed to acceptance of complainant's proposal as to surcharges, subject to reservations as to certain details of the tariff form. The three parties reached agreement on tariff form through late-filed Exhibit 30.

The matter was submitted subject to receipt of concurrent briefs from complainant and staff on the sole issue as to whether or not any portion of the cost of handling incoming calls should be included in the surcharge for outgoing calls. In keeping with its neutral position, Pacific Telephone Company did not file a brief on this issue.^{4/}

The basic issue which is before the Commission at this point is whether or not it can accept as reasonable a stipulation between complainant, the staff and Pacific Telephone Company as to a schedule of maximum permissible surcharges which, in some

^{4/} In the 1953 and 1959 proceedings Pacific Telephone Company had urged that costs of incoming calls be excluded from the surcharge.

cases, would result in increases and in other cases decreases from present tariffs. We find no difficulty in accepting the decreased charges which would be applicable on intrastate toll and multi-message unit calls for calls ranging from 51 cents to \$2.64. We do have difficulty, however, in accepting the increased charge of 2 cents per call over the present 18 cents for local calls, and which would represent a 5-cent increase over the 15-cent charge recommended by the staff's witness. The difficulty arises from the fact that there has been no cross-examination of the opposing testimony of complainant and the staff. The mere fact that parties to the proceeding, without any amendment to the basic testimony, have now agreed upon certain charges does not make those charges just and reasonable. That is a determination and finding that can be made solely by this Commission.

The staff witness made a strong case for the desirability of a simplified schedule of surcharges. The evidence from the questionnaires sent to hotels represented by complainant shows that approximately 55 per cent of such hotels allow guest credit card calls free of surcharge, about 43 per cent charge 15 cents, or less, for local calls, of which 15.5 per cent permit local calls free of surcharge. On intrastate toll calls the questionnaire discloses that about 80 per cent of the hotels apply the maximum permissible surcharges; from 12 per cent to 19 per cent charge less than the maximum, including 5 per cent applying no surcharges, and one per cent to 9 per cent charge

more than the maximum. The questionnaire to hotels not represented by complainant shows even greater variations in application of surcharges. The evidence also indicates that one of the major factors in hotels' failing to collect allowable graduated surcharges on credit card intrastate toll calls, aside from guest resistance, is the necessity of obtaining time and charges on calls which are not billable to the hotels. ✓✓

We fail to see where graduated charges on toll calls are justified. Basically the same amount of operator time is required to connect a toll call regardless of the route or length of call. The small amount of additional time required for operator supervision and the increased time the long distance jacks are tied up on a long call are not, in our opinion, of sufficient weight to offset the advantages of simplicity of the flat rate charge.

Experience has demonstrated the rule that where utility type charges are applied and billed by non-utility personnel the charges must be of the simplest type; otherwise, improper application and discrimination will result. The present instance has proven to be no exception to this rule. From the standpoint of uniform application, non-discrimination and guest acceptance, the evidence points strongly in the direction of support for a straight 15-cent charge on all calls including a 15-cent total charge on local calls, rather than the 20 cents recommended in the stipulation.

The logic of a 15-cent straight charge is enhanced if we consider the nature of telephone services provided by hotels

for their guests, and the reasonable way for hotels to recover costs of those services. At no time that we can discern in this or the two prior proceedings has there been any objection to a surcharge covering the cost of outgoing calls. The issue which has been raised, and which has not been clarified in the past, is whether or not the surcharge on outgoing calls should cover any portion of the cost of handling incoming calls. No evidence was presented on this issue, but since it was briefed by complainant and staff, and since some of the factors involved are common knowledge of which we may take official notice, we believe it will be helpful if we clarify our position on the issue.

Telephone service is just one of the many services hotels provide for the convenience of their guests. Some of these are utility services such as electricity, water and heat and others are non-utility services such as receiving and distributing mail, messages and packages, answering inquiries concerning guests, paging of guests, food and beverage service, valet service, laundry service, elevator service and all services associated with maintaining the hotel lobby, desk and other common facilities. Hotels recover the costs of all these services either through direct charges for the specific services rendered or through charges for rooms occupied. Of the above services direct charges are usually made for only food and beverage service, valet service and laundry service. The features which distinguish these particular services from the others are that the amount and cost of service provided depend upon the requirements and demands of each guest and they are supplied in response

to each guest's specific order. All the other services are of a general nature, or are services which a guest receives as a result of action initiated by another party, so that it is not customary, nor would it be reasonable, to charge for them individually.

Telephone service as provided by hotels is a two-way service which logically may be separated into incoming service which is of a general nature available to all guests and which is initiated by the action of a party other than the guest, and outgoing service which is supplied in response to the requirements and demands of each guest. No specific charges are rendered to the hotel by the telephone utility for incoming service, except for such calls received collect. For outgoing service, however, specific charges are rendered to the hotel by the telephone utility for every outgoing call, except where a hotel has flat rate local service. It is practical to apply surcharges for outgoing calls but not for incoming calls unless they are received collect.

From this analysis of the cost recovery treatment afforded other services, and comparing them with the incoming and outgoing aspects of telephone service, we can only conclude that it is reasonable for hotels to endeavor to recover costs of handling outgoing telephone calls through surcharges placed on outgoing calls and costs of handling incoming telephone calls through charges for rooms occupied.

Complainant takes the position that although the Commission in its prior decisions had indicated that the cost

of handling incoming calls was a cost which management should consider as a part of the hotel's cost of doing business, nevertheless, in the orders establishing rates the Commission had set them at such levels that in most cases incoming call costs were recovered. While this condition may have been approached in the rates set by Decision No. 48171, the rates set by Decision No. 58085 fell substantially short of producing sufficient revenue to meet the combined costs of handling both incoming and outgoing calls. It should be clear that in each of the prior proceedings we considered the factor of costs of incoming calls to the extent we considered to be reasonable on the record then before us. There have been developments in the type of telephone service provided by some hotels since those earlier proceedings, notably the introduction of guest dialing which relieves the guest from reliance upon the hotel switchboard operator for placing outgoing calls. The effect of this development is indicated by the staff's Exhibit 28, wherein the outgoing local call handling costs for six dial hotels is shown to average 5.22 cents per call and for five manual hotels 10.96 cents per call.

Moreover, as recognized by complainant in its brief, the Commission in those prior proceedings was seeking to establish a schedule of charges deemed to be reasonable under the circumstances, without regard to whether or not they actually provided for recovery of any specific portion of the cost of handling incoming calls. Our position on this matter has not changed in this proceeding as we are constrained to set rates which are reasonable after considering all pertinent factors.

A familiar dictum in the setting of reasonable rates is that cost is only one of the factors to be considered. We believe this to be especially true in the present instance where we are considering not rates for a utility, but surcharges which may be imposed upon utility charges by a non-utility. Under these circumstances we believe that the factors of rate design, value of service and customer acceptance should weigh heavily in our consideration. As we have indicated previously, simplicity is of paramount importance in design of the rates we are considering herein. As to value of service and customer acceptance, if the surcharge rates exceed the value of the service, guests will place calls through pay stations or will curtail the use of telephone service. In our opinion a total charge of 20 cents for a local call, where there may be no message charge for the local call or, at most, 5.5 cents including tax, will exceed the value of service for many guests.

As for the consideration to be given cost of service, it will suffice if the level of rates established will cover the cost of handling outgoing calls only. It is clear from the record that a 15-cent surcharge on intrastate toll calls will more than cover the costs of handling such outgoing calls, even on the basis of complainant's unadjusted figures. A 15-cent total charge on local calls will more than cover the total cost of hotels handling such calls, except on the basis of complainant's unadjusted figures, and there it falls short by only 1.27 cents. It could well be that a testing of the evidence by cross-examination would disclose that a 15-cent total charge would be fully adequate.

Under complainant's prayer that we establish just and reasonable rates we would be justified in decreasing the present permissible maximum charge from 18 cents to 15 cents on the basis of the staff's evidence, provided that the competency of that evidence had been proven. This is not the case, however, as the evidence has not been subjected to the critical test of cross-examination. Rather than to reject the stipulation, set aside submission and reopen the matter for further hearing, we are of the opinion that the public interest will best be served and complainant's rights preserved if we leave the maximum, permissible total charge for local calls at 18 cents, which is clearly adequate in the average case to cover the total cost of any outgoing call.

We are mindful that the parties to the stipulation as to reasonable charges took the position that if the stipulation were not accepted by the Commission, further hearings be set. We are of the opinion that further hearings would not produce a result differing in any substantial respect from that presented herein. In any event, the Commission is not bound by the stipulation, and should any of the parties believe that they have been aggrieved by the order which follows, and they desire that further hearings be set for cross-examination and rebuttal testimony, they have access to the remedies which exist under the rules of procedure.

Upon a careful consideration of the entire record as it has been developed in this proceeding, we make the following findings:

1. A simplified schedule of surcharges is required for hotel guest telephone service.

2. Hotels are entitled to recover their reasonable handling costs for guest outgoing intrastate telephone calls through surcharges placed on guest outgoing calls.

3. Hotels are not entitled to recover handling costs for incoming calls through surcharges on outgoing calls, but in some cases the excess of revenues over costs for outgoing calls may contribute to such recovery.

4. A total charge of 18 cents for each guest outgoing local exchange call, including message charge and tax when applicable, will cover reasonable handling costs for such outgoing calls.

5. A surcharge of 15 cents for each guest outgoing multi-message unit or intrastate toll call will cover reasonable handling costs for such outgoing calls.

6. The 15-cent surcharge for multi-message unit or intrastate toll calls should be applicable for guest calls sent paid or received collect and completed through or charged to hotel PBX stations located in guest rooms, regardless of whether the message charge is made to the hotel PBX service, to a credit card, or to another telephone number.

7. Section B of Exhibit 29, sets forth reasonable requirements for any future cost study in support of a filing for increase of hotel guest telephone surcharge rates.

8. The increases in rates and charges authorized herein are justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

Based upon the above findings we conclude that the stipulation between complainant, the staff, and Pacific Telephone Company as to a schedule of maximum permissible surcharges should be rejected and that each defendant utility having on file a schedule of rates and conditions applicable to hotel private branch exchange service should be ordered to modify such rates and conditions to conform with those ordered herein.

The rates so ordered will result in no change from the present 18-cent maximum, permissible, total charge for local calls. For intrastate toll or multi-message unit calls the 15-cent uniform maximum permissible surcharge will result in a 3-cent increase where tariff charges for the call are 50 cents or less, a 2-cent decrease where the charges range from 51 cents to \$1.00, a 7-cent decrease where the charges range from \$1.01 to \$2.00, and a 12-cent decrease where the charge is over \$2.00.

The rates established by this order will be the maximum permissible charges. They may be applied, up to the maximum or not at all, at the discretion of the individual hotels. Perhaps it is not necessary, but it may be helpful, to point out that under these tariffs a hotel may achieve the ultimate in simplicity by establishing a uniform charge of 15 cents or less for all guest outgoing calls whether they are local or intrastate toll. We are of the opinion that such simplicity and uniformity would be salutary to the hotels and to guest usage of telephone service.

We further conclude that any future cost study in support of a filing for increase of hotel guest telephone surcharge rates should meet the requirements set forth in the following order if it is to receive consideration of this Commission.

Complainant's Petition to Set Aside Submission and for Leave to File a Reply Brief is without merit and should be denied.

O R D E R

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 accordance with General Order No. 96-A the revised schedule of rates and conditions attached to this order as Appendix A. The effective date of the revised schedule of rates and conditions shall be September 1, 1965. The revised schedule shall apply only to service rendered on and after the effective date thereof.

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 September 1, 1965, notify each of its subscriber hotels, motels, 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 September 20, 1965, a list of the subscribers so notified.

3. Complainant, or any successor representing a hotel or hotel interests, is put on notice that any future cost study in support of a filing for increase of hotel guest telephone surcharge rates should meet substantially the requirements set forth in Appendix B, attached hereto.

4. Complainant's Petition to Set Aside Submission and for Leave to File a Reply Brief is denied.

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

Dated at San Francisco, California, this 3rd day of AUGUST, 1965.

Frederick B. Holbrook
President

August
William L. Bernard

Commissioners

Commissioner George G. Grover, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

RATES AND CONDITIONS

Modify Rates and Conditions in Schedule for Hotel Private Branch Exchange Service to conform to the following:

Hotel Private Branch Exchange Service is furnished to hotels, motels, clubs, apartment houses and trailer parks under the following conditions:

Subscribers to Hotel PBX Service may make the following maximum charges or any lesser amount to guests, tenants, members and others for sent paid or received collect messages completed through or charged to hotel PBX stations located in guest rooms:

- (1) 18 cents total charge for each outgoing local exchange message (which includes message charge and excise taxes when applicable).
- (2) A surcharge of 15 cents for each multi-message unit message or intrastate toll message which is:
 - (a) Sent paid and billed to a telephone company credit card.
 - (b) Sent paid and billed to telephone service other than the Hotel PBX Service.
 - (c) Sent collect.
- (3) A surcharge of 15 cents plus the tariff charge and federal excise tax for each multi-message unit message or intrastate toll message which is:
 - (a) Sent paid and billed to Hotel PBX Service.
 - (b) Sent paid from a telephone service other than the Hotel PBX Service and billed to the Hotel PBX Service.
 - (c) Received collect.
- (4) Subscribers electing to apply the maximum charges specified in (1), (2) and (3) preceding or any lesser amount, in excess of the filed tariff charge plus federal excise tax, must prominently post a schedule of their charges adjacent to each guestroom telephone, together with the following statement: "The hotel charges shown above are legally authorized."

APPENDIX B

BASIC REQUIREMENTS FOR ANY FUTURE COST STUDY
IN SUPPORT OF A FILING FOR INCREASE OF HOTEL GUEST
TELEPHONE SURCHARGE RATES

- (a) Directly assignable costs must be directly assigned, not allocated. This applies to equipment rental on items of telephone equipment for which usage is not directly shared between management and guest usage. Message charges for all categories of messages would be similarly directly assigned where records permit. In other cases the assignment would be made in accordance with the method discussed under Item (d) following. For such items those directly assignable to management or administrative use should be excluded from any totals to be allocated to guest handling costs. Such items as are directly assignable to management or administrative use should be excluded regardless of the accounting treatment used by hotels.
- (b) Potential revenues under the maximum allowable charges permitted by the tariff in force at the time of the study must be shown, regardless of whether a given hotel elects to collect such maximum charges. Where collection of such charges would result in additional or incremental handling costs, an adjustment to handling costs should be made and supported. Nothing in this statement should be construed as prohibiting the presentation also of the actual expenses and income picture. (There would be incremental costs in the case of a hotel actually allowing free local calls. For example, taking a guest dial hotel, there would be monthly equipment rental for guest room registers, costs of reading those registers, entering readings on room cards, and such other incremental costs as could be reasonably supported. However, in the case of a hotel allowing free credit card calls, the incremental costs of collection would be expected to be minimal for any hotel having TWX Page Report Service or generally for any hotel under the proposed 15¢ flat charge for toll and MMU calls.) Day to day failures to collect charges not included under blanket foregoing of collections by call categories are treated separately under the next item.
- (c) Uncollected potential revenues for all hotels must be shown regardless of whether full collection is accomplished. However, such uncollected potential revenues can be deducted, in the case of surcharges, by a red figure for uncollectibles under "Gross Sales",

APPENDIX B (continued)

(c) (continued)

and in the case of message charges, by an excess of such charges under "Cost of Calls" over those shown as collections from guests under "Gross Sales". Such uncollectibles are a legitimate cost of operation, provided they are held to a reasonable level. However, support for what constitutes a reasonable level should be a part of the report. Uncollectibles on surcharges can be shown in a single red figure line under "Gross Sales", on a schedule of income and expenses as, for example, by Table IV of present study.* These must be detailed and accounted for by call categories and causes elsewhere in the report. Uncollectibles on message charges reflected as an excess of such charges under "Cost of Sales" over those shown under "Gross Sales" must be correctly separated as between Intrastate and Interstate Toll (under both "Gross Sales" and "Cost of Calls") and correctly separated as between local and MMU under "Cost of Calls".

(d) As the basis for the separations mentioned in the preceding section (c) a study must be made for a test period at each sample hotel to determine directly the actual guest chargeable usage in each call category (independent of any peg count traffic study) and the percentage of uncollectibles experienced, together with the itemization of the relative amounts due to each of the principal causes of failure to collect.

Such a study must include a determination of incidence of all non-billable calls (both Intrastate and Interstate). Separation of billable message charges as between Intrastate and Interstate must be made, based generally on the methods used in Chapter 4 of staff Exhibit 11, but where necessary also giving effect to transfer of bulk billed guest MMU from "Cost of Calls" "Local" to "Cost of Calls" "Intrastate Intercity".

(e) Recorded traffic (including non-billable intrastate calls and non-billable interstate calls not shown in traffic records) will be reconciled as being within and reasonably related to the total of calls recorded in any peg count study made for the purpose of determining allocation factors. Call completion rates for each hotel, and ratio of guest incoming calls to guest outgoing calls must also be specifically determined by the traffic count at each hotel. Overall call completion ratios for areas in which the study hotels may be located should be relied upon only where specific completion rates cannot be determined.

* Table IV of present study refers to Exhibit No. 1 in Case No. 7864. Words or phrases in quotes are terminology used in that exhibit.

APPENDIX B (continued)

- (f) Application of the principles outlined in Items (a) through (e) should result in producing adjusted data internally consistent or reconcilable within or between the various tables and schedules of the study. Taking the present study for example, the purpose is to produce consistency between the "Gross Sales" data and the "Cost of Calls" data for each category of calls shown on Table IV, between the outgoing guest call data on lines 11 of Schedules 1 and the message charge data on lines 3 and 4 of Schedules 1. It should also provide consistency or reconcilability as between outgoing messages for the test year shown on lines 11 of Schedules 1 and the "Gross Sales" and "Cost of Calls" data of Table IV. ** In addition, it should provide consistency or reconcilability between outgoing calls for the test year used on lines 11 of Schedules 1 to determine unit costs, and the peg count data of Schedules 3, 4 and 5 used to develop allocation factors. ** Such internal consistency or reconcilability should be a minimum requirement for any future cost study, and the steps outlined in Items (a) through (e) are a minimum program for its attainment.
- (g) Full responsibility for the reasonable accuracy of recorded data and the reasonableness of the adjusted or estimated data furnished by hotels should be clearly assumed by the person or persons making the cost study. All such data should be fully and carefully evaluated and not accepted at face value.
- (h) The report must contain a statement of the nature of telephone operations at each study hotel, giving sufficient detail to permit determination of whether MMU calls are or are not dialed by the PBX operator, and, what sort of tickets must be prepared by the PBX operator, and for what types of calls handled. The statement should be complete enough to permit determination of the reasonableness of totals obtained for the peg count period, (as between switchboard and guest dial), proper inclusion or exclusion of ticket writing in the schedules developing allocation factors, and proper application of coefficients in those schedules.
- (i) All handling cost figures allocated to guest usage must be separated as between outgoing and incoming call costs.
- (j) Percent room occupancy for each study hotel must be included in the report as follows:
- (1) By months for the test year.
 - (2) By days for the period of any peg count or other special study period.

** Table IV refers to Part 1 of Exhibit No. 1 and Schedules 1, 3, 4 and 5 refer to Parts 2 and 3 of Exhibit No. 1 in Case No. 7864. Words or phrases in quotes are terminology used in that exhibit.

APPENDIX B (continued)

(j) (continued)

Data on number of guests accommodated must also be provided on the same basis as percent room occupancy. For hotels not regularly compiling this data it would be provided at least for any peg count or other special study period. This portion of the report should also give the number of available guest rooms and the basis for computation of occupancy percentages at each study hotel.

(k) All hotel records pertinent to the data of the report will be retained by the hotels and/or the agency making the cost study from the beginning of the test year used, to submission of the matter to the Commission. Records to be retained include, but are not necessarily limited, to the following:

- (1) Local call vouchers (including all vouchers whether or not collection was effected) for representative sample periods in the test year and, in particular, for any period of special study on collections, chargeable guest usage, or peg count traffic studies.
- (2) Records of guest register readings and rebate forms under the same conditions stated for local call vouchers.
- (3) TWX vouchers and traffic sheets under the same conditions stated for local call vouchers. The telephone company will be requested to retain TWX transmission sheets for the same time periods. Study hotels not having TWX page reports and not normally writing traffic sheets should log all chargeable traffic during peg count or other special study periods and retain such records.
- (4) Telephone billings including Interstate Toll Commission Detail forms for the entire test year, and for the billing round, including the days of any special study on guest chargeable usage, or peg count traffic study.
- (5) Equipment rental breakdowns to be requested from the telephone company long enough in advance of the study, furnishing sufficient detail to provide positive identification of all items provided for exclusive management or administrative use. This data should, of course, be retained.

APPENDIX B (continued)

- (l) The report must include average guest room rental charges for the test year and for the year of the last previous study (whether or not the same study hotels are involved).
- (m) Other income items in the telephone department provided for under the Uniform System of Accounts for Hotels, and in particular, pay station commissions should be included in the study. If the position taken in the study is that such income should not be included as telephone department income, support for that position can, of course, be adduced. The amounts for each study hotel should, however, be reported as a part of the study.
- (n) Hotels should make every reasonable effort to reduce guest telephone handling costs, and to assure the most equitable and effective collection of guest surcharges (at whatever permissible level of charges is nominally adopted by each hotel). Any future study must set forth the policies followed by each of the test hotels with regards to the means of realizing these objectives.
- (o) With reference to hotels showing unusually high unit costs, the statement of the preceding item (n) applies with additional emphasis. Inclusion of such hotels in any future group of study hotels can be justified only if particular effort is applied to them to determine the following:
- (1) Whether the costs reported are valid.
 - (2) Whether the number of messages processed for the test year in each category has been correctly determined.
 - (3) Whether collection practices are effective and equitable.
 - (4) What efforts have been made by the hotel to reduce its handling costs and increase the effectiveness of its collection practices. It is noted that the unit costs shown in Table 1 of Exhibit 1 for certain study hotels are at a level obviously far beyond effective relief through increase of guest surcharges.
- (p) Extension of sampling beyond the limited group of hotels, selected for intensive detailed cost study, to other hotels broadly, with respect to experience and practices under the surcharge tariff in force, was made in the present proceeding at the request of the staff. Such extension should be a part of any future study. (Ref.: Exh. 11, Chapter 3 and Appendix Pages A-1 through A-7).
- (q) In any future cost study a statement should be included showing the number of Association member hotels and the number of the member hotels which indicated they have had a full schedule of surcharge rates continuously

APPENDIX B (continued)

(q) (continued)

posted, in a conspicuous manner in guest rooms, with an indication as to the period it has been so posted.

(r) In all future studies, the term "Intrastate Toll and MMU" must be substituted for "Intercity Intrastate".*** The "and MMU" portion can be omitted in most references, and understood to be included where applicable.

*** The term "Intercity Intrastate" is that used in Exhibit No. 1, Case No. 7864.