

ORIGINAL

Decision No. 71350

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE
AND TELEGRAPH COMPANY, a corporation,
for authority to increase certain
Business and Residence Connection
and Move and Change Charges and to
Establish Installation Charges for
Seven Key Telephone Service Features
applicable within the State of
California.

Application No. 48643
(Filed July 20, 1966)

Arthur T. George, for applicant.
Helen Nelson, for consumers; Robert S. Teaze, for the
City of San Diego; Ralph Hubbard and W. L. Knecht,
for the California Farm Bureau Federation; Roger
Arnebergh and Robert W. Russell, for the City of
Los Angeles; George Slaiff, for the City of Beverly
Hills; Thomas M. O'Connor by Robert R. Laughead,
for the City and County of San Francisco; Robert E.
Burt, for California Manufacturers Association;
Richard E. Saladana, in propria persona; Orville
Wright, in propria persona; James P. Jackson, for
the City of Sacramento; H. Cushman Dow, for
General Dynamics Corporation, interested parties.
John Ozenberger, for Contra Costa Economic Opportunity
Council, Richmond CORE and the West Contra Costa
Liberal Democratic Club; Barbara Penney and Jim
Libary, for Economic Opportunity Council, protestants.
V. V. MacKenzie and Parke L. Boneysteele, for the
Commission staff.

O P I N I O N

The Pacific Telephone and Telegraph Company, by the
above-entitled application, seeks authority to increase certain
of its rates which would result in approximately \$6,100,000 in
additional gross revenue annually.

Public hearing of this matter was held in San Francisco August 22 and 23, 1966, before Commissioner Mitchell and Examiner Howard with Commissioners Grover and Bennett also sitting. The matter was submitted on the latter date, after closing statements were made by the parties present, but subject to the right of other appearances, not present at termination of the hearings, to file written closing statements within ten days thereafter. Subsequently, closing written statements were received from the Cities of San Diego and Beverly Hills and from Richard E. Saladana, who appeared for himself.

During the course of opening statements by the parties, a motion to dismiss this proceeding was made by a Mr. Wright, an attorney also appearing for himself. It was based upon his stated belief that all issues involved in this application were already under consideration in Case No. 7409 (a pending investigation of the operations of Pacific) and should be determined in that matter. He requested too that the staff of the Commission be directed to present in this proceeding its liberalized depreciation study previously prepared in connection with said case. The City of Beverly Hills, through its representative, joined in the motion to dismiss. It was taken under advisement. To support the motion its proponents suggested that if applicant were to accept the option offered by Section 167 of the Federal Internal Revenue Code and thus to adopt liberalized depreciation, it would be unnecessary for Pacific to seek the increases herein because it would have greatly augmented earnings. It was urged that applicant be treated as though it were taking accelerated depreciation.

The Commission by Decision No. 59926 in Case No. 6148, issued April 12, 1960, 57 Cal. PUC 598 at 602, said:

"In this decision we do not reach the matter of the claimed duty of a public utility to avail itself of liberalized depreciation for the purpose of diminishing its income tax liability and thus lessening the burden upon its rate-payers. Surely, a reasonable argument in support of that contention could be made. As a general proposition, it is a matter to be determined in the first instance by the management of a public utility as to whether or not liberalized depreciation will be availed of or whether straight-line depreciation will be used."

Pacific has not elected to use liberalized depreciation for reasons of managerial judgment which to it seem compelling. The depreciation issue was raised by a motion in Case No. 7409 and is under submission therein. This is true also of the question of pension accruals. Therefore, it is concluded that the motion to dismiss and the request for the staff study should be and they are denied.

A written statement objecting to the relief sought herein and seeking consolidation of this application with several other matters was filed by the Utility User's League of California, et al, prior to the hearing. No one appeared at the hearing for the League, and the matters with which consolidation was sought have either been disposed of or are submitted. No useful purpose for consolidation is shown. The motion to consolidate is denied.

It is applicant's position that Decision No. 67369 issued June 11, 1964, in Case No. 7409, after ordering reductions and refunds, found a rate of return of 6.30 per cent to be fair and reasonable for its intrastate operations. The refunding period eventually prescribed in that case was July 1964 to June 1965, with the prescribed rates applied to billings commencing in June 1965 and

continuing thereafter. Pacific avers that it has attempted to improve its earning position during this period of over two years but has been unable to realize the return the Commission anticipated would be made.

Pacific introduced three exhibits by separate witnesses to show: Results of total California operations for the year ended April 30, 1966 (Exhibit 1); Results of California intrastate operations for the year ended April 30, 1966 (Exhibit 2); and Estimated revenue effects of proposed rate changes (Exhibit 3). The intrastate rate of return of applicant for the 12 months ending April 30, 1966 is shown to be 5.46 per cent on a reported basis and 6.19 per cent adjusted to the Decision No. 67369 basis. The increase proposed herein would bring the rate of return up to 6.30 per cent by realizing some \$3,042,100 from new installation charges to be assessed on seven key telephone features and approximately \$3,059,100 from increases in reconnection charges to the same level as new service connection charges and an increase in the present \$4 charge for extensions, moves, changes and PBX stations to the level of \$5.

The Commission's staff made a study of applicant's proposal and presented the results in a report (Exhibit 5) supported by the testimony of two witnesses. Appendix A of this exhibit compares the reported results and as adjusted by Decision No. 67369 for the year ended September 30, 1962, as well as the reported results for the year ended April 30, 1966, and as adjusted to the Decision No. 67369 basis. The results shown for the earlier period are prior to the \$40,700,000 rate reduction ordered in Decision No. 67369, but the results for the later time span reflect such rate changes. The effect of the rate-making adjustments on the two periods shows:

	Rate of Return	
	12 Months Ended 9-30-62	12 Months Ended 4-30-66
Results as Reported	6.69%	5.46%
Decision Rate-making Adjustments	.54	.73
Results on Rate-making Basis	7.23	6.19

Applicant's proposed rates are shown in more detail in Exhibit 3. The present primary service connection charge, if a disconnected telephone instrument is in place, is \$4; but if no telephone instrument is on the premises, the charge is \$7 for residence and \$10 for business service. Pacific proposes to increase the \$4 charge for instruments in place, so that all primary service connections would be \$7 for each residence and \$10 for each business.

Presently, no installation charge is applicable to seven key telephone service features. Applicant proposes to assess a \$1 installation charge per station for pickup, holding and manual cutoff. Also, a \$3 charge is proposed for visual signals, winking hold, intercommunicating lines and automatic exclusion.

Applicant's estimate of the expenses related to the service connections greatly exceeds the proposed charges. The staff in Exhibit 5 compares such estimated expenses with the proposed increases and shows that most of the suggested charges would be less than one-half the estimated expenses. The following is an illustrative tabulation:

	<u>Proposed Charge</u>	<u>Expense</u>	<u>Proposed Charge Related to Expense</u>
Residence Main Station in Place	\$ 7.00	\$21.00	33%
Business Main Station in Place	10.00	21.00	48
Residence Extension	5.00	9.00	56
Business Extension	5.00	8.00	63
PBX Station	5.00	8.00	63
Residence Moves	5.00	15.00	33
Business Moves	5.00	20.00	25
Residence Change of Instrument	5.00	12.00	42
Business Change of Instrument	5.00	14.00	36

The existing business and residence rate for reconnections, extensions and move and change charges has been in effect for more than 12 years. From the above comparison it is seen that the proposed charges fall far short of offsetting the expenses incurred by Pacific.

Applicant's Exhibit 2 shows its estimates of revenues, expenses, average net plant, cash and materials and supplies adjusted to the Decision No. 67369 basis. Summarized said exhibit represents the earnings position of Pacific to be as follows:

12 Months Ended April 30, 1966			
	At	Effect of	At
	Present	Proposed	Proposed
	Rates	Rates	Rates
(Thousand of Dollars)			
Revenues	\$1,100,497	\$6,101	\$1,106,598
Expenses and Taxes	934,816	3,126	937,942
Balance Net Revenues	165,681	2,975	168,656
Average Net Plant and Working Capital	2,677,171	-	2,677,171
Per cent Return	6.19%	-	6.30%

The staff exhibit confirms the above operating results and earnings level. It shows also that a gross revenue increase of \$6,100,000 is required by Pacific to achieve the 6.30 per cent return last found reasonable in Decision No. 67369.

The Cities of Los Angeles, San Francisco and San Diego, the California Farm Bureau Federation, the California Manufacturers Association and the General Services Administration of the Federal Government who are usually appearances in rate increase applications of Pacific, not only announced they had no opposition to the requested relief but the three cities and Mr. Saladana made statements in support of the proposed increases sought.

The appearance for the Economic Opportunity Council of Contra Costa County expressed concern that the proposed increase would affect more people in the low income group than it would others. The California Consumer Counsel questioned the advisability of increasing the reconnection charge from \$4 to \$7. It would be impossible to design any increased utility rate which would not cause some users to pay more than they had before. The record shows that the California Manufacturers Association estimated that approximately 62 per cent of the anticipated increases would fall on the business community. A company witness testified that 85 per cent of all families have telephone service and he would expect this percentage to be a cross section of all income levels to whom the proposed rates would apply. All of the rates proposed to be raised are one-time charges, not recurring monthly rates, and for this reason do not affect all telephone subscribers and may never do so.

The written closing statement of the City of Beverly Hills opposed the increases sought by applicant on the ground that a specific rate of return is not guaranteed by the Commission to a public utility. This is true of course. However, the Commission reduced applicant's rates when it found them to be too high, by

Decision No. 67369. Therein a rate of return of 6.30 per cent was found to be reasonable. To be fair, if Pacific is not able to realize such rate of return, authority to seek additional revenues should be granted and the method least onerous to telephone users should be adopted. The proposed plan seems best designed to accomplish this objective.

In the exhibits relating to Pacific's earnings, certain increases in Social Security taxes have been reflected for only four months inasmuch as they became effective January 1, 1966 and the test period used in the exhibits is the year ending April 30, 1966. Annualization of these tax increases would show Pacific's present earnings at an even lower level than 6.19 per cent. The amount involved, however, is approximately the same as the increases involved in Pacific's Application No. 47895 (Telpak) and Application No. 48250 (private line); accordingly, we have made no adjustment herein for the full-year effect of this additional expense.

After full consideration of the record herein the Commission finds that:

1. Applicant's rate of return for the year ended April 30, 1966, on total intrastate operations adjusted to the Decision No. 67369 basis was 6.19 per cent.
2. Applicant's proposed rates would increase its gross revenue by \$6,100,000, at the year ending April 30, 1966 level of business.
3. Applicant's total intrastate rate of return would not be more than 6.30 per cent at proposed rates.

4. Applicant's proposed rates are justified and are at a reasonable level, and present rates insofar as they differ from those herein prescribed for the future are unjust and unreasonable.

The Commission concludes that applicant should be authorized to file and make effective the rates proposed in its application and as set forth in detail in Exhibit 3 herein.

O R D E R

IT IS ORDERED that on or after the effective date of this order, The Pacific Telephone and Telegraph Company is authorized to file with this Commission in conformity with the provisions of General Order No. 96-A revised schedules with changes as described in the application and as set forth in Exhibit 3 in this proceeding, and upon not less than five days' notice to this Commission and to the public to make said rates effective for customer applications received by applicant on and after such effective date.

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

Dated at San Francisco, California, this 14th day of
OCTOBER 1966.

[Signature] President
George J. Grover
Friedrich B. Hilchhoff
Regulator
[Signature] Commissioners