

Decision No. 74917

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of THE PACIFIC TELEPHONE AND
TELEGRAPH COMPANY, a corporation,
for authority to increase certain
intrastate rates and charges
applicable to telephone services
furnished within the State of
California.

Application No. 49142
(Filed February 10, 1967)

Investigation on the Commission's
own motion into the rates, tolls,
rules, charges, operations, separa-
tions, practices, contracts,
service and facilities of The
Pacific Telephone and Telegraph
Company.

Case No. 8608
(Filed March 14, 1967)

Investigation on the Commission's
own motion into the rates, tolls,
rules, charges, operations, separa-
tions, practices, contracts,
service and facilities of the
telephone operations of certain
telephone corporations.

Case No. 8609
(Filed March 14, 1967)

Tom C. Carrell and Petitioners,

Complainants,

vs.

California Water and Telephone
Company, General Telephone Company
of California, a corporation, and
The Pacific Telephone and Telegraph
Company,

Defendants.

Case No. 8690
(Filed September 20, 1967)

(Appearances and a list of witnesses are
set forth in Attachment 1 hereto.)

O P I N I O N

Nature of Proceedings

The Pacific Telephone and Telegraph Company,^{1/} a California corporation, filed Application No. 49142 on February 10, 1967, seeking authority to increase rates and charges for telephone service, rendered by it in the State of California, by approximately \$181,356,000 annually on the basis of its estimated operations for the calendar year 1967. Pacific is a Bell System affiliate. Its operations are both interstate and intrastate. A wholly-owned subsidiary operates in the State of Nevada. This rate increase application pertains only to its operations within the State of California.

An investigation of Pacific and its operations was instituted on the Commission's own motion as Case No. 8608 on March 14, 1967. On the same date an investigation of those California telephone utilities which interconnect with Pacific was instituted on the Commission's own motion as Case No. 8609. The general purposes of these two cases are to provide ready means and legal vehicles by which matters ancillary to, or not otherwise covered by, Pacific's application, but affecting either the public interest or the operations of the interconnecting independent telephone companies, might properly be placed before the Commission coincident with the consideration of Pacific's application.

On September 20, 1967, State Senator Tom C. Carrell and 29 others filed a complaint, assigned Case No. 8690, against

^{1/} Sometimes hereinafter referred to as Pacific or as Pacific Telephone.

California Water and Telephone Company^{2/} and General Telephone Company of California^{3/} and against Pacific, in essence challenging the reasonableness of the differences in the rates of the defendants in their adjacent territories and requesting that the Commission establish equal rates for comparable services within adjacent areas of the defendants, as contemplated by the 1963 amendment to Section 728 of the Public Utilities Code.

The four matters, Application No. 49142 and Cases Nos. 8608, 8609 and 8690 were consolidated for purposes of public hearings and decision.

Public Notices

In compliance with Rule 24 of the Commission's "Rules of Practice and Procedure", Pacific within ten days after filing its application notified the State, and each County and each City within its serving area, in general terms, of its rate increase proposal. In addition, it published similar notifications in 303 California newspapers of general circulation within its territory.^{4/}

The Secretary of the Commission on February 27, 1967, gave notice that a prehearing conference would be held in the Commission's offices in San Francisco on March 22, 1967. Such notice was mailed to all then known, or thought to be, interested parties. Over 100 persons, including appearances for 47 parties, attended said prehearing conference. Announcement was made as to the specific dates of the first six days for public hearings and as to the general scheduling through November 1967.

^{2/} California Water and Telephone Company was merged into General Telephone Company of California as of August 31, 1967.

^{3/} Sometimes hereinafter referred to as General or as General Telephone.

^{4/} The Commission is aware that Pacific also made a number of "news releases" available to news media, including newspapers, radio and television, on various facets of its application.

On March 23, 1967 the Commission formally gave "notice of hearing" to 94 known parties and caused publication of said notice to be made in 306 California newspapers.^{5/} Thereafter, and continuing throughout the course of the public hearings, the Commission's regularly published daily calendar for eleven months carried notice of specific hearing dates and locations, generally with the dates and locations specified several weeks in advance. In addition, announcements of future dates were regularly made from the bench by the presiding officer.

The public press covered every day of hearing.

Public Hearings

After due notice, 82 days of public hearings in these matters were held during the period April 19, 1967 and January 25, 1968; 62 days in San Francisco and 20 days in Los Angeles. The assigned Commissioners were Peter E. Mitchell and William Symons, Jr. The assigned Examiner was F. Everett Emerson. Receipt of evidence came to an end on January 31, 1968 when late-filed Exhibit No. 206 was received. Concurrent opening briefs were filed on March 11 by 20 appearances and concurrent closing briefs were filed on March 26, 1968 by 15 appearances and the matters stand submitted as of the latter date.^{6/}

In the course of this proceeding 83 witnesses testified and 221 exhibits (including 16 revised or supplemental exhibits) were received in evidence. The reporters' transcripts of the record contain approximately 12,620 pages in 86 volumes.

^{5/} "News releases" concerning the prehearing conference and concerning the start of hearings were also issued by the Commission and the Commission is aware that they found wide dissemination through the various news media in the State.

^{6/} In addition 1 opening and 3 closing briefs, including that of the California Farm Bureau Federation, were filed after such date and have been fully considered by the Commission.

Petition for Proposed Report

In accordance with Rule 78 of the Commission's Rules of Practice and Procedure, the City of Long Beach, the City of Los Angeles, the City of San Diego and the City and County of San Francisco, on December 8, 1967, filed a joint petition for a proposed report, contending that (1) the proceeding is one of complexity, with a large number of parties holding a variety of views on numerous issues and that all parties should be accorded "an actual, not a technical", opportunity to represent their particular requests to the Commission through the "exceptions" procedures, (2) the proceeding is the most significant in the history of state regulatory commissions; it has an unprecedented number of issues; the Commission should have the assistance of all parties in pinpointing specific issues; large sums of money are involved; briefs might be forthcoming from only the major participating parties; individual Commissioners cannot otherwise be provided with the particular position of each party except through such a report and the "exceptions" procedures applicable thereto, and (3) the final disposition could result in rate increases of major economic impact and that a proposed report is certain to be of unusual importance to a significant portion of California citizens.

As hereinabove noted, the public hearings were terminated on January 25, 1968. All parties were then accorded 45 days in which to prepare opening briefs and an additional 15 days for the preparation of closing briefs. Twenty-one parties filed briefs and a number of the briefs are voluminous. All parties have been accorded an equal and full opportunity to inform the Commission. While the magnitude of the rate increase requested is the largest

ever presented to the Commission, the issues, as hereinafter discussed, involve principles of rate making, uninfluenced by the dollar sign.

The proposed report procedure contemplated by Rules 79, 80 and 81 is most appropriate when briefs and suggested findings are not presented. Where, as here, thorough briefing of the issues has occurred, the exceptions and replies to exceptions would be redundant of matters on which the Commission has already been extensively informed. We see nothing to be gained, in this instance, by such a procedure.

The petition for a proposed report is hereby denied.

Background Information and Introductory Comments

The operations of Pacific Telephone have been analyzed by this Commission on numerous occasions. In the years since World War II, Pacific has prosecuted a series of rate increase requests, changed serving arrangement requests and tariff filings involving increases in rates which have occupied the Commission and its staff almost continuously. Commission records show that in the period 1946-1967, more than 200 formal proceedings pertained to or resulted in establishing new rates or in authorizing increased rates and charges for telephone services rendered by Pacific. During the same period Pacific's tariff filings and contracts which increased rates or charges and which were authorized by Commission resolution, totaled approximately 2853. Tariff filings by which rates have been reduced because of base rate area, special rate area or exchange expansions have totaled 948. Pacific has also been before the Commission in 17 formal proceedings involving its financing during this same span of years.

Major rate cases, those having statewide influences, have included 10 applications by Pacific Telephone and one exhaustive investigation^{7/} undertaken on the Commission's own motion.

The Commission last analyzed the operation of Pacific Telephone in Case No. 7409, instituted on July 26, 1962 and after 51 days of public hearing the Commission issued an interim decision therein on June 11, 1964.^{8/} Pacific appealed this decision to the Supreme Court. Challenged, among other things, were certain "disallowances" in rate base and expenses, including those adjustments pertaining to purchases from Western Electric, credit received from Western Electric, license fees paid to its parent American Telephone and Telegraph Company, working cash as an element of rate base, the effect of the California Bank and Corporation Franchise Tax, remaining-life depreciation, pension fund accruals, property held for future use, donations and contributions, legislative

^{7/} Case No. 7409, instituted July 26, 1962, in which an interim order was issued on June 11, 1964 and a final order was issued on November 23, 1966.

^{8/} Decision No. 67369.

advocacy, investment tax credit, supervisory salaries and post-test-period adjustments. Each of these subjects was specifically reviewed by the Supreme Court. On every one of them, the court clearly sustained the Commission's application of the principles involved.^{9/}

Following the interim decision, above mentioned, an additional 56 days of public hearing were held on the general subject of rate spread and a final decision in the proceeding was issued on November 23, 1966.^{10/} Exchange rates authorized therein went into effect on January 1, 1967, toll rates on January 30, 1967.

Pacific's application herein, filed February 10, 1967, again challenges all those rate-making principles affirmed by the Supreme Court and proposes a rate spread or rate pattern completely at odds with that which the Commission had specified so few weeks earlier and which the Commission had followed in specifying Pacific's rates for at least 20 years.^{11/}

^{9/} Pac. Tel. & Tel. Co. v. Public Util. Com. (April 28, 1965)
52 C2nd 634-680.

^{10/} Decision No. 71575.

^{11/} Briefly stated, Pacific adheres to the number of available stations and a statewide approach as the basis for all of its rate proposals and wholly ignores the element of costs; a rate philosophy repeatedly rejected by the Commission.

In this proceeding, Pacific has placed emphasis by evidence and argument on the issues of (1) rate of return, (2) Western Electric purchase and expense adjustments, (3) State income tax, (4) pension expense, (5) accelerated depreciation and (6) settlements respecting independent company toll. These subjects it terms "contested issues" and its greatest efforts were directed to them.^{12/} On these major subjects, Pacific's evidence, however, shows changed circumstances respecting only rate of return (its earnings). It will be analyzed hereinafter but before analyzing rate of return, we shall once again, although briefly, review certain aspects of the subject of the "Western Electric adjustments"; for the testimony of Pacific's witnesses, rather than being persuasive that the Commission has erred in the past, substantially reinforces all that the Commission has heretofore said on the subject, and makes it abundantly clear that there exists an alter ego relationship which so controls the price-setting, profit-making situation of Western Electric and the Bell System, including Pacific, that this Commission would be derelict in its duty to protect the public interest in California if it did not make these adjustments.

Western Electric Adjustments

Regarding the Western Electric adjustments, it is clear that Western Electric, like Pacific, in reality is no more than a department of the Bell System.

^{12/} Pacific concedes nothing with respect to the other subjects hereinabove mentioned as having been affirmed by the Court but, rather, urges the Commission to reject all of its long-adhered-to principles (Pacific's opening brief, page 7).

Indeed, the primary thrust of Pacific's most relied-upon witnesses on this subject of Western Electric adjustments, who testified at great length upon the "vertically integrated" operations of the Bell System, was that the interests of each element are subordinated to the benefit of the whole.

As to Western Electric's price settings and profits, perhaps the most significant statements in the testimony, in the light of the fact that Western Electric is an unregulated enterprise, were made by the Director of Corporate Analysis in the Regulatory Matters Division of Western Electric who stated: "It is our concern that the prices we set and the profits we realize be accepted as reasonable by a regulatory commission such as this. And this is a primary consideration in the level of prices that Western sets to the Bell Companies".^{13/} This witness also stated: "As we've been through here, Western Electric Company feels itself under an obligation to maintain its prices at a level that will produce earnings that are acceptable to regulatory commissions. So we did reduce prices during the period with this in mind".^{14/} He further agreed that Western Electric has the power to raise or lower its prices to affect rate of return and has used this power when conditions warranted.^{15/} The same witness stated that "price reasonableness sets the floor and that the regulatory climate sets the ceiling".^{16/} It is readily apparent that Western Electric

^{13/} TR 3913, line 24 through 3914, line 2.

^{14/} TR 4017, lines 6 through 11.

^{15/} TR 4022, lines 9 through 14.

^{16/} TR 4257, line 11 through 4258, line 8.

prices substantially determine the plant investment of Pacific and that that plant cost becomes as high as Western Electric feels it can charge in the light of its knowledge of the regulatory climate in which American Telephone and Telegraph Company and its various owned or controlled subsidiaries, including Pacific, may operate.

All of the Western Electric adjustments made by the Commission staff reflect well-tested and proper principles, affirmed by the Supreme Court. Based on the record herein, they are fair and reasonable; they will be adopted, and adjusted only to reflect the rate of return hereinafter found to be reasonable. The Commission is of the view, however, that more definitive information on the manufacturing costs and prices of Western Electric items and also on the effects and treatment of State tax expense computations is desirable and hence, for such purposes, the Commission will, coincidentally herewith, issue an order of investigation concerning such subjects. ✓

Results of Operations

Pacific selected as a "test year" and based its showing respecting the results of its operations on the "estimated year 1967". The Commission staff also used the same estimated period for its showing. Only these two, Pacific and staff, presented complete showings respecting the results of operations. The following tabulation summarizes the exhibits relating to Pacific's intrastate operations.

The Pacific Telephone and Telegraph Company
Intrastate Results of Operations
Estimated Year 1967

AT PRESENT RATES:	<u>Pacific</u> ^(a)	<u>Staff</u> ^(b)
Operating Revenues	\$1,241,107,000	\$1,242,900,000
Operating Expenses	1,077,674,000	1,070,800,000
Net Revenue	163,433,000	172,100,000
Rate Base	2,979,579,000	2,894,800,000
Rate of Return	5.49%	5.95%
AT PACIFIC'S PROPOSED RATES:		
Operating Revenues	1,409,863,000	1,422,600,000
Operating Expenses	1,162,407,000	1,163,600,000
Net Revenue	247,456,000	259,000,000
Rate Base	2,964,079,000	2,894,800,000
Rate of Return	8.35%	8.95%

(a) From late-filed Exhibit No. 206.

(b) From Exhibit No. 185.

Since Pacific's plant in California is used to furnish both interstate service and intrastate toll and exchange service, it is necessary to separate its revenues, expenses and plant between intrastate and interstate operations. The exhibits from which the foregoing tabulations have been extracted are based upon a separation plan, now generally known as the FCC Plan, reaffirmed by the Federal Communications Commission on January 26, 1968,^{17/} and thus reflect the current methods of separations. Pacific acceded to such plan, for the purposes of this rate proceeding, on the last day of hearing,^{18/} having previously adhered to a plan proposed by its parent.

With respect to its intrastate operations for the estimated year 1967, Pacific has stated that it accepts the staff

^{17/} FCC Docket No. 16258; original adoption of its plan was by order issued July 5, 1967.

^{18/} TR 12523, lines 11 to 19.

adjustments to its estimates of revenues, expenses and rate base (not including "rate-making adjustments", however) on the basis that the staff had later information than had Pacific.^{19/} Under this acceptance and with the FCC separations method, the figures for the 1967 estimated year, usable on a common basis without rate-making adjustments, are as follows:

1967 Estimated Intrastate Operations
Before Rate-Making Adjustments
(Present Rates)

Operating Revenues	\$1,242,900,000
Operating Expenses	1,080,156,000*
Rate Base	2,970,770,000*

* Column e and column u, Exhibit No. 196.

With respect to the revenues shown in the foregoing tabulation the record shows that Pacific, during the course of this proceeding, was authorized to place into effect a new "deposit rule" by which its uncollectibles during the test year would be reduced by an estimated \$2,900,000. The arithmetical effect is to increase its operating revenues by such amount and to increase its operating expenses by \$1,498,000. When these two amounts are properly reflected, the foregoing "common basis" figures become:

Operating Revenues	\$1,245,800,000
Operating Expenses	1,081,654,000
Rate Base	2,970,640,000

The staff "rate-making" adjustments to these last summarized items cover: working cash, legislative advocacy, dues and donations, general services and licenses, pay TV, property held for future use, plant acquisition, investment credit, Western

^{19/} Adjustments shown on Exhibit No. 196, column d; position stated at TR 11779, lines 19 to 25.

Electric prices, remaining-life depreciation, relief and pensions, California tax for separate return, and Western Electric credit. As hereinbefore discussed, Pacific did not seriously contest any of these items except those pertaining to Western Electric, State taxes, pensions and depreciation. In fact, it presented no evidence respecting "disallowances" of any but these last four items.

With respect to the principles involved in these "disallowances", we have hereinbefore pointed out that each has been tested before the Supreme Court. The evidence is in no way convincing that any heretofore applied principle should now be cast aside; only the dollar amounts have altered and in each instance the record clearly establishes that the staff calculated amounts have been properly determined. We specifically find that the staff adjustments made for (1) Western Electric prices, credit and expense, (2) the State tax expense computation based upon an unaffiliated corporate return concept in order to relieve California ratepayers of the burden of assuming taxes on AT&T's holding company functions, (3) relief and pension fund accrual interest assumptions reflecting present-day interest rates and (4) the use of the straight-line remaining life method of depreciation accounting are, for the rate-making purposes of this proceeding, fair and reasonable.

It will be noted that thus far we have made no finding as to the general reasonableness of the amounts of income taxes included in either Pacific's or the staff's presentation as summarized in the foregoing tabulations. We shall now turn to such subject.

Income Taxes - Accelerated Depreciation - Flow Through

The staff and The Cities have joined in urging that Pacific's income tax expense be computed on the assumption that Pacific uses accelerated tax depreciation and that the tax saving resulting therefrom be "flowed through" to the benefit of Pacific's ratepayers. Twelve witnesses in this proceeding offered observations on this subject; seven for Pacific, four for the staff and one for The Cities. The issue has been lengthily briefed. A full record has now been developed on this issue.

Since 1954, Section 167 of the Internal Revenue Code has given corporations an option to use straight-line depreciation or to use accelerated depreciation for income tax purposes. Pacific, as does the rest of the Bell System, uses the straight-line method for tax purposes as well as for book purposes. Its policy is exactly that of its parent. It refuses to use an accelerated method and is adamant in its position that the election not to use accelerated depreciation is one of management prerogative alone and, further, that there is no basis in law for this Commission to upset management's judgment.

Pacific is now, and for some years past has been, one of the few major public utilities in California which neither avails itself of accelerated depreciation for income tax purposes nor flows through to net income the initial-year tax savings resulting from its use of the investment tax credit.^{20/} The record shows that for the period 1954-67 Pacific's taxes would have been \$225,000,000 less if it had used accelerated depreciation for the entire period.^{21/} Stated another way, Pacific's ratepayers might have had

^{20/} The latter is now specified by this Commission's Decision No. 71115, in Case No. 4923, issued August 16, 1966.

^{21/} TR 2498, lines 9-12.

to pay some \$450,000,000 less if Pacific had availed itself of the lawful option of using accelerated depreciation for tax purposes during this same period. If Pacific had used accelerated depreciation throughout the period, the tax saving in the test year 1967 alone would have amounted to \$27,400,000^{22/} with a resulting savings effect on gross revenues of approximately \$57,000,000. The issue thus is not only a matter of principle and law but one of considerable dollar magnitude.

Much of the testimony of Pacific's witnesses was to the effect that there is no tax "savings" involved, only a tax "deferral". Pacific has apparently now abandoned such position, however, for when discussing possible future effects of a withdrawal of the federal option it states: "In final analysis, and from Pacific's standpoint, it matters not at all whether the product of accelerated depreciation is denominated a 'tax savings' or a 'tax deferral'."^{23/} In any event, the evidence clearly indicates and the Commission finds it to be a fact that a true tax saving does result from the use of accelerated depreciation and will continue to result for at least as long as plant additions equal or exceed plant retirements. The courts as a matter of law have similarly so found.^{24/}

^{22/} TR 2499, line 7.

^{23/} Pacific's opening brief, last sentence on page 79.

^{24/} See: Alabama Tennessee Natural Gas Co. v. FPC, 359 F.2d 318, 328, 336 (5th Cir 1966); certiorari denied 355 U.S. 847. See also: Midwestern Gas Transmission v. FPC, 388 F.2d 444 (7th Cir, January 5, 1968); certiorari denied 20 L.ed 2d 1386 (June 17, 1968).

Both the short-run and the long-run capital requirements of Pacific have been analyzed by Pacific's witnesses. Without exception they foresee continuing growth of plant, one witness seeing a doubling of plant in the next 10 years^{25/} and a compounding of growth over the next 20 years.^{26/} In view of such testimony there can be no question that Pacific's plant additions will exceed retirements for many years to come.

The establishment of public utility charges involves the assessment of all reasonable costs for a public service, including taxes. In the initial instance, whether for financing, operating expenses or plant composition, most utility costs arise from the exercise of managerial judgments. Generally, when management judgments produce results which are unfair to the ratepayer, regulation steps in. Pacific's management, reflecting the general Bell System policy, has seen fit to choose that method of computing income taxes which results in maximum tax costs and, hence, maximum charges to its ratepayers, even though it claims that its "basic objective is to provide the best possible service at the lowest possible cost".^{27/} These two positions of management are incompatible; irreconcilable. Management's selection of the highest possible income tax method contradicts its stated adherence to the "lowest possible cost" concept. Its reasons for doing so are not convincing.

^{25/} TR 1410, lines 9-12.

^{26/} TR 240, line 10 to TR 241, line 5.

^{27/} TR 4601, lines 9-10 (Pacific's Executive Vice-President).

A utility is a collector of taxes from its patrons and even its costs of collection are borne by them; its "payment" of taxes, in the final analysis, costs it nothing. Management's discretion has exceeded a reasonable and prudent course respecting income taxes, to the detriment of the public interest. For the rate-making purposes of this proceeding, therefore, we shall compute Pacific's income tax expense for the test year 1967 as though Pacific had taken the favorable option for which the law provides. Protection of the public interest demands such procedure.

The record provides data respecting three methods of analyzing the effects of accelerated depreciation on taxes. One is on the basis of using accelerated depreciation beginning with plant additions in the test year 1967.^{28/} A second is on the basis of beginning with the test year 1967 and considering all qualified surviving plant since 1953. A third is on the basis of commencing with the year 1954 for Federal income taxes and the year 1959 for State income taxes and applying accelerated depreciation on all qualified plant additions since such years. We find the first method to be fair and reasonable for the purposes of this proceeding. It is one by which Pacific's management could take the liberalized depreciation option on additions without first negotiating with the Internal Revenue Service. Its tax savings effect is \$2,900,000 for the test year 1967 total operations of Pacific.^{29/} In subsequent

^{28/} As in Exhibit No. 64.

^{29/} TR 5183, line 2.

years the effect would be even greater. A fair and reasonable allocation of such first year amount to intrastate operations is approximately 80 percent,^{30/} or \$2,320,000. This latter amount, as an income tax saving, when reflected in gross revenues, would equate to a \$4,829,000 savings to California ratepayers. When reflected in Pacific's intrastate rate of return, the overall effect is to increase the indicated return by approximately .08 percent. We find that it is fair and reasonable to adjust the hereinbefore tabulated "intrastate results of operations" amounts to fully reflect the treatment accorded income taxes in the foregoing discussion.

The following tabulation in summary, shows the adopted results of Pacific's operations for the estimated year 1967, fully reflecting all of the hereinabove discussed adjustments.

The Pacific Telephone and Telegraph Company
Adopted Results of Intrastate Operations
Estimated Year 1967 at Present Rates

Operating Revenues	\$1,245,800,000
Operating Expenses	1,069,978,000
Net Revenue	175,822,000
Rate Base	2,895,170,000
Rate of Return	6.07%

A further analysis shows that using such adopted results, Pacific's total exchange operations would earn approximately 5.3 percent overall, while its intrastate toll operations would earn at the approximate rate of 8.9 percent.^{31/}

^{30/} As may be determined from an examination of Table 3-A in Exhibit No. 79.

^{31/} From Exhibit No. 91-A, adjusted to adopted results.

Pacific's Earnings - Rate of Return Witnesses

Pacific seeks earnings in the range of 7.5 to 8.5 percent on its net investment and earnings on equity capital in the range of 9.5 to 11.5 percent; ranges which it claims it must achieve if it is to be placed on an equal footing with other investments of corresponding risks. Its rate proposals would increase its intra-state revenues (excluding toll) by about \$158,000,000 and revenues from its directories by about \$23,000,000 and would produce a rate of return of 8.35 percent^{32/} on its claimed and estimated 1967 rate base.

Four expert witnesses specifically offered opinion testimony on the subject of a proper intrastate rate of return for Pacific. Pacific's witness recommended a rate of return of 7.5 to 8.5 percent on the basis of his interpretation of a so-called "comparable earnings test" and by using two variations thereof. A staff witness recommended a return within the range of 6.85 to 7.10 percent on the basis of his judgment, relying primarily on his experience in dealing with the cost of money and rate of return studies in the regulatory field. A witness for the City of Los Angeles, after analyzing Pacific's individual risk and the changes which have occurred in financial conditions since the Commission's last finding as to a reasonable return for Pacific (6.3 percent, as set forth in Decision No. 67369, issued June 11, 1964, in Case No. 7409), concluded that a rate of return of 6.75 percent is now appropriate. A witness for the City and County of San Francisco and the Cities of San Diego, Beverly Hills and Bellflower recommended a rate of return of 6.4 to 6.6 percent on the basis of an earnings-price ratio analysis.

32/ Exhibit No. 206.

Pacific's rate of return witness applied the comparable earnings test in two ways. In one, he attempted to find companies with comparable common equity "risks." In so doing he turned to statistics covering the 50 largest electric, 50 largest gas and 50 largest telephone operating companies, the 50 largest banks and the 50 largest industrial companies in the United States. From these statistics he arithmetically determined the "probability of decline in the percent return on common equity," based on past performance during the period 1946-1965, compared the results thereof with a similar computation for Pacific and used such comparison as a means of measuring Pacific's relative "risk." He defined "risk" as "the probability of loss." His method does not measure loss in the sense that the business does not make a profit, but only in the sense that earnings in one given period may be less, no matter how slightly, than an immediately preceding period.

The second way in which Pacific's rate of return witness attempted to apply the comparable earnings test was to use a "comparable operating characteristics" test. Here, the basis for comparability was comparison of Pacific's earnings with the earnings levels of 20 other Bell System companies over the past 5-year period. From this arithmetical approach, the witness concluded that Pacific should earn 9.50 to 10.25 percent on its common equity in order to produce the return on total capital realized on the average by the other Bell companies. The evidence shows, however, that Bell operating companies had earnings ranging between 7.25 and 10.13 percent, with none attaining 10.25 percent, only four in the range of 9.50 to 10.13 percent, and with the median in the range of 8.50 to 8.99 percent on common equity.

In addition to its "comparable earnings" approach, Pacific has placed emphasis, both in its application and by the testimony of certain of its witnesses, on comparing its rates or charges for service with those made by other telephone utilities in cities outside of California and on the ability of Californians and the California economy to be able to more than afford its proposed charges.

A rate of return witness for San Francisco, San Diego, Beverly Hills and Bellflower extensively analyzed earnings-price ratios as indicators of the cost of common equity and the fair return therefor. Basically, his approach is that the average investor buys current earnings and near future earnings. This witness computed the earnings-price ratio of Pacific at 5.36 percent. He also computed the ratio for 5 other Bell operating companies as being 6.26 percent. Using this latter figure as a starting point to which he applied a one-year-lead, the relationship of average 1966 market price to estimated earnings per share for the year 1967, as a recognition of Pacific's recent decline in earnings, he then concluded that a rate of return of 6.5 percent would be fair and reasonable for Pacific, a return sufficient to ensure reasonable earnings and to attract capital as required.

The staff rate of return witness reviewed Pacific's recent financing, offered certain historical data, described trends in interest rates and preferred stock yields and gave other background material of generalized import. His basic premises are that there are no simple cost of capital or other mathematical formulae which can be strictly followed and that a rate of return recommendation is the product of judgment as applied to many factors and

considerations which cannot be quantified in a mathematical sense. Relying on his knowledge of finance and his experience in dealing with the cost of money and rate of return studies in the regulatory field, the witness recommended a range of rate of return of 6.85 to 7.10 percent.

The rate of return witness for the City of Los Angeles after rebutting much of the testimony of Pacific's witness, recommended a rate of return of 6.75 percent. His approach differed from that of all other witnesses. He started with the 6.3 percent rate of return last found by this Commission to be fair and reasonable to Pacific and reviewed the effects of this rate of return in the light of Pacific's present claims and the circumstances which have occurred since such rate was determined in 1964. With these background determinations, he then proceeded to update the imbedded cost of Pacific's debt and the cost of advances from AT&T to Pacific. The resulting adjustments were then applied to a 60 percent common equity ratio capital structure, the end result of which demonstrated that the impact of the increased cost of debt on rate of return was to require an increase in rate of return from 6.30 to 6.478 percent. The witness next turned to studies of the relationship between telephone usage and the level of economic activity and of the relationship of intrastate and interstate earnings and after an analysis of Pacific's common stock earnings, dividends, and payout ratios over a recent 10-year period, he recommended, as a matter of judgment, a rate of return of 6.75 percent. This figure might vary by as much as plus or minus 0.2 percent (TR 7549, lines 13-16) in realized rate of return.

Rate of Return Discussion

Any rate of return determination necessarily requires the weighing of a number of economic intangibles which are difficult to measure by statistical comparisons. In the final analysis, it devolves upon the judgment of the Commission, after weighing the evidence presented by all of the experts who, by their testimony, have sought to advise the Commission, to determine and to set a fair and reasonable rate of return for the applicant. The testimony and exhibits presented by the rate of return witnesses are of aid to the Commission in such determination even though the individual opinions of the witnesses, when standing alone, may be inconclusive. The Commission notes, however, that even with the range of recommended rates of return and even with the divergent and opposing opinions of these witnesses, three of the witnesses, using completely different methods have arrived at recommendations which are approximately one-half percent above those rates of return which they espoused in the last rate proceeding on Pacific Telephone. The uniformity of such overall results, and the testimony when viewed collectively, would seem clearly to lead to the conclusion that expert opinion would justify an increase of approximately such magnitude above the rate of return last found to be just and reasonable for Pacific. Each of the witnesses recognized that there is a reasonable variance from the specific rates of return which they derived.

The record in this proceeding discloses that there has been a general uptrend in interest rates over the past five years and, further, that the imbedded cost of Pacific's debenture issues since 1962 had increased from 3.67 to 4.06 percent in 1966, an average rise of 0.10 percent per year. The Commission also takes notice of the fact that Pacific's most recently authorized \$165,000,000 debenture issue was sold in July 1968 at a cost of 6.54 percent and that as a consequence Pacific's imbedded cost of debt will move upward to 4.38 percent. The impact of this latest increase in imbedded cost of debt is to lower rate of return by about 0.10 percent, assuming other elements remain unchanged.

With respect to short-term financing, as represented by advances of funds to Pacific by its parent, the record shows that such advances are made at the same interest rate as the prime bank rate extended to AT&T. Although fluctuations in the cost of debt and prime interest rates are inevitable, it may not reasonably be assumed that Pacific will be able to obtain additional debt capital in the near future at a rate as low as its current imbedded cost of 4.38 percent. These factors of rising debt costs and interest rates lend meaningful support to the premise that changed financial conditions since the last rate proceeding warrant an increase in rate of return.

To meet the telephone growth needs of California, Pacific must regularly turn to the money market for the financing of its plant construction program. It does so at approximately 18-month intervals for its permanent financing needs. Its contemplated construction budget for the period 1967 to 1970 is on the order of \$2,100,000,000. New money will be needed to finance it.

Pacific's management has deferred some \$96,000,000 of new plant construction in the test year 1967 because of its lowered earnings position and has concentrated on maintaining existing services at a current growth level. New construction cannot forever be deferred, however. The overall money needs of the program must eventually be met. This factor of large construction needs, having in mind the increasing costs of money as hereinabove discussed, lends further support to the premise that an increase in rate of return is justified.

In the final determination of a rate of return to be allowed on Pacific's intrastate operations, the Commission, as it has so often and so variously stated, views a great many factors in arriving at what in the ultimate is an exercise of judgment. Decision No. 50258, dated July 6, 1954, in a rate proceeding involving Pacific contained the following:

"Among the factors which the Commission has enumerated in recent decisions on other utilities as influencing the rate of return which also might affect the level of rates or of a particular rate are: investment in plant, cost of money, dividend-price and earnings-price ratios, territory, growth factor, comparative rate levels, diversification of revenues, public relations, management, financial policies, reasonable construction requirements, prevailing interest rates and other economic conditions, the trend of rate of return, past financing success, future outlook for the utility, outstanding securities and those proposed to be issued. Additional factors to be considered are adequacy of the service, rate history, customers acceptance and usage developed under existing rates, value of the service and cost to serve. No one of the above factors is solely determinative of what may constitute reasonableness of earnings, rates, or rate of return."

This Commission must give equal consideration to consumer and investor interests in deciding what constitutes a fair and reasonable rate of return. With this objective in mind, the following summary has been prepared to show the earnings on common equity and the interest coverage, applying rates of return ranging from 6.70 to 7.00 percent to the indicated range of debt ratios:

<u>Rate of Return</u>	<u>Debt Ratio Range</u>				
	<u>35%</u>	<u>40%</u>	<u>45%</u>	<u>50%</u>	<u>55%</u>
6.70% Earnings on common equity	8.08%	8.42%	8.82%	9.31%	9.92%
6.80	8.25	8.60	9.02	9.51	10.17
6.90	8.42	8.78	9.22	9.75	10.42
7.00	8.58	8.96	9.42	9.98	10.67
6.70% Times interest earned	4.19	3.74	3.33	3.00	2.74
6.80	4.25	3.79	3.38	3.05	2.75
6.90	4.32	3.85	3.43	3.10	2.82
7.00	4.38	3.91	3.48	3.14	2.86

Pacific adheres to a policy of maintaining a debt ratio of less than 40 percent. It is clear in this proceeding that the adoption of Pacific's recommended rate of return would unduly burden its subscribers with excessive costs for rate of return and the income taxes associated with such a return. The rate of return which we adopt must not burden the subscriber with additional costs attributable to Pacific's financial policy.

A careful study of all of the evidence on the subject of rate of return and a most careful weighing of those elements hereinabove discussed leads the Commission to a finding that a rate of return of 6.9 percent is fair and reasonable when applied to a test year intrastate rate base of \$2,893,800,000 hereby adopted as reasonable. Such return should provide adequate interest coverage to maintain a high quality rating for its debentures and enable Pacific to finance its continuing need for new funds efficiently, thereby ensuring reasonable capital costs commensurate with satisfying the public's need for high quality communications services.

Authorized Revenue Increase

As hereinbefore indicated, Pacific's present intrastate operations would produce a rate of return of approximately 6.07 percent on the above adopted rate base. The Commission finds, therefore, that Pacific is entitled to increased net intrastate revenues in the amount of \$24,000,000, an amount sufficient to raise its rate of return to the 6.9 percent herein found to be reasonable. When such increase is reflected in gross revenues an increase of approximately \$50,200,000 is required. The Commission finds such increase to be justified. Rates will be authorized which, on the basis of the test year, should produce this amount of increased revenues.

On the 39th day of hearing in this proceeding, Pacific advanced the idea that the Commission should grant it additional revenues "above the adopted fair rate of return to allow for trend in rate of return",^{33/} through a witness who attempted to show a downward "trend" of 0.2 percent annually in rate of return. All the witness did in fact, however, was to show a downward change between two periods. It is a mathematical impossibility to establish a trend curve for rate of return when only two points are defined, yet this is what this witness provided on direct examination. Using only a third point, the witness, on cross-examination, admitted that

33/ TR 5790, lines 8 and 9.

even this three-point determined trend amounted to no more than 0.01 percent.^{34/} We find no merit in either the witness's method or in Pacific's suggestion that it be accorded something additional to that which is fair.

SPREAD OF RATES - PACIFIC TELEPHONE

1. Pacific Telephone--Staff - Summary

Pacific adheres to a concept of setting basic telephone rates in relation to the availability of main stations and on a statewide pattern.^{35/} Its exchange rates would thus be highest in the metropolitan areas and lowest in the smallest or most remote exchanges. By this scheme Pacific, as in all prior rate proposals, ignores the costs of providing service and from the present record it is apparent that it isn't even interested in knowing what its costs are for any given existing service. It is content to rely on broad and loosely-made estimates first put together at the time an initial or innovative service offering is proposed,^{36/} no matter how long ago such estimates may have been made. Even such estimates do not reflect Pacific's own costs but are dependent upon the use of "factors" dictated to it by its parent. That the executives of Pacific have developed no means by which the actual costs of any of Pacific's existing basic tariff offerings may be determined or measured seems incomprehensible but this record clearly establishes that such is the fact. Equally incomprehensible is the fact that Pacific does not even know, nor can it readily determine, what revenues its individual tariff offerings produce, except for a few items about which its witness was questioned by the Examiner. With

^{34/} TR 11260, lines 19-21.

^{35/} TR 527, lines 5-10.

^{36/} So-called GE-100 forms.

respect to specialty items for which it makes premium one-time charges, it supplies no revenue data, let alone cost data; for example, Pacific cannot even tell the Commission what revenues it actually receives from its charges for colored telephones without making a special "study" of the situation.^{37/}

In this proceeding, Pacific proposes changes in rates for basic exchange services, including foreign exchange service and multi-message unit service. It also proposes changes in rates for Centrex service, supplemental equipment, residence service connection charges, key telephone service, private line services, public mobile telephone service and various miscellaneous services, together with changes in the directory advertising rate structure. Even though requested to do so, Pacific supplied no actual revenue data, cost data, or plant data for any of these items.^{38/} Its rate witness was its Assistant Vice-President-Business Research in charge of Rates and Tariffs, a position he has held since September 1966, following some ten months in Pacific's Rate Department. So far as can be determined from his testimony he relied on his "informed judgment" and on no cost data whatever.^{39/} His concern seems to be more that of raising California rate levels up to those charged by other Bell System companies outside of California than to an equitable distribution of charges amongst California subscribers. In short, his testimony is in no way convincing that this Commission should cast aside the rate-spread principles which it has so recently

^{37/} TR 11656, lines 1-7.

^{38/} The Examiner's request for specific information constitutes Exhibit No. 160, to which Pacific did not respond in any meaningful way.

^{39/} Typical of his approach is that disclosed in TR 4656, line 4, through TR 4661, line 11, on the subject of Centrex service, wherein even though he had a five-year "cost study" available to him he made no use of it.

investigated in depth and specified for Pacific.^{40/} The plain fact is that "cost" is an indispensable factor in the setting of fair and reasonable rates for service. While Pacific ignores it, this Commission cannot.

During the course of this proceeding it became known that as a result of FCC action in its Docket No. 16258, Pacific's intrastate revenue requirements would be lessened by approximately \$31,700,000 on an annual basis. Pacific's witness gave no consideration to this in his rate-spread proposal. Pacific's brief, however, suggests that intrastate toll rates be credited with the savings.

The staff rate spread in this proceeding has given full effect to the lesser revenue requirements resulting from the FCC's action and, in addition, has given recognition to cost factors for which it could obtain data or which it could reasonably estimate. In this latter connection it made numerous data requests on Pacific, for the purpose of attempting to obtain cost information sufficient to permit the spreading of revenue requirements between types and classes of service on as reasonable and nondiscriminatory bases as possible. Because of the paucity of data on actual revenues and actual costs, however, the staff has necessarily had to rely substantially on existing rate relationships and in general it has closely followed the rate patterns last established in Case No. 7409. In view of the present record, the Commission will largely adhere to such patterns in establishing the rates hereinafter authorized.

The following tabulation constitutes a general summary of the rate spread used herein. The full effect of reduced intrastate

^{40/} Decision No. 71575 in Case No. 7409, issued November 23, 1966.

revenue requirements resulting from FCC action in its Docket No. 16258 is reflected in such rate spread. Certain of the summarized items will be further discussed hereinafter.

Spread of Operating Revenue Increases

1. <u>Toll</u>		
Message toll reduction	\$(11,400,000)	
Message unit rates converted to toll	(700,000)	
I-I toll	(2,000,000)	
Private line rates	2,000,000	
TWX message rates	200,000	
Total toll	(11,900,000)	
2. <u>Exchange</u>		
Basic exchange service rates	51,400,000	
Expanded local calling		
Elimination of 10¢ toll rates	(3,200,000)	
Elimination of 2-message unit routes	(20,000,000)	
Business message rate service, change of allowance to 80 messages	300,000	
Message rate allowances, local only	3,000,000	
Total exchange	31,500,000	
3. <u>Miscellaneous</u>		
Directory advertising	24,400,000	
Key equipment, Centrex, etc.	2,200,000	
Move and change charges, extensions, stations, etc.	10,700,000	
Public mobile service	800,000	
General Telephone settlement (Exhibit 41)	(7,500,000)	
Total miscellaneous	30,600,000	
4. <u>Summary</u>		
Total of increased items	\$95,000,000	
Total of decreased items	44,800,000	
Net increase to Pacific	50,200,000	

(Red Figure)

2. Pacific Telephone - Independents - Toll Services

Pacific Telephone, in this proceeding, has made no proposals respecting toll rates. The Commission staff and the California Independent Telephone Association,^{41/} however, have jointly made a recommendation to the effect that uniform state message toll rates be established and that such rates be made applicable to all intrastate message toll service. Each introduced evidence respecting this subject and Pacific presented testimony in opposition thereto. In addition, the subject has been thoroughly treated in briefs.

Intrastate toll service may be divided into three categories. One, entirely handled within the Bell System, is commonly referred to as B-B. A second, known as B-I, covers message toll service interchanged between a Bell System company and an Independent company. In this second category are Pacific and 31 Independents within California. The third category covers those message toll services wholly performed within one Independent's system or between Independents over Independent lines and is referred to as I-I. It is the position of both the staff and the Association that the full costs of rendering this intrastate I-I message toll service be included with the full cost of rendering all other intrastate toll service for the purposes of establishing the recommended uniform toll rates and for dividing all revenues from such rates between Pacific and those Independents who settle with Pacific. In its simplest terms, the proposal would provide a pooling of all intrastate toll revenues and a division of such pool between Pacific and the Independents based upon the total intrastate toll costs and the companies' respective shares thereof.

^{41/} Hereinafter referred to as Association.

As above noted, Pacific interchanges toll traffic with all of the present independent telephone companies in California. The joint revenues from the calls between the subscribers of Pacific and those of the independent companies are divided between the two pursuant to written agreements which generally provide that the independent company will receive its full costs of furnishing facilities for the interchanged traffic, such full costs including a rate of return, on the Independent's plant used for such purpose, equal to the rate of return which Pacific earns on its own toll operations. There is in this record no challenge of either the principles applicable to, or the methods of handling, this B-I toll.

Pacific strenuously opposes applying the B-I settlement principles to I-I toll, claiming that the I-I business of the Independents is in no way a matter of interchanged traffic with Pacific. The I-I proposal would, in the eyes of Pacific, require it to underwrite the costs of I-I toll facilities to its detriment. It further claims that this Commission lacks the power to implement the proposal, and in such respect relies upon Section 766 of the Public Utilities Code which Pacific claims allows the Commission to specify the division of revenues received from joint rates, tolls or charges only after the utilities involved have not agreed upon the division between them of the revenues therefrom.

The subject of I-I toll has been before this Commission in a number of rate proceedings. The present evidence emphasizes that in fact every California independent company is a physical part of the nationwide toll network. The standards of quality for every part of such network, as a practical matter, are set by Bell System requirements. Both the statewide portion and the nationwide toll

network have been developed as an integrated whole to allow full compatibility in dialing, signalling and transmission regardless of whether a call originates or terminates at a Bell System or an independent telephone station. The effect of such integrated toll system has been to force costs on the independent companies in excess of those which would otherwise be needed for their own toll operations. Examples of such added costs are the costs of seven-digit numbering, terminal-per-station central office equipment, intercept service, low delay trunk groups, additional repeaters on toll connecting trunks to provide high transmission levels, and the provision of loading coils on exchange lines. On a number of independent systems none of these would be necessary if the Independent did not have to enter the nationwide toll network. Insofar as their own or I-I toll is concerned, practically none of these added costs are necessary for the proper operation of these independent systems. Of course, the Independent does enter the toll network but the real point is that its toll facilities handle both B-I and I-I toll traffic without physical plant differentiation between the two.^{42/}

The evidence is clear that most short-haul and thin-density toll routes, common characteristics of many of the routes in Independent territory, fail to produce revenues sufficient to fully cover the costs of message toll service over such routes. Pacific, too, has many such routes.

Existing toll rates were designed to produce a reasonable return on the overall message toll service, the revenues from long-haul and high-density routes covering the losses on short-haul and

^{42/} The single exception in California is General's microwave route between Santa Maria and Santa Barbara which is wholly devoted to handling I-I traffic.

low-density routes.^{43/} As above pointed out, there are many non-compensatory routes in both B-B and I-I message toll service. When toll traffic is interchanged between Pacific and an Independent over these routes (B-I) or when noninterchanged Pacific traffic passes over these routes (B-B) both Pacific and the Independent's revenue requirements are compensated for, in the aggregate, out of the overall State toll rate structure. As a result, in these situations, even though the rates for short-haul B-B and B-I toll calls are noncompensatory, the revenue deficiency disappears into the overall compensatory rate structure. On the other hand, the revenue deficiency on I-I message toll routes does not presently disappear into the toll rate structure but generally remains to be offset through charges for independent exchange service at rates higher than would be necessary if I-I toll were compensatory. One of the inevitable consequences of this result is that it contributes to and further aggravates disparities or rate differences between the exchange rates of Pacific and the Independents (similar to those hereinafter discussed respecting the Los Angeles area); differences which the Legislature has directed the Commission to consider in any rate proceeding.^{44/}

We believe it is clearly unfair to the independent utility to have to provide the facilities required to meet the high standards of the Bell System toll network without being fully compensated therefor and it is equally unfair to the exchange subscriber on the independent system to have to pay higher rates for exchange service than might otherwise be required.

^{43/} As a practical matter, there can be no direct relationship between the cost of any particular route and the rate for that route.

^{44/} Section 728, Public Utilities Code.

Message toll users constitute a single rate-paying class distinguishable from their role of subscribers to local exchange service. On the Bell System^{45/} the revenues from this class are effectively pooled and divided among the associated Bell companies under a "Division of Revenues Contract" which applies to interstate toll traffic interchanged between the operating companies and the longlines department of AT&T. Under the contract, each company receives from the pooled revenues its expenses that are associated with the interstate business and the remainder is split up among them on the basis of the plant investment that each company has associated with the interstate business. Each company receives the same rate of return on its net investment devoted to interstate toll, regardless of what its individual operations may produce. Included also in the pooling arrangement are the revenues and costs of noninterchanged interstate toll, such as that occurring wholly within the operations of Pacific Northwest Bell Telephone Company on calls between Oregon and Washington. The parallel between the facts of the Bell System operations and the proposal of the staff and the Association is, of course, most clear. Paralleling the national pool would be a State pool of revenues and a division of those revenues in accordance with the same principles of cost and plant separations which the Bell System itself uses and which is reflected in the settlement agreements between Pacific and the Independents. Included would be I-I toll, an exact parallel in principle to the Oregon-Washington situation.

Pacific sees the national Bell System pool as being worthy but sees the staff proposal for a State pool as being a "scheme"

^{45/} All of the Bell companies operate under uniform interstate message toll rates.

which would have it pay over a part of its revenues to support another company. This is wrong, apparently, when the other company is an independent but, obviously, right when the other company is a Bell company. We cannot share Pacific's characterization nor its prejudice. The basic principle is sound, it is practical, it is fair to the toll ratepayer as a class. It should be implemented.

As above noted, Pacific argues that the Commission has no authority to specify the division of toll revenues between it and the Independents, absent disagreement of the parties and hearing, and relies upon Section 766 of the Public Utilities Code as the basis for such argument. In this respect, Pacific seems to overlook the fact that by reason of orders instituting investigation (Cases Nos. 8608 and 8609) all of the telephone companies participating in message toll service in California are before the Commission and that the matters of rates, tolls, practices, contracts and services are expressly encompassed therein. The entire toll rate structure and the division of revenues received therefrom is an inextricable part thereof. Pacific, further, apparently chooses to ignore Public Utilities Code Sections 451, 701, 728, 729 and 761 as well as those portions of Section 766 which it does not quote. Pacific misinterprets Section 766.

Section 766 of the Public Utilities Code (formerly Section 40 of the Public Utilities Act) reads as follows, with emphasis being supplied:

"766. Whenever the commission, after a hearing finds that a physical connection can reasonably be made between the lines of two or more telephone corporations or two or more telegraph corporations whose lines can be made to form a continuous line of communication, by the construction and maintenance of suitable connections for the transfer of messages or conversations, and that public convenience and necessity will be served thereby, or finds that two or more telegraph or telephone corporations have failed to establish joint rates, tolls, or charges for service by or over their lines, and that joint rates, tolls, or charges ought to be established, the commission may, by its order, require that such connection be made on the payment of such compensation, if any, as it finds to be just and reasonable, except where the purpose of the connection is primarily to secure the transmission of local messages or conversations between points within the same city, or city and county. The commission may, by order, require that conversations be transmitted and messages transferred over such connection under such rules as it may establish, and may prescribe through lines and joint rates, tolls, and charges. If such telephone or telegraph corporations do not agree upon the division between them of the cost of such physical connection or connections or the division of such joint rates, tolls, or charges established by the commission over such through lines, the commission may after further hearing, establish such division by supplemental order. (Former Sec. 40.)"

This Section came into being some fifty-five years ago when most telephone companies did not interconnect their lines. In fact, it came into being at a time when Pacific Telephone would not interconnect with other companies.^{46/} Its basic purpose was to permit the people of California to force proper interconnections in order to meet the public convenience and necessity. The Legislature gave this Commission the authority to enforce the public will in such regard. The Section has well served such purpose, as is evidenced by the fact that since its passage and early enforcement by the Commission the facilities of telephone companies in this State have become so interconnected that for many years the people of this State have had

^{46/} For examples, see the complaints of The Tehama County Telephone Company and Glenn County Telephone Company against Pacific Telephone in 1913 (Discussed in PT&T vs. Eshleman, 166 Cal.640).

the public benefits of a wholly integrated toll network. The Section was intended to and did apply to the establishment of initial involuntary interconnections and provided means for the proper compensation therefor. We believe that only through tortuous reasoning can its concluding sentence, pertaining to the division of revenues for a specifically ordered involuntary interconnection, be today so construed as to apply to all revenue-division settlements between companies, no matter how generated.

In any event, all of the possible parties being before us in this proceeding, we find from the evidence that the practices of Pacific and the Independents in excluding from consideration the costs of I-I toll in this State are unjust, unreasonable, inadequate and improper. Further, we find that in accordance with the statutory authority contained in Sections 451, 701, 728, 729 and 761 of the Code, the Commission, having a proper record before it, should prescribe the just and reasonable rates and practices to be followed by the parties in such respect. Such rates and practices will be specified by the order herein.

From the evidence, we find that establishment of a uniform message toll rate at a level sufficient to support the entire intrastate integrated toll network is in the public interest. The staff proposal in this regard, whereby toll rate reductions would occur in recognition of the fact that toll earnings are high and whereby exchange rates would be increased in recognition of the fact of low exchange earnings, is a fair and reasonable basis for implementing such uniform message toll rate treatment. The dollar amount involved, based upon the test year 1967, is \$2,000,000 and such

amount will be included in the revenues to be accorded Pacific by the rate increases authorized by this decision. An amount of \$400,000 will be borne by Independent subscribers.^{47/}

3. Message Toll Rates - Pacific Telephone

As above mentioned, Pacific proposed no revision of intrastate toll rates which might result from separations changes made in FCC Docket No. 16258. Pacific's intrastate message toll earnings, under present rates, provide it with a rate of return of approximately 9.29 percent on this portion of its business.^{48/} Its intrastate toll rates are higher than interstate rates. In view of such circumstances, the revenue savings should largely be passed along to intrastate message toll customers. The staff rate spread proposal would accomplish this, to the extent possible, by reducing rates for the 35 to 80 mile range (the range in which the greatest percentage disparity with interstate rates occurs), placing all day Saturday rates on the night schedule consistent with the present interstate treatment, starting night rate discounts at 40 miles rather than the 50 miles as at present, adjusting person service overtime rates to the same level as station overtime rates, by converting existing 9, 10, and 11 message-unit routes to toll routes and by the elimination of 10¢ toll routes. The staff rate treatment, in these regards, is fair and reasonable and it will be adopted herein.

^{47/} TR 9221, line 26 to TR 9222, line 5, indicates the allocation.

^{48/} Exhibit No. 91-A.

4. Private Line Rates

Private line service consists of furnishing communications channels, channel terminals and station equipment between specified locations for a continuous period or for regular recurring periods at stated hours to meet the private uses of individual subscribers. The principal categories under this class of service are: private line telephone service, program channels, control channels, and channels devoted to certain special services such as telephoto and facsimile transmission. Private line service reserves large amounts of both channels and equipment for special service to the user and denies the use of the same to the general telephone using public. If the service does not pay its way, obviously, the burden of its revenue or earnings deficiency falls upon customers of other services. We believe that it is fundamental that specialized services should fully pay their way, including a rate of return thereon at least equal to that realized from basic exchange operations.

Present private line earnings are at a low level.^{49/} Under the staff proposal these earnings would be improved. Once again, however, lack of actual revenue and actual cost data as a basis of estimating test year earnings for this portion of Pacific's business, preclude precision. The present best estimate of the needed revenue increase is the overall amount of \$2,000,000 for this service, as made by the staff. At the behest of the staff, Pacific prepared a schedule of rates and charges to reflect such amount.^{50/}

^{49/} 4.95 percent, Exhibit No. 91-A.

^{50/} Exhibit No. 140.

The only private line service rate increase proposals engendering substantial customer opposition were those pertaining to 30-Baud intraexchange service. This is a service extensively used by members of the Western Burglar and Fire Alarm Association, the American District Telegraph Company (ADT) and others in the security alarm industry and by United Air Lines (UAL) at its large maintenance base in California. Charges for local or intraexchange service are based upon distances individually measured for each circuit. Pacific has proposed a \$5 flat rate charge per channel^{51/} as a matter of tariff simplification and as a means of eliminating its "cumbersome mileage measurement pricing method." The staff supports the flat rate charge principle. With respect to its effect on ADT, the proposal would equate to an increase of about 80 percent; for UAL the increase would exceed 650 percent for its "notifier" circuits. Pacific's proposal was not supported by any evidence as to the cost of the service; nor had Pacific considered the impact of its proposals on this class of customer. It is true, as Pacific points out, that this classification of service has had virtually no rate increase during the past 25 years. Increases of the magnitude here proposed with no more forceful a reason than that rate simplification would result and with no cost data whatever having been used as a basis for the proposed charges, are clearly unreasonable. Some increase is warranted, however, and one-half mileage blocking can substantially reduce the problems of measurement. Such will be authorized for local private line service.

^{51/} Present minimum is 60 cents.

5. Teletypewriter Exchange Service

Teletypewriter exchange service, commonly referred to as TWX, is furnished over the message toll telephone network and switching system. Connections may be either interstate or intrastate. The staff proposal is to establish an intrastate TWX rate structure consistent with that of the interstate rate, using a one-minute minimum period and reducing the number of mileage blocks from 24 to seven. A revenue increase of \$200,000 would result. This proposal and increase is fair and reasonable and will be authorized.

6. Pacific Telephone - General Telephone Settlements

Pacific and General have entered into an agreement,^{52/} subject to implementation by this Commission, to cover a cost-type of settlement for interchanged non-optional extended area traffic in the Los Angeles Extended Area. Such agreement stems from a mutual recognition of the long existing rate differences between their adjacent exchanges. By it, rates could be brought closer to parity, for General would reduce its rates by a total amount equal to the increased dollars which it would receive from Pacific. The staff has recommended that any rate increases authorized Pacific include an allowance for settlement payments to General for General's cost of providing interchanged extended service between the two in the Los Angeles Area. No evidence was entered in opposition to the implementation of the agreement, although the subject was criticized by argument in at least two briefs. Because the dollar amount involved is dependent upon the rate treatment to be accorded the area, we shall first discuss such aspect.

^{52/} Exhibit No. 41 in this proceeding.

In what may now be termed the greater Los Angeles Area, there were as late as in the 1920's some eleven telephone companies including one Bell System company which served the downtown area and the great bulk of the telephones. Communities were somewhat isolated and inter-community telephone communicating was solely by means of "long distance" or toll circuits. With population growth and ever outward expansion a large number of communities began not only to reach common boundaries but their interests began to overlap and to become common. A need for larger "free calling" areas developed and in 1938, when after consolidation there remained only six telephone companies, this Commission placed into effect the first "extended service area" pattern whereby there was generally made available "free" calling across telephone exchange boundaries for an additional monthly charge. By this time, the Bell System served about 610,000 telephone stations and the independents served about 97,000 telephone stations. Later (1940) a "multi-message unit" concept was developed to provide greater distance calling at rates below toll rates, such concept (although by accounting procedures producing revenues categorized as exchange revenues) in practical effect made inter-exchange calling a commuted toll. Each company still had an easily recognizable identity with its own community or geographically grouped communities. The rates of each company were, of course, predicated on their individual requirements and none had identical basic rates for similar services. Some rates were as widely different as were their communities widely separated.

Obvious to all, of course, has been the subsequent continuous residential, commercial and industrial development of the area, particularly expansive in recent years, until today the non-political observer is hard put to discern any separate community

identities. The area has become to all practical effect, one megalopolis. Today, only two telephone companies operate therein; Pacific, serving about 2,990,000 telephones and General, with about 1,300,000 telephones. Telephone rate differences have to a large extent continued, however, for under the law this Commission is obligated to afford each utility an opportunity to earn a fair and reasonable rate of return on its useful plant devoted to serving the public and with neither the costs of plant, nor the financial needs of the two utilities being the same, the effects of these factors have in the past forced the present rate differences.

For substantially the same basic one-party residential service, a telephone subscriber of Pacific presently pays \$3.85 per month while a General subscriber pays \$5.60 per month. A comparison of business rates is not so simply made but, in essence, Pacific might receive \$4.05 for a service for which General might receive \$5.50 or more (to possibly as much as \$12.20) per month. In the rate spread proposals of the Commission staff, these wide differences would disappear, the rate plan being predicated on the concept of treating the entire Los Angeles Extended Area as one rate-making unit with substantially one basic rate throughout and with other nearby exchanges at lesser differentials therefrom than are now in effect.^{53/} In view of the evidence on this subject, we find this rate treatment concept to be warranted and in the public interest. Its implementation, as we have above indicated, depends upon the "settlement" contemplated by the agreement which is in this record as Exhibit No. 41.

^{53/} This rate treatment would largely, if indeed not completely, satisfy the Carrell complaint (Case No. 8690).

General's cross-boundary extended service traffic settlements with Pacific are presently on a so-called "trunking basis" whereby the cost of connecting trunk facilities and, at times, tandem switching functions, are split "50-50" between them. Such a settlement gives no recognition to the costs of central offices, subscriber loops or station equipment, nor does it reflect the fact that Pacific owns both the toll and multi-message-unit lines that are used to connect General's exchanges to Pacific's exchanges. The new agreement (Exhibit No. 41) would replace the "50-50" trunking settlement with a type of station-to-station settlement on a full cost basis. It is a far more equitable method of settlement and we find that it should be implemented. The dollar amount needed therefor, at the intrastate rate of return hereinbefore found to be reasonable for Pacific is \$7,500,000, an amount which in the language of the agreement,^{54/} the Commission hereby specifically finds is "sufficient to support such settlement agreement". Said amount will be included in the additional revenues accorded Pacific by this decision.

7. Exchange Service Rates

a. Expanded Calling

Of considerable interest to the general public, as evidenced by the testimony of individuals and subscriber groups in this record, is the matter of expanded local calling. The rate spread proposed by the staff recognizes this factor, to the extent economically feasible at this time, by including the conversion of all 2 message unit routes in the San Francisco-East Bay Extended Area and in the Los Angeles Extended Area, to extended service. The revenue requirement of this conversion is \$20,000,000. Consistent

^{54/} Paragraph 5, Exhibit No. 41.

with this conversion, the staff also proposed that all 10-cent toll routes be converted to extended service. The revenue requirement of such conversion is \$3,200,000. The staff further proposed that certain contiguous message routes in the San Francisco Bay Area be converted to extended service. In practical effect these conversions will require time for accomplishment, since added plant must be installed, estimated as two years for some routes. We find these proposals to be in the public interest and they will be fully implemented by the order herein.

The rates proposed by the staff for extended service areas outside the major metropolitan areas are based upon a uniformly applicable rate formula closely patterned after that resulting from Case No. 7409. By it, the basic rate for an EAS exchange is that of the group rate of the exchange with the greatest number of main stations within its local calling area plus a rate increment dependent upon the mileage of the toll route being replaced by the extended area service.^{55/} Such treatment is fair and reasonable. It will yield revenues which reasonably approximate the estimated increased costs and toll revenue losses occasioned by extended service.

b. Message Rate Services

Pacific is engaged in a program of installing individual lines to all new residential tracts and plans eventually to have an individual line available for each residence unit it may serve. In effect this is a "reserved" subscriber loop.^{56/} In the light of

^{55/} This rate plan is detailed in Table 2-B of Exhibit No. 92-A.

^{56/} Pacific confusedly terms this "dedicated plant", a decided misnomer in the regulatory field where virtually all plant is dedicated to public utility usage.

this development, the staff has recommended that all remaining two-party-line service in the metropolitan areas of San Francisco, Los Angeles, San Diego and Orange County be eliminated by substituting one-party message rate service for the two-party flat and two-party message rate residence services now being provided therein. This proposal would provide simplified operations for Pacific and a superior service to the subscriber. Under it, present two-party line service would be withdrawn within a reasonable period.^{57/} The proposal is fair and reasonable and will be implemented by the order herein.

Los Angeles Extended Area exchanges and parts of the San Francisco-East Bay Extended Area have available only measured-rate individual-line business service. Other parts of the SF-EB Area and all of the San Diego, Orange County and Sacramento Extended Areas offer individual business service on an optional flat-rate or measured-rate basis. Message-rate service charges are more equitable than flat rate charges in that they are proportional to the amount of service utilized. All of the extended areas should have measured-rate service. In order to accomplish this, flat rate business individual line and flat rate PBX trunk services will be withdrawn within three years. In those areas where only flat rate PBX trunk service is offered, message-rate service will be made available within the same time period.

^{57/} There would thus remain only one-party flat rate and one-party message rate residence service in the metropolitan areas.

Message allowances for business message rates presently are a uniform 85 messages in the San Francisco-East Bay Extended Area, range from 70 to 85 in the Los Angeles Extended Area and are 85 or less in other areas. There appears to be no justification for continuing this nonconformity. A uniform allowance of 80 messages will be established.

Present tariffs provide that both business and residence message-rate subscribers in the San Francisco-East Bay and Los Angeles Extended Areas may use their message allowance in single-unit local calls or in multi-unit interexchange calls. The effect is to provide a toll-call allowance in the monthly exchange service rate. No other subscribers in California have such an arrangement. We find this situation to be unduly discriminatory. In order to correct it, the tariffs authorized herein will provide that only local calling area single-unit calls in the San Francisco-East Bay and Los Angeles Extended Areas will be chargeable against the message rate allowance.

c. Business FEX Service

Both Pacific and the staff have proposed that a uniform statewide rate of \$14 with an allowance of 200 messages for individual-line business service and a uniform statewide rate of \$21 with an allowance of 300 messages for business PBX (first trunk) be established for business foreign exchange service. Present rates are variable for such services. The proposals to simplify the tariffs and apply them uniformly are fair and reasonable and they will be authorized herein.

d. Secretarial-Line Service

Telephone Answering Services of California, Inc. (TASC), an association of answering bureaus, has proposed a uniform flat rate charge of \$3.75 per month per secretarial line wherever the primary

service and the answering equipment are within the same exchange area or district in lieu of the present charges of \$1.00 for "in-building" or \$4.00 for "out-of-building" service. Such proposal, like similar proposals made by the answering service bureaus in past proceedings, ostensibly relies on a "value of service" concept. It wholly ignores the relative costs involved in providing the two types of service. Secretarial-line services are special services and as such they should fully pay their costs, including an adequate return on the plant devoted to them. The TASC proposal, not reflecting cost, is unreasonable and will not be authorized herein.

e. "Lifeline" Service

Testimony as to the need for an inexpensive, low usage, residential telephone service was presented by eight representatives of a number of major organizations of Senior Citizens during a day when approximately 300 of their members attended the hearings in this proceeding. Their plea is for special rates for the elderly poor, the infirm and the shut-ins to whom telephone service is essential.

A "telephone pal" or "buddy" system is widely used by these people as a means of checking once daily to see if the aged person can answer the telephone. Victims of accidents, strokes, heart attacks and falls have been prevented from lying for days unattended by reason of this telephone check. The telephone to these people is a lifeline. To many of them the present minimum monthly telephone bill represents almost three days' food allowance. They are unable to pay more. A call a day is their minimum need.

The Commission finds, from the evidence, that it is fitting, proper, just and reasonable to authorize a basic minimum service at the rate of \$2.25 per month with a message allowance of 30 units, irrespective of whether single-party or two-party service is used,

in those areas where residence message-rate service is now or may hereafter be provided, with the only restriction being that no more than one such service may be established for each dwelling unit.

f. Multi-Message Units

Both Pacific and the staff proposed to increase the price of multi-message units from the present 4.05 cents per unit; Pacific proposing a charge of 4.85 cents and the staff proposing 4.50 cents per unit. It appears from the evidence that the amounts of these proposed increases result from little more than the rate spread witnesses having found this a convenient category in which to assign revenue requirements not otherwise or elsewhere taken into account. As in other categories, Pacific presented no factual data to support its proposal. The evidence is not convincing that any increase is warranted and none will be authorized herein.

g. Basic Exchange Services

The rates for basic exchange services authorized herein will provide increased revenues apportioned as shown in the following tabulation:

Increased Basic Exchange Service Revenues

San Francisco-East Bay Extended Area	\$13,900,000
Los Angeles Extended Area	19,800,000
San Diego Extended Area	3,400,000
Orange County Extended Area	1,900,000
Sacramento Extended Area	2,100,000
Other Northern California Exchanges	
Nonextended Areas	4,600,000
Extended Areas	3,700,000
Other Southern California Exchanges	
Nonextended Areas	1,300,000
Extended Areas	700,000
Total	\$51,400,000

For the four major areas, principal rates will be authorized as shown below. The City of San Diego proposed that the San Diego Extended Area be accorded the same rate treatment as San Francisco.

While the evidence is not convincing that full parity is now appropriate, lesser increases will be accorded San Diego than either Pacific or the staff have proposed. San Diego and Orange County rates, therefore, are somewhat above those for the larger metropolitan areas in recognition of the lower earnings of such areas. In viewing the tabulation it should be kept in mind that, as hereinabove discussed, residence 2-party line service will eventually be replaced with single-party service and, thus, not all of the rates shown will be immediately or even concurrently available.

Examples of Authorized
Basic Exchange Rates in Major Areas

	<u>SF-EB EA LA EA</u>	<u>San Diego EA</u>	<u>Orange County EA</u>
Business:			
1-party flat	\$13.25*	\$14.50	\$13.90
1-party message	5.15(80)	5.25(80)	5.50(80)
Residence:			
1-party flat	4.65	4.90	5.10
1-party message	3.00(60)	3.10(60)	3.30(60)
1-party message	2.25(30)	2.25(30)	2.25(30)
2-party flat	3.75	3.90	3.95
2-party message	2.75(60)	2.85(60)	3.05(60)
2-party message	2.25(30)	2.25(30)	2.25(30)

* Portions of SF-EB EA only.

h. PBX - Individual Line Relationship

For many years PBX trunk flat rates have been premised on a 150 percent relationship to business individual line flat rates. A formula relationship has also prevailed for determining PBX charges where message rates are involved. In neither case, to our knowledge, has Pacific ever presented factual data in support thereof. Such "rule of thumb" rate-making may have certain advantages of simplicity for the rate-maker and the ratios may indeed be appropriate but they should be tested at intervals to determine whether or not they are in

fact appropriate. The dearth of actual data in this proceeding will not permit of such determination. Under such circumstances present relationships will be continued at this time but as in other realms of like inexactitude, Pacific will be required by the order herein to supply the necessary data.

8. Miscellaneous Services

a. Mobile Telephone Service

Pacific furnishes telephone service by radio from 30 mobile telephone service areas. A general two-way telephone service is provided to land mobile stations and to maritime mobile stations. Charges for calls are presently based on a 5-cent message unit, with 6 to 10 units for the first three minutes and 2 or 3 units for over-time minutes depending upon in which of three zones the called or calling telephone is located.

Pacific proposes a flat rate charge for land mobile general services but no change in rates for any of its other radio services. The flat rate charge would permit unlimited calling and represent a heavy discount to large users and thus preferential treatment for them. By its proposal large users would receive rate reductions while small users would receive increases. Pacific presented no actual cost data in support of its proposal. Further, Pacific's proposal is unduly discriminatory.

The staff proposes a monthly service charge plus a graded charge based upon the amount of use of the mobile system as measured by accumulated minutes of use during the monthly period. The total monthly charge would thus be related both to the amount of service rendered and to the relative costs of providing equipment. The staff rate form and proposed charges are fair and reasonable and will be authorized herein.

b. Key Equipment-Centrex, etc.

Present charges for key equipment are computed by the addition of a multiplicity of piece-part features. The rate form is cumbersome. Pacific has proposed "package" rates for certain combinations of features and the staff is in agreement with the principles involved and with the proposed pricing except that the staff urges an intermediate step for a combination of from 7 to 30 features. Pacific's proposal as modified by the intermediate step proposed by the staff is fair and reasonable and will be authorized herein.

Centrex service is in effect a specialized PBX service for large users, such as the State and Federal governments. Pacific, the staff and the federal agencies presented testimony regarding the proposed charges for this service. None of the testimony presented studies based on actual costs of supplying the service because Pacific either could not or would not supply such data. The staff evidence, being based upon so-called "current cost reviews", is the best evidence at hand and has the most probative value. The staff-suggested rates will be authorized. Rate proposals of the staff for Supplemental and Special Assemblies of Equipment are of like probative value and will also be authorized.

c. Move and Change Charges, etc.

At present residence extension stations are installed without a service connection charge when such extension is made concurrently with the installation of a primary station. Today's higher costs of installations warrant a charge for such additional installations and the tariffs authorized herein will provide that the normal \$5.00 service connection charge shall apply thereto.

Present move charges for key telephone stations vary with the line capacity and with location. The staff has proposed a graduated level based on line capacity only. Present changes of key telephone stations have charges based on individual tariff features. With the "package" type of rates being authorized herein for key telephone installations, it is appropriate to concurrently introduce a fixed charge per station for changes. The staff proposals in these respects are fair and reasonable and will be authorized herein.

Pacific has proposed that the present service connection charge of \$8.50 for residence individual or party-line service be increased to \$10.00. The expenses involved are higher than either

of these amounts. The proposed increase is reasonable and will be authorized.

With respect to extension telephones in business flat rate services, the present differential of only 50 cents per month over extensions for business message rate service is inadequate. A charge of \$1.75 per month for business flat rate extension service is fair and reasonable and will be authorized herein.

Mileage rates for urban service in suburban areas have not been altered for many years and do not reflect today's costs. The present rate is 50 cents per quarter-mile. It is fair and reasonable to increase this charge to 65 cents per quarter-mile for one-party and trunk suburban mileage and to proportionately increase such charges in the various special rate areas.

d. Directory Advertising

Pacific has proposed splitting certain directories, changes in directory circulation groups and changes in the rates for classified advertising within such groups. Pacific has also proposed that the circulation grouping of those directories which serve more than one exchange be based on the sum of the circulation in the largest exchange plus 25 percent of the total circulation in the remaining exchanges within the directory.

The staff is in agreement with Pacific's proposal respecting circulation grouping but proposes somewhat lesser rates. The staff also has proposed the use of the "largest plus 25 percent" concept for multi-exchange directories serving more than one county and a "largest plus 45 percent of other exchanges" for multi-exchange directories serving a single county.

The advertising value of a directory, as measured by a total circulation, is, we find, better stated by the staff proposed formulae than by Pacific. Pacific's suggested rates and rate groups are reasonable, however, and will be authorized herein. The combination

of the staff formulae with Pacific's proposed rates and rate groups will yield \$23,700,000 in increased revenues, an amount which we find to be fair and reasonable for this element of Pacific's business.

e. Street Address Directory Service

Pacific has a tariff sheet (Cal. P.U.C. No. 105-T) which, among other things, provides as follows: "Street address telephone directory service is the furnishing of a directory which lists, in accordance with the Company's regular practices, subscribers' names and telephone numbers by street name (arranged alphabetically) and numerically thereunder by address." It issues such directories quarterly and semiannually for certain areas of the State. The company rents these directories to certain subscribers and they find wide usage among solicitors.

The "company's regular practices", mentioned above, are unspecified and unknown. Such clause provides no means by which either telephone subscribers or directory renters may with certainty determine their respective rights or privileges and is therefore meaningless. It should be stricken.

Pacific, although seeking substantially increased revenues from its directory advertising service and increases in basic rates ranging between 48 and 100 percent, has proposed no increases in charges for its street address directories. Nor did it supply, even when requested to do so, any cost or revenue data respecting this street address directory service. We find it to be fair and reasonable that this special directory service be required to provide its proper share of the increased revenue requirements authorized herein and, accordingly, the rates for this service will be increased by 50 percent throughout to yield an additional \$700,000 in revenues.

SPREAD OF RATES - GENERAL TELEPHONE

In connection with the settlement agreement between Pacific and General, hereinabove discussed, whereby General would reduce certain of its rates by an overall dollar amount equivalent to the settlement increase which it would receive, we find that it is fair and reasonable to order a reduction in General's rates by amounts which will, for the test year 1967, reduce its gross revenues by \$7,500,000. Both General and the staff have presented suggested rate spreads intended to substantially reduce the present differences between General's and Pacific's rates in adjoining and nearby exchanges. Of the two proposals we find that of the staff to be equitable when modified to reflect the authorized settlement amount and when further modified to ensure, within the terms of the agreement, that no resulting reduced rate will fall below the comparable Pacific rate. While it may appear that General's rates for the Pomona Valley exchanges are below Pacific rates, it is emphasized that such is an interim situation only since by Decision No. 73248 issued October 24, 1967, in Application No. 47330, such rates will be automatically increased by the EAS increments therein specified to a level equivalent to those of Pacific at such time as extended area service is established. The following tabulation sets forth certain typical basic exchange rates hereinafter ordered for the General Telephone exchanges involved. The charge for a colored instrument will be made identical with Pacific's charge.

Examples of Rates
Ordered for General Telephone

	Exchanges			
	<u>San Fernando</u>	<u>West LA</u>	<u>Sierra Madre Monrovia</u>	<u>Westminster</u>
	\$	\$	\$	\$
Business:				
1-party flat	a	10.30	a	13.60 ^b
1-party message	5.50(80)	5.50(80) ^b	5.50(80)	c
Residence:				
1-party flat	4.65	4.65	4.65	5.10
2-party flat	3.75	3.75	3.75	3.95
4-party flat	2.95	2.95	2.95	3.10

a - No flat rate service presently offered.

b - Present rate, unchanged.

c - No message rate service presently offered.

Requirement for Additional Information - Exhibit No. 160

In the foregoing discussions of the various elements pertaining to the spread of rates, it has been repeatedly pointed out that Pacific has not supplied actual revenue, cost or plant data in support of its tariffs. When specifically requested to do so, in December 1967, its Counsel argued in opposition to the request and later presented a witness whose purpose it was to attempt to convince the Commission that the request should be withdrawn.^{58/} The request was not withdrawn but, in fact, reiterated. Nevertheless, Pacific waited until the next to the last day of hearing to plead that its "withdrawal be instructed" (presumably by the Commission as a whole rather than by the presiding officers).^{59/}

^{58/} The request was by the Examiner in accordance with Rule No. 74 of the Commission's Rules of Practice and Procedure. Such rule reads, in part, as follows: "At the hearing, the presiding officer may require the production of further evidence upon any issue."

^{59/} TR 12276, line 10.

The arguments of Pacific's counsel and the comments of its witnesses make it abundantly clear that the whole subject is distasteful to Pacific. It desires, apparently, to forever rely on estimates made prior to the setting of rates on new services^{60/} as justification for continuing rate forms and relative rate levels whether or not the services are in reality today properly priced. One of its witnesses is "hopeful" that the original estimates will so price new services that they will not be a burden on basic service.^{61/} While this Commission may share or even applaud such "hopes", it has the duty to see to it that rates are fair and reasonable and that no undue discrimination is either created or, on becoming apparent, is allowed to continue. The information sought by the Examiner would materially assist the Commission in the performance of such duty.

The point has been reached where the very multiplicity of Pacific's tariffs, basic services and specialty or promotional items requires analyses of the actual revenues and costs attributable to its tariff offerings, old and new alike. We shall require Pacific by the order herein to fully respond to the request contained in Exhibit No. 160 in this proceeding, by written response to the matters therein set forth, within a 12-month period. Such response shall be served upon all parties to this proceeding. Any petition for an extension of time within which to comply therewith, Rule No. 43 notwithstanding, shall likewise be served upon all parties to this proceeding and such petition may be the subject of public hearing.

^{60/} Characterized as "previous estimates of services not yet offered", TR 12376, lines 7, 8.

^{61/} TR 11658, lines 10-19.

Rulings and Motions

In a proceeding as extensive as this one, it is not practicable to rule individually on all of the various points brought before us for consideration. Our objective, as in all such proceedings, has been to discuss and to specifically rule on those matters of major importance in deciding the validity of the requests of the applicant and the manner in which our findings relative thereto are to be implemented. Due consideration, however, has been given to all points and motions raised although each may not have been hereinabove specifically treated. One of the latter is the joint motion of the cities of San Francisco and Long Beach requesting this Commission (1) to order Pacific to "cease and desist" from supporting any plan of AT&T which "adversely affects the interests of the customers of Pacific or the California ratepayer" and (2) to order Pacific to "support and endorse" an FCC plan respecting jurisdictional separations. The subject matter of this motion is beyond the scope of this proceeding and its disposition is unnecessary to a proper, fair and reasonable determination of the rate-making purposes of the proceeding.

Findings of Fact

1. After due notice, public hearings have been held on a record consolidating Application No. 49142 and Cases Nos. 8608, 8609 and 8690; evidence has been adduced; the Commission has been fully informed and the matters stand submitted.

2. Where, as in this record, thorough briefing of the issues has occurred, the "proposed report" procedures contemplated by Rules 79, 80 and 81 of this Commission's Rules of Practice and Procedure would be redundant of matters on which the Commission has already been extensively informed,

3. This Commission last exhaustively analyzed the operations of Pacific in Case No. 7409 in which interim Decision No. 67369 was issued June 11, 1964. Said decision was appealed to the Supreme Court and, insofar as the rate-making principles therein set forth are concerned, the Court affirmed the decision on April 28, 1965. A final decision, Decision No. 71575, was issued on November 23, 1966 and the rates therein prescribed (those presently in effect) became effective in January 1967.

4. In this proceeding, Pacific has placed emphasis by evidence and argument on the issues of (1) rate of return, (2) Western Electric purchase and expense adjustments, (3) State income tax, (4) pension expense, (5) accelerated depreciation and (6) settlements respecting independent company toll. Of these major issues, Pacific's evidence shows basically changed circumstances respecting only the issue of rate of return.

5. Pacific selected as a "test year" and based its showing as respects its results of operations on the "estimated year 1967".

6. Staff adjustments, for the test year, made for (1) Western Electric prices, credit and expense, (2) the State tax expense computation based upon an unaffiliated corporate return concept in order to relieve California ratepayers of the burden of assuming taxes on AT&T's holding company functions, (3) relief and pension fund accrual interest assumptions reflecting present day interest rates and (4) the use of the straight-line remaining life method of depreciation, for the rate-making purposes of this proceeding and based upon the record herein, are fair and reasonable.

7. Pacific uses the straight-line method of depreciation accounting for both book and tax purposes. It does not use accelerated tax depreciation for tax purposes, as permitted by

Section 167 of the Internal Revenue Code, nor does it flow through to net income the initial-year tax savings resulting from its use of the investment tax credit.

8. A true tax saving would result from its use of accelerated depreciation.

9. Pacific's management uses that method of computing income taxes which results in maximum tax costs and, hence, maximum charges to its ratepayers and by so doing its management has exceeded a reasonable and prudent course respecting the same, to the detriment of the public interest.

10. It is fair and reasonable and in the public interest to compute Pacific's income tax expense for the test year on the basis of the use of accelerated depreciation beginning with plant additions in such test year. The effect of such computation is to increase Pacific's intrastate rate of return by .08 percent for the test year.

11. Under existing rates and charges for its utility services, Pacific's earnings during the test year produce a rate of return of 6.07 percent on an intrastate rate base of \$2,895,170,000.

12. A rate of return of 6.9 percent on a test year intrastate rate base of \$2,893,800,000 is fair and reasonable.

13. Pacific is entitled to increased net intrastate revenues in the amount of \$24,000,000, an amount sufficient to raise its test year rate of return from the present 6.07 percent to the 6.9 percent hereinabove found to be reasonable.

14. An increase of \$50,200,000 in gross revenues, based upon the test year, is justified.

15. The present practices of Pacific and the respondent connecting telephone utilities in excluding from consideration the revenues and costs of I-I toll in this State are unjust, unreasonable,

inadequate and improper. In accordance with the statutory authority contained in Section 761 of the Public Utilities Code the Commission should prescribe the just and reasonable practices to be followed in such respect.

16. Cost is an indispensable factor in the setting of fair and reasonable rates for service.

17. Because of the exiguity of actual revenue, cost and plant data pertaining to Pacific's tariff offerings, the Commission must largely adhere to the rate patterns last established in Case No. 7409.

18. The establishment of a uniform toll rate at a level to support the entire intrastate integrated toll network is in the public interest.

19. Pacific's intrastate message toll earnings, under present rates, provide it with a rate of return of approximately 9.29 percent on this portion of its business. The revenue savings resulting from separations methods made in FCC Docket No. 16258 should largely be passed along to intrastate message toll customers, thereby reducing such excessive rate of return. It is fair and reasonable to accomplish this by reducing rates for the 35 to 80 mile range, placing all day Saturday rates on the night schedule, starting night rate discounts at 40 miles, adjusting person service overtime rates to the same level as station overtime rates, converting 9-, 10- and 11-unit message rates to toll routes and by eliminating all 10-cent toll routes.

20. An increase in private line rates is warranted and the establishment of one-half mile blocking for local service measurements used for computing such rates is fair and reasonable.

21. Establishment of an intrastate TWX rate structure consistent with that of the interstate rate, using a one-minute minimum period and reducing the number of mileage blocks to seven, is fair and reasonable.

22. It is fair and reasonable and in the public interest to establish a rate plan for the entire Los Angeles Extended Area predicated on considering such area as one rate-making unit with substantially one basic rate throughout.

23. The complaint in Case No. 8690 will be satisfied by the rate plan for the Los Angeles Extended Area and its nearby exchanges as hereinafter authorized and directed.

24. Pacific and General have entered into an agreement whereby settlements between them for cross-boundary extended service traffic will be on a full cost basis. Implementation of the agreement will be in the public interest. An amount of \$7,500,000 is sufficient to support such settlement agreement and such amount under the agreement would be transferred by Pacific to General. It is just and reasonable to include such amount in the additional revenues to be accorded Pacific.

25. It is just and reasonable to reduce General's rates by amounts which will, for the test year, reduce its gross revenues by the same \$7,500,000 above referred to.

26. It is in the public interest to expand local calling areas and as means of accomplishing the same it is fair and reasonable to:

- (a) Convert certain contiguous message unit routes in the San Francisco Bay Area to extended service;
- (b) Convert all 2 message unit routes in the San Francisco-East Bay Extended Area and in the Los Angeles Extended Area to extended service; and

- (c) Establish basic rates for EAS exchanges based upon the group rate of the exchange within its local calling area, with the greatest number of main stations, plus a rate increment dependent upon the mileage of the toll route replaced by the extended area service.

27. It is fair and reasonable to substitute one-party message rate service for two-party flat and two-party message rate residence services in the metropolitan areas of San Francisco, Los Angeles, San Diego and Orange County.

28. Message-rate business service charges are more equitable than flat-rate charges in that they are proportional to the amount of service utilized. All of the extended areas should have measured rates for business service. It is fair and reasonable to require that present flat rate individual line and flat rate PBX trunk services be withdrawn within three years and that message rate services be substituted therefor in the San Francisco-East Bay, San Diego, Orange County and Sacramento Extended Areas.

29. There is no justification for the continuance of non-uniform message allowances for business message rate service. It is fair and reasonable to establish a uniform allowance of 80 message units for such service.

30. The present tariff provisions which allow business and residence message-rate subscribers in the San Francisco-East Bay and Los Angeles Extended Areas to use the message allowance in multi-unit interexchange calling is unduly discriminatory. It is just and reasonable, in order to remove such discrimination, to provide that only local area single-unit calls in said Extended Areas be chargeable against the message rate allowance.

31. It is fair and reasonable to establish uniform statewide rates for business foreign exchange service.

32. No change in the present methods of charging for secretarial-line services is warranted.

33. It is fitting, proper, just and reasonable and in the public interest to establish a basic minimum "lifeline" residence service at a rate of \$2.25 per month with a message allowance of 30 units in those areas where residence message-rate service is now or may hereafter be provided, with the only restriction being that no more than one such service may be established for each dwelling unit.

34. No increase in the present 4.05 cents charge for multi-message units is justified.

35. With respect to miscellaneous services, it is fair and reasonable to:

- (a) Establish a monthly service charge plus a graded charge measured by accumulated minutes of use for land mobile service;
- (b) Base key equipment charges on combinations of features rather than on a multiplicity of piece parts;
- (c) Introduce a fixed charge per station for the moving or changing of key equipment;
- (d) Establish a uniform charge of \$1.75 per month for business flat rate extension service; and
- (e) Increase the present 50 cents per quarter-mile suburban mileage rate to 65 cents for one-party and trunk suburban mileage and to proportionately increase such charges in the various special rate areas.

36. Increased revenues amounting to \$24,400,000 are justified for Pacific's directory services. It is fair and reasonable to obtain this amount by increasing Street Address Directory charges and by changing circulation groups and increasing classified advertising rates within such groups and basing the rates on the use of the circulation of the largest exchange plus 25 percent of the circulation of the remaining exchanges for multi-exchange directories serving

more than one county and on the use of the circulation of the largest exchange plus 45 percent of the circulation of the remaining exchanges for multi-exchange directories serving a single county. The proposal for splitting directories is also fair and reasonable.

37. It is fair and reasonable to authorize a uniform increase of 50 percent in charges for Street Address Directory Service.

38. The proper discharge of its duties requires that this Commission be provided with actual revenue, cost and plant data pertaining to the tariff offerings of Pacific. It is within Pacific's power to supply such data and it is fair and reasonable to require that it be supplied within a 12-month period.

Conclusions of Law

1. The application of Pacific Telephone should be granted to the extent set forth in the following order and in all other respects denied.

2. The rates and charges of General Telephone should be reduced as set forth in the following order.

3. In accordance with the Statutory authority contained in Section 761 of the Public Utilities Code, the practices of Pacific Telephone and of the respondent connecting telephone utilities, respecting the considerations to be accorded I-I toll in this State, should be prescribed as set forth in the following order.

4. The increases in rates and charges authorized herein are justified.

5. The rates and charges authorized herein are just and reasonable and present rates and charges, insofar as they differ therefrom, are for the future unjust and unreasonable.

6. The petition for a proposed report in these matters should be denied.

7. Case No. 8608 and Case No. 8609 should be terminated.
8. The complaint in Case No. 8690, being satisfied by the rates hereinafter authorized or directed, should be dismissed.
9. All motions consistent with the findings and conclusions of this opinion should be granted; those inconsistent therewith, denied.

O R D E R

IT IS ORDERED that:

1. The Pacific Telephone and Telegraph Company is authorized to file with this Commission, on or after the effective date of this order and in conformance with the provisions of General Order No. 96-A, revised tariffs with rates, charges and conditions as set forth in Appendix A attached hereto and, on not less than ten days' notice to the public and to this Commission, to make said revised tariffs effective for service rendered on and after December 2, 1968. ✓
2. The Pacific Telephone and Telegraph Company and the respondents in Case No. 8609 shall modify, forthwith, their existing practices respecting the division of toll revenues between them so as to include therein revenues and costs of I-I toll and Pacific shall notify this Commission in writing that the same has been accomplished by no later than January 15, 1969. ✓
3. Each respondent in Case No. 8609 shall file with this Commission, within twenty days after the effective date of this order and in conformity with the provisions of General Order No. 96-A, concurrence in the message toll telephone tariffs of Pacific as set forth in Appendix B attached hereto, and on not less than ten days' notice to the public and to this Commission, make the tariffs so concurred in effective for service rendered on and after December 2, 1968.

4. General Telephone Company of California shall file with this Commission, on or after the effective date of this order and in conformance with the provisions of General Order No. 96-A, revised tariffs with rates, charges and conditions as set forth in Appendix C attached hereto and, on not less than ten days' notice to the public and to this Commission, make said revised tariffs effective for service rendered on and after December 2, 1968. ✓

5. The Pacific Telephone and Telegraph Company and all affected respondents in Case No. 8609 shall forthwith establish extended service, in lieu of toll and multi-message unit service, over all routes (1) between Pacific's exchanges and/or district areas and (2) between Pacific's and said respondents' exchanges and/or district areas, where the toll route mileage of such routes is eight miles or less. By not later than February 28, 1969, Pacific shall present to this Commission a written program for the accomplishment of the same and shall thereafter provide monthly reports as to the progress of such program until completion thereof at no later date than December 31, 1971. Such extended service shall be established with rates and charges therefor in accordance with the rate pattern set forth in Table 2B of Exhibit No. 92-A in this proceeding.

6. The Pacific Telephone and Telegraph Company shall forthwith establish district areas in its San Jose exchange as set forth in Chart 3-A of Exhibit No. 92 in this proceeding and shall establish extended service between the Hayward exchange and the Valley district area of the Danville exchange, between the Oliver district area of the Dumbarton exchange and the North District area of the San Jose exchange, between the Mountain View exchange and the West District area of the San Jose exchange and between the Los Altos exchange and the West District area of the San Jose exchange and shall complete

the same by not later than July 1, 1971. Pacific shall provide this Commission with quarterly reports of progress thereon, commencing with a first report on March 31, 1969.

7. The Pacific Telephone and Telegraph Company is authorized to proceed with its long-term program to split the alphabetical and classified directories in the Los Angeles Extended Area substantially as set forth in Exhibit No. 29 in this proceeding and shall coordinate the same with those of General Telephone Company of California.

8. Within the San Francisco-East Bay, Los Angeles, San Diego and Orange County Extended Areas, The Pacific Telephone and Telegraph Company shall forthwith (1) convert all residence, two-party message rate, 60 message allowance, services to one-party message rate services, (2) convert all residence, two-party message rate, 30 message allowance, services to one-party message rate services and (3) withdraw the offering of residence two-party flat rate service. Further, Pacific shall present to this Commission, by not later than March 31, 1969, a written program for the accomplishment of the same and shall thereafter provide quarterly reports as to the progress of such program until completion thereof at no later date than December 31, 1971.

9. The Pacific Telephone and Telegraph Company within its San Francisco-East Bay, San Diego (excepting the Dulzura district area), Orange County and Sacramento Extended Areas shall by not later than December 31, 1971, (1) withdraw the offering of business individual line flat rate service, and (2) withdraw the offering of business private branch exchange flat rate service and substitute therefor the offering of business private branch exchange trunk message service. Pacific shall provide this Commission with quarterly reports of progress thereon, commencing with a first report on March 31, 1969.

10. Respondents in Case No. 8609 shall file with this Commission, within twenty days after the effective date of this order and in conformity with the provisions of General Order No. 96-A, revisions in primary service rates for foreign exchange service consistent with the tariff revisions in the basic individual line and trunk rates set forth in Appendix A and Appendix C attached hereto and, on not less than ten days' notice to the public and to this Commission shall make said revised tariffs effective for service rendered on and after December 2, 1968. ✓

11. The Pacific Telephone and Telegraph Company is directed to provide this Commission with a written response to the requests contained in Exhibit No. 160 in this proceeding by not later than December 31, 1969 and shall serve a copy thereof upon each party to this proceeding. Should Pacific seek an extension of time within which to comply with this directive, Pacific shall serve its petition therefor upon each party to this proceeding not later than November 30, 1969.

12. The agreement, between The Pacific Telephone and Telegraph Company and General Telephone Company of California, set forth in Exhibit No. 41 in this proceeding is approved and the parties thereto are hereby authorized to carry out the terms and conditions thereof.

13. The investigations in Cases Nos. 8608 and 8609 are hereby discontinued.

14. The complaint in Case No. 8690 is hereby dismissed.

15. The petition for a proposed report is hereby denied.

16. Motions consistent with the opinion and order herein are granted; those inconsistent therewith are denied.

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

Dated at San Francisco, California, this
6th day of NOVEMBER, 1968.

William J. Lyons, Jr.
President

Fred P. Monissey
Commissioners

*I will file
a dissent
Argument*

I concur and will file a separate statement

Fred P. Monissey.

ATTACHMENT 1

Page 1 of 3

Appearances

For Applicant in Application No. 49142, Respondent in Case No. 8608: Pillsbury, Madison & Sutro, by George H. Eckhardt and R. W. Odgers.

For Certain Respondents in Case No. 8609: Arthur S. Taylor, for California Interstate Telephone Company; John P. Vetromile, for California-Pacific Utilities Company; R. H. Phelps, for Golden State Telephone Company and for Golden West Telephone Company; Bacigalupi, Elkus, Salinger & Rosenberg, by Claude N. Rosenberg, for California Water and Telephone Company; A. M. Hart and H. Ralph Snyder, for General Telephone Company of California; Bacigalupi, Elkus, Salinger & Rosenberg, by Claude N. Rosenberg, for Citizens Utilities Company of California.

For Complainants in Case No. 8690: Tom C. Carrell.

For Defendants in Case No. 8690: Pillsbury, Madison & Sutro, by George H. Eckhardt and R. W. Odgers, for The Pacific Telephone and Telegraph Company; A. M. Hart and H. Ralph Snyder, for General Telephone Company of California; Bacigalupi, Elkus, Salinger & Rosenberg, by Claude N. Rosenberg, for California Water and Telephone Company.

Interested Parties in Application No. 49142: City of Los Angeles, by Roger Arnebergh, Charles Mattson and Robert W. Russell; City and County of San Francisco, by Thomas M. O'Connor, William C. Taylor and Robert R. Laughead; City of San Diego, by Edward T. Butler and John Witt and by Stanley M. Lanham; City of Long Beach, by Phil J. Shafer, Henry E. Jordan and Louis Possner; State of California, by Thomas C. Lynch, Charles A. O'Brien and Donald B. Day; County of Los Angeles, by John Maharg; Marin County Board of Supervisors, by Douglas Maloney, Richard Godino and J. Mansfield Lewis; City of Sacramento, by Joseph E. Coomes, Jr., and James P. Jackson; County of San Mateo, by James E. Cook; City of Santa Clara, by Edwin J. Moore and Robert Keith Booth, Jr.; County of Santa Cruz, by William H. Card; United States Government, General Services, by Thomas J. O'Reilly, Clarence W. Hull and Max M. Misenar; The Western Union Telegraph Company, by John J. Damerell; California Farmer-Consumer Information Committee, by Borghild Haugen; California Labor Federation, AFL-CIO, by Michael Peevey and Dennis T. Peacocke; California Manufacturers Association, by Robert E. Burt; California Independent Telephone Association, by Claude N. Rosenberg of Bacigalupi, Elkus, Salinger & Rosenberg and by Neal C. Hasbrook; Allied Telephone Companies Association, by Ernest W. Watson and Homer Harris; Auburn Chamber of Commerce and in propria persona, Richard E. Saladana; California Farm Bureau Federation, by William L. Knecht and Ralph O. Hubbard; Communications Workers of America, AFL-CIO, by Richard W. Hackler, Divert-A-Call Company, by Edwin A. Kauppila; Federation of Women Telephone Workers, by Mrs. Dina G. Beasumont; Retail Dry Goods Association of San Francisco, by James W. Courts; Telephone Answering Services

ATTACHMENT 1
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Appearances

Interested Parties--Contd.

of California, by Ernest W. Watson; Western Fire and Burglar Alarm Association, by Lessing E. Gold, of Gold, Herscher & Taback; Utility User's League of California and in propria persona, Edward L. Blincoe; East Oakland Action Council, by Charlie Williams; I.L.W.U., by Louis Goldblatt and Barry M. Silverman; East Oakland Consumer Action Council, by Costlo D. Moore; Legal Aid Society of Alameda County, by Scipio Porter, Jr.; Local Union 1011 I.B.E.W. AFL-CIO, by K. J. Leavitt; California Rural Legal Assistance, by Robert Y. Bell, for Jack Wilcox, Dolores Wallace, Francis B. Rosa and Phillip Fox; Pleasanton Valley Homeowners Association, by Wilbur G. Christner; United Air Lines, by Gordon E. Davis of Broeck, Phleger & Harrison; City of Corona, by Thomas H. White; Melvin Hanberg, in propria persona.

Protestants in Application No. 49142: City of Beverly Hills, by George Slaff and Allen Grimes; Association of California Consumers, by George G. Grover and Robert Barton; City of Bellflower, by Alexander Googooian; Homemakers for Lower Prices in California, Inc., by Joy Ann Walden and Lee Payne; Committee for Better Telephone Service, by Morris M. Conklin; Redwood Radio Telephone Corporation and Redwood Radio Telephone Corporation-Marin, by Daniel W. Cochran; Senior Citizens Association of Los Angeles County, by Miss Joan H. Martin and Royal C. Younger; International Senior Citizens Association, Inc., by Mrs. Marjorie Borchardt; Allied Senior Citizens Clubs, by Larry Chrisco; James J. Oppen, Corrinne Goddard, in propria personae.

For the Commission Staff: Hector Anninos and Leonard L. Snaider, Counsel, with Parke Boneysteele, James G. Shields, A. L. Gielegem.

WITNESSES

Jean Adams, Louis G. Andrego, Edgar H. Bernstein, Nat Berul, Edward L. Blincoe, Marjorie Borchardt, Harry L. Bright, Jack Brust, Barbara Burkhart, Elizabeth Carberry, Tom C. Carrell, Frederick H. Cassel, Adrien C. Cassidy, Victor Cassman, William V. Caveney, Kenneth Chew, Larry Chrisco, Morris M. Conklin, D. M. Craig, E. R. Davidson, B. A. Davis, T. L. Deal, John Joseph Dettmer, Donald A. Dobbie, Lela Ruth Dykes, Clyde Edmondson, T. G. Edwards, John O. Einerman, James Eller, William L. Elmgren, Dominick W. Ermita, Stephen J. Fisher, Russell Fitzpatrick, Richard C. Frey, Richard Gabel, Richard W. Hackler, Neal C. Hasbrook, Borghild Haugen, Jerome W. Hull, Cheriell M. Jensen, Jean A. Jiles, Robert M. Joses, Benjamin J. Kingwell, Manuel Kroman, S. F. Lucchi, Ermet Macario, Robert W. Mason, William F. McChesney, William H. Merritt, W. L. Mobraaten,

ATTACHMENT 1
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WITNESSES--Contd.

R. C. Moeck, Robert R. Nathan, David Negri, Richard L. Ohlson, Adolph Osterveen, Paula Owen, W. H. Parker, John D. Paschall, Richard T. Perry, Paul Popenoe, Jr., Michael Potts, Wilma Rice, Grace Ryland, Aram Sahakian, E. John Schonberger, Donald Franklin Searcy, G. V. Seymour, Barry M. Silverman, Joseph Frank Stay, James E. Stroud, Morris Tannenbaum, David Alfred Thompson, William J. Thompson, Leo Unger, Melwood W. Van Scoyoc, Richard W. Walker, Bud Walworth, Ernest W. Watson, Howard O. Watts, Harry "Archie" Weisman, David E. Wells, John Fred Weston, Royal C. Younger.

APPENDIX A
Page 1 of 18

RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Respondent's rates, charges and conditions are changed as set forth in this appendix.

Schedules Nos. 4-T and 5-T
Individual and Party Line Service

RATES

EACH PRIMARY STATION:	Individual and Party Line Service				Suburban Service		Semipub. Service	
	Rate per Month				Rate per Month		Indiv. Line	
	Business		Residence		Business	Res.	Line	Rate per
	Indiv.	2-Party	Indiv.	2-Party	4-Party	8-Party	8-Party	Month
	Line	Line	Line	Line	Line	Line	Line	Month
(Group I)	\$9.00	\$6.75	\$4.75	\$3.65	\$2.95	\$6.25	\$3.45	\$4.50
Alleghany		Cloverdale		Gonzales		Los Molinos		
Alta		Coalinga		Greenfield		Lower Lake		
Anderson		Cobb Mountain		Grenada		Loyalton		
Angels Camp		Corning		Gridley		Madera		
Annapolis		Corona		Groveland		Marysville		
Arvin		Cottonwood		Gualala		Mendota		
Atascadero		Coulterville		Guerneville		Meridian		
Avalon		Crockett		Hamilton **		Mesa Grande		
Avenal		Davis		Hilt		Michigan Bar		
Baker		Death Valley		Hollister		Middletown		
Bangor		Delano		Holtville		Milton		
Biggs		Dixon		Hopland		Miranda		
Big Sur		Downieville		Hornbrook		Moccasin		
Blairsden		Dunnigan		Huron		Mojave		
Bodega Bay		Dunsmuir		Imperial		Mokelumne Hill		
Boonville		Earlimart		Ione		Montague		
Borrego		Edwards		Jackson		Monte Rio		
Bradley		El Centro		Jacumba		Moorpark		
Brawley		Elk		Julian		Mount Shasta		
Bridgeville		Elk Creek		Kelseyville		Newhall		
Burrel		Emigrant Gap		Keystone		Nicasio		
Butte City		Emmet		Kingsburg		Nice		
Calexico		Escalon		Knights Ferry		Nicolaus		
Calipatria		Esparto		La Honda		Nipomo		
Cambria		Fallbrook		Lake Berryessa		North San Juan		
Campo		Feather Falls		Lakeport		North Yuba		
Camptonville		Fillmore		Laton		Oakdale		
Carrisa Plains		Firebaugh		Iebec		Occidental		
Challenge		Fontana*		Iemoore		Ocotillo		
Chico		French Gulch		Lewiston		Orange Cove		
Chowchilla		Gazelle		Lincoln		Orland		
Chualar		Georgetown		Live Oak		Oroville		
Clear Lake Oaks		Gerber		Los Banos		Palmdale		

* Rates shall be increased to Group II rates upon introduction of extended area service to San Bernardino.

** Consolidation with Chico and special rate area establishment authorized by D-73771.

- * Rates shall be increased to Group II rates upon introduction of extended area service to Concord.
- ** Consolidation with Paso Robles and Special Rate Area establishment authorized by D-72734.

APPENDIX A
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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

EACH PRIMARY STATION:								
	Individual and Party Line Service				Suburban Service		Semipub. Service	
	Rate per Month				Rate per Month		Indiv. Rate per Month	
	Business	Residence	Business	Residence	Business	Residence	Business	Residence

(Within Extended
Areas Outside of
Metropolitan Areas)

Antioch	\$ 9.40	\$ 7.15	\$ 4.95	\$ 3.85	\$ 3.15	\$ 6.65	\$ 3.65	\$ 4.75
Aptos	9.85	7.60	5.15	4.05	3.35	7.10	3.85	5.00
Arcata	9.05	6.80	4.75	3.65	2.95	6.30	3.45	4.75
Arroyo Grande	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Atwater	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Auburn	9.40	7.15	4.95	3.85	3.15	6.65	3.65	4.75
Benicia	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Ben Lomond	10.20	7.95	5.35	4.25	3.55	7.45	4.05	5.25
Blue Lake	11.10	8.85	5.80	4.70	4.00	8.35	4.50	5.75
Boulder Creek	10.70	8.45	5.60	4.50	3.80	7.95	4.30	5.50
Calistoga	9.85	7.60	5.15	4.05	3.35	7.10	3.85	5.00
Capistrano Valley	9.05	6.80	4.75	3.65*	-	6.30	3.45	4.75
Castroville	10.20	7.95	5.35	4.25	3.55	7.45	4.05	5.25
Cayucos	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Caruthers	12.95	9.70	6.00	4.75	4.10	8.60	4.60	6.50
Carmel	9.55	7.30	5.00	3.90	3.20	6.80	3.70	5.00
Carmel Valley	11.90	9.65	6.20	5.10	4.40	9.15	4.90	6.00
Clovis	11.25	8.00	5.15	3.90	3.25	6.90	3.75	5.75
Colton	11.25	8.00	5.15	3.90	3.25	6.90	3.75	5.75
Crows Landing	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Del Mar	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Del Rey	12.45	9.20	5.75	4.50	3.85	8.10	4.35	6.25
East Contra Costa	9.85	7.60	5.15	4.05	3.35	7.10	3.85	5.00
Encinitas	9.85	7.60	5.15	4.05	3.35	7.10	3.85	5.00
Escondido	9.40	7.15	4.95	3.85	3.15	6.65	3.65	4.75
Eureka	9.95	7.70	5.00	3.90	3.20	7.20	3.70	5.00
Felton	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Forestville	12.45	9.20	5.75	4.50	3.85	8.10	4.35	6.25
Fort Bragg	9.40	7.15	4.95	3.85	3.15	6.65	3.65	4.75
Fortuna	10.20	7.95	5.35	4.25	3.55	7.45	4.05	5.25
Fresno	11.40	8.15	5.15	3.90	3.25	7.05	3.75	5.75
Galt	10.20	7.95	5.35	4.25	3.55	7.45	4.05	5.25
Geyserville	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Gustine	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Grass Valley	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50

* Two-party message rate service also offered
at \$2.95 - 60.

APPENDIX A
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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

EACH PRIMARY STATION:								
	Individual and Party Line Service				Suburban Service		Semipub. Service	
	Rate per Month				Rate per Month		Indiv. Service	
	Business	Residence	Business	Residence	Business	Res.	Line	Line

Indiv.:2-Party:Indiv.:2-Party:4-Party: 8-Party:8-Party:Rate Per:
: Line : Line : Line : Line : Line : Line : Line : Month :

(Within Extended
Areas Outside of
Metropolitan Areas -
Continued)

Half Moon Bay	\$ 9.00	\$ 6.75	\$ 4.75	\$ 3.65	\$ 2.95	\$ 6.25	\$ 3.45	\$ 4.50
Healdsburg	12.95	9.70	6.00	4.75	4.10	8.60	4.60	6.50
Highland	11.25	8.00	5.15	3.90	3.25	6.90	3.75	5.75
Herald	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Homewood	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Hughson	11.25	8.00	5.15	3.90	3.25	6.90	3.75	5.75
Hydesville	12.25	10.00	6.40	5.30	4.60	9.50	5.10	6.25
Ignacio *	9.00	6.75	4.75	3.65	2.95	-	-	4.50
	(11.25)	(8.00)	(5.15)	(3.90)	(3.25)	-	-	(5.75)
Inverness	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Jamestown	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
King City	9.15	6.90	4.75	3.65	2.95	6.40	3.45	4.75
Livermore	9.45	7.20	4.95	3.85	3.15	6.70	3.65	4.75
Lockeford	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Lodi	9.10	6.85	4.75	3.65	2.95	6.35	3.45	4.75
Le Grand	10.70	8.45	5.60	4.50	3.80	7.95	4.30	5.50
Loleta	11.70	9.45	6.05	4.95	4.25	8.95	4.75	6.00
Martinez	12.10	8.85	5.55	4.30	3.65	7.75	4.15	6.25
Mendocino	9.85	7.60	5.15	4.05	3.35	7.10	3.85	5.00
Merced	9.10	6.85	4.75	3.65	2.95	6.35	3.45	4.75
Modesto	11.25	8.00	5.15	3.90	3.25	6.90	3.75	5.75
Monterey	9.05	6.80	4.75	3.65	2.95	6.30	3.45	4.75
Morro Bay	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Moss Beach	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Napa	9.05	6.80	4.75	3.65	2.95	6.30	3.45	4.75
Nevada City	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Newman	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
North Tahoe								
Brockway D.A.	9.40	7.15	4.95	3.85	3.15	6.65	3.65	4.75
Tahoe City D.A.	9.40	7.15	4.95	3.85	3.15	6.65	3.65	4.75
Oceanside	9.40	7.15	4.95	3.85	3.15	6.65	3.65	4.75

* Rates shall be increased to those shown in parentheses upon introduction of extended area service to San Rafael authorized by D-74208.

Individual and Party Line Service		Suburban Service		Semipub. Service	
Rate per Month		Rate per Month		Indiv. Rate	
Business	Residence	Business	Res.	Line	Line
Indiv.:2-Party:	Indiv.:2-Party:	4-Party:	8-Party:	8-Party:	Rate per
Line	Line	Line	Line	Line	Month

Ojai	\$10.20	\$ 7.95	\$ 5.35	\$ 4.25	\$ 3.55	\$ 7.45	\$ 4.05	\$ 5.25
Petaluma-Swift								
D.A.	12.95	9.70	6.00	4.75	4.10	8.60	4.60	6.50
Pinole	5.75-80	-	5.15	3.90	3.25	6.90	3.75	5.75
Pismo Beach	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Pittsburg-Main								
D.A.	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Planada	10.20	7.95	5.35	4.25	3.55	7.45	4.05	5.25
Pleasanton	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Point Reyes	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Porterville	9.05	6.80	4.75	3.65	2.95	6.30	3.45	4.75
Poway	9.85	7.60	5.15	4.05	3.35	7.10	3.85	5.00
Rancho Santa Fe	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Rialto	11.25	8.00	5.15	3.90	3.25	6.90	3.75	5.75
Rio Dell	13.55	11.30	6.95	5.85	5.15	10.80	5.65	7.00
Riverbank	11.25	8.00	5.15	3.90	3.25	6.90	3.75	5.75
Saint Helena	9.45	7.20	4.95	3.85	3.15	6.70	3.65	4.75
Salinas	9.05	6.80	4.75	3.65	2.95	6.30	3.45	4.75
San Ardo	12.05	9.80	6.30	5.20	4.50	9.30	5.00	6.25
San Clemente	9.00	6.75	4.75	3.65*	-	6.25	3.45	4.50
San Lucas	11.05	3.80	5.75	4.65	3.95	8.30	4.45	5.75
Santa Cruz	9.10	6.85	4.75	3.65	2.95	6.35	3.45	4.75
Santa Rosa	11.45	8.20	5.15	3.90	3.25	7.10	3.75	5.75
Saticoy	10.20	7.95	5.35	4.25	3.55	7.45	4.05	5.25
Sebastopol	11.25	8.00	5.15	3.90	3.25	6.90	3.75	5.75
Sonora-Main D.A.	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
South Placer	9.85	7.60	5.15	4.05	3.35	7.10	3.85	5.00
South Tahoe	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Springville	10.20	7.95	5.35	4.25	3.55	7.45	4.05	5.25
Suisun-								
Idlewood D.A.	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50

* Two-party message rate service also offered at \$2.95-60.

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

	:	:	:	: Semipub.	:
	:	Individual and Party Line Service	:	Suburban Service:	Service :
	:	Rate per Month	:	Rate per Month :	Indiv. :
	:	Business : Residence	:	Business: Res. :	Line :
EACH PRIMARY STATION:	:	Indiv.:2-Party:Indiv.:2-Party:4-Party:	:	8-Party:8-Party:Rate per	:
	:	Line : Line : Line : Line : Line :	:	Line : Line : Month :	:

(Within Extended Areas
Outside of Metropolitan
Areas - Continued)

Sunol*	\$10.20 (12.45)	\$ 7.95 (9.20)	\$ 5.35 (5.75)	\$ 4.25 (4.50)	\$ 3.55 (3.85)	\$ 7.45 (8.10)	\$ 4.05 (4.35)	\$ 5.25 (6.25)
Terra Bella	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Thornton	10.20	7.95	5.35	4.25	3.55	7.45	4.05	5.25
Trinidad	14.20	11.95	7.35	6.25	5.55	11.45	6.05	7.25
Truckee	9.85	7.60	5.15	4.05	3.35	7.10	3.85	5.00
Vacaville	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Vallejo	9.00	6.75	4.75	3.65	2.95	6.25	3.45	4.50
Ventura	9.60	7.35	5.00	3.90	3.20	6.85	3.70	5.00
Visalia	9.05	6.80	4.75	3.65	2.95	6.30	3.45	4.75
Watsonville	9.40	7.15	4.95	3.85	3.15	6.65	3.65	4.75
Windsor	12.45	9.20	5.75	4.50	3.85	8.10	4.35	6.25
Yountville	11.40	9.15	5.95	4.85	4.15	8.65	4.65	5.75

* Rates shall be increased to those shown in parentheses upon introduction of extended area service to Fremont-Newark.

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

	:	Individual and Party Line Service	:	Semipub. Service	:
	:	Rate per Month	:	Indiv. Line	:
	:	Business	:	Residence	:
EACH PRIMARY STATION:	:	Indiv. Line	:	Indiv. : 2-Party : Line	:
	:	Line	:	Line : Line	:
	:		:	Rate per Month	:

Los Angeles Extended
Area and San Francisco -
East Bay Extended Area --
All Exchanges

\$13.25*	\$4.65	\$3.75*	\$5.15
5.15-80	3.00-60	2.75-60*	
	2.25-30	2.25-30*	

Except:
Mount Wilson

15.25	7.65	-	7.75
-------	------	---	------

Los Angeles Extended Area Exchanges:

Alhambra	El Monte	Mount Wilson
Arcadia	El Segundo	No. Hollywood
Beverly Hills	Glendale	Pasadena
Burbank	Hawthorne	Reseda
Canoga Park	Inglewood	San Pedro
Compton	Lomita	Torrance
Culver City	Los Angeles	Van Nuys
Crescenta	Montebello	

San Francisco - East Bay Extended Area Exchanges:

Belvedere	Millbrae	San Francisco
Campbell	Mill Valley	San Jose
Concord	Moraga	San Mateo
Corte Madera	Mountain View	San Rafael
Danville	Orinda	Saratoga
East Bay	Pacifica	Sausalito
Fremont-Newark	Palo Alto	South San Francisco
Hayward	Redwood City	Sunnyvale
Lafayette	Richmond	Walnut Creek
Los Altos	San Carlos-Belmont	Woodside

* Flat rate business and 2-Party residence service shall be withdrawn by December 31, 1971.

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

	Individual and Party Line Service		Suburban Service		Semipub. Service	
	Rate per Month		Rate per Month		Indiv. Line	
	Business	Residence	Business	Res.	Line	Line
EACH PRIMARY STATION:	Indiv.:2-Party:	Indiv.:2-Party:	4-Party:	8-Party:	8-Party:	Rate per Month
	Line	Line	Line	Line	Line	Line
Orange County						
Extended Area -						
All Exchanges	\$13.90* 5.50-80	\$ - 3.30-60	\$5.10 3.05-60*	\$ - 2.25-30	\$6.50 3.75	\$5.50

Anaheim
Brea
Buena Park
Fullerton
Garden Grove
Newport Beach
Orange
Placentia
Santa Ana

San Diego						
Extended Area -						
All Exchanges	14.50* 5.25-80	- 3.10-60	4.90 2.85-60*	- 2.25-30	6.40 3.40	5.25

Except:

Chula Vista -						
Dulzura D.A.	14.50	10.00	4.90 3.10-60 2.25-30	3.90* 2.85-60* 2.25-30*	- 6.40	3.40 7.25

San Diego Extended Area Exchanges:

Chula Vista	La Jolla	Pacific Beach
Coronado	La Mesa	San Diego
El Cajon	National City	San Ysidro

Sacramento Extended Area:

Fair Oaks	15.45* 6.50-80	- 6.25	5.00	4.20	-	-	6.50
Folsom	16.40* 7.00-80	- 6.75	5.50	4.70	8.90	5.20	7.00
Rio Linda	14.50* 6.05-80	- 5.75	4.50	3.70	7.00	4.20	6.05
Sacramento	13.90* 5.75-80	- 5.40	4.15	3.35	6.40	3.85	5.75

* Flat rate business and 2-Party residence service shall be withdrawn by December 31, 1971.

APPENDIX A
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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

	Rate per Month <u>Business--Flat</u>
Extension Stations:	
Individual and Party Line Service:	
Each extension station	\$1.75
Suburban Service:	
Suburban Service - each extension station with or without bell	1.75

The special rate area differential for two-, and four-party services shall be maintained in all exchanges where applicable including special rate areas heretofore authorized but not established. The special rate area differential for individual line services shall be as follows:

\$0.65	where the former differential was \$0.50
1.30	" " " " " 1.00
1.95	" " " " " 1.50
2.60	" " " " " 2.00
3.25	" " " " " 2.50

Schedule 4-T, Sheet 33, and Schedule 5-T, Sheet 14, shall have added to the first paragraph thereof: "The exchange message allowance is applicable only to local service area messages."

Condition:

Add a condition restricting residence 30-unit message allowance "lifeline" service to no more than one such service for each dwelling unit.

Schedules Nos. 6-T and 7-T
Message Unit Service

Schedules shall be so modified as to convert 9, 10 and 11 message unit routes to message toll routes.

Special Condition 4 shall be deleted from each of these schedules and succeeding paragraphs shall be renumbered.

APPENDIX A
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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Schedules Nos. 9-T and 10-T
Farmer Line Service

RATES - Each Station

	Rate per Month	
	<u>Residence</u> <u>Service</u>	<u>Business</u> <u>Service</u>
Exchanges where offered as listed in Group I) shown in Schedules Nos. 4-T and 5-T of this appendix. }	\$1.50	\$2.75
Exchanges where offered as listed in Group II) shown in Schedules Nos. 4-T and 5-T of this appendix. }	1.65	3.25
Exchange - Extended, Outside Metropolitan Areas		
Arroyo Grande	1.50	2.75
Atwater	1.50	2.75
Auburn	1.70	3.15
Benicia	1.50	2.75
Blue Lake	2.55	4.85
Calistoga	1.90	3.60
Carmel	1.75	3.30
Caruthers	2.50	4.95
Clovis	1.65	3.25
Crows Landing	1.50	2.75
Del Rey	2.25	4.45
East Contra Costa	1.90	3.60
Escondido	1.70	3.15
Eureka	1.75	3.70
Fort Bragg	1.70	3.15
Fortuna	2.10	3.95
Fresno	1.65	3.40
Geyserville	1.50	2.75
Grass Valley	1.50	2.75
Gustine	1.50	2.75
Healdsburg	2.50	4.95
Herald	1.50	2.75
Hughson	1.65	3.25
Hydesville	3.15	6.00
Inverness	1.50	2.75
Jamestown	1.50	2.75
King City	1.50	2.90
Le Grand	2.35	4.45
Livermore	1.70	3.20
Lockeford	1.50	2.75
Lodi	1.50	2.85
Loleta	2.80	5.45

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

	Rate per Month	
	<u>Residence Service</u>	<u>Business Service</u>
Exchange - Extended, Outside Metropolitan Areas--Contd.		
Martinez	\$2.05	\$4.10
Mendocino	1.90	3.60
Merced	1.50	2.85
Modesto	1.65	3.25
Napa	1.50	2.80
Nevada City	1.50	2.75
Newman	1.50	2.75
North Tahoe		
Brockway D.A.	1.70	3.15
Tahoe City D.A.	1.70	3.15
Pittsburg - Main D.A.	1.50	2.75
Planada	2.10	3.95
Pleasanton	1.50	2.75
Point Reyes	1.50	2.75
Porterville	1.50	2.80
Saint Helena	1.70	3.20
Salinas	1.50	2.80
San Ardo	3.05	5.80
San Lucas	2.50	4.80
Sonora - Main D.A.	1.50	2.75
South Placer	1.90	3.60
Springville	2.10	3.95
Terra Bella	1.50	2.75
Truckee	1.90	3.60
Vacaville	1.70	3.15
Ventura	1.75	3.35
Visalia	1.50	2.80
Watsonville	1.70	3.15
Windsor	2.25	4.45
Exchange - San Francisco - East Bay Extended Area		
Concord	1.50	3.10
Danville	1.50	3.10
Hayward	1.50	3.10
Exchange - Sacramento Extended Area		
Folsom	2.95	5.65
Fair Oaks	2.45	4.70
Rio Linda	1.95	3.75
Sacramento	1.60	3.15
Exchange - Los Angeles Extended Area		
Pasadena	1.50	3.10
Exchange - San Diego Extended Area		
El Cajon	1.75	3.50

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Schedule No. 12-T
Private Branch Exchange Service

Schedule shall be modified as "proposed" in Exhibit No. 93, Appendix, pages 2, 3 and 4, and Exhibit No. 94, Appendix, pages 2 and 3.

Appropriate changes shall be made as required to reflect flat or mileage rate treatment for local channels in connection with local service.

Schedules Nos. 13-T and 14-T
Private Branch Exchange Trunk Line Service

RATES

Where offered, the trunk rate for flat rate service for each trunk line shall be 150% of the individual line primary station flat rate rounded to the lower five-cent multiple. The trunk rate for message rate service for the first two trunk lines shall be the individual line primary station message rate with no message allowance. Each additional message rate trunk line shall be 50% of the rate for the first two trunk lines rounded to the lower five-cent multiple.

Schedules also shall be modified as "proposed" in Exhibit No. 94, Appendix, page 7.

Schedule No. 16-T
Apartment House Private System

Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 3.

Schedule No. 18-T
Intercommunicating System Service

Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 7.

Schedule No. 22-T
Key Equipment Service

(a) Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 3, and cancelled on or before July 1, 1969.

(b) In addition a new schedule shall be filed identical to Schedule No. 22-T but modified as "proposed" in Exhibit No. 93, Appendix, pages 9, 10 and 11 and Exhibit No. 94, Appendix, page 3.

The schedules in (a) above shall be applicable to existing services until said services are converted, at the company's operating convenience but no later than July 1, 1969, to the arrangements, rates and conditions of the schedule in (b) above. The schedule in (b) above shall be applicable to services established on and after the effective date of said schedule.

Appropriate changes shall be made as required to reflect flat or mileage rate treatment for local channels in connection with local service.

Schedule No. 24-T
Dispatching Telephone System Service

Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 3.

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Schedule No. 26-T
Mileage Rates

Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 6.

Schedule No. 28-T
Service Connection - Move and Change Charges

Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 5, and as "proposed" in Exhibit 14, page 6. Conditions 4d and 4e on 6th Revised Sheet 4 shall be deleted.

Schedule No. 29-T
Special Order Receiving Equipment - Los Angeles

Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 3.

Schedule No. 30-T
Toll Terminal Service

Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 3.

Schedule No. 32-T
Supplemental Equipment

Schedule shall be modified as "proposed" in Exhibit No. 93, Appendix, pages 12, 13, 14, 15, 16 and 17, and Exhibit No. 94, Appendix, page 3.

Appropriate changes shall be made as required to reflect flat or mileage rate treatment for local channels in connection with local service.

Schedules Nos. 34-T and 35-T
Foreign Exchange Service

Schedules shall be modified as "proposed" for business service in Exhibit No. 13-A, page 95 (Revised).

Primary service rates for residence foreign exchange service shall be revised consistent with the revisions in the basic individual line and trunk rates set forth herein and in Appendix C.

Schedules shall be revised to provide for the offering of residence, individual line, 60-message allowance, foreign exchange service throughout contiguous exchanges, from exchanges of the San Francisco-East Bay, Los Angeles, San Diego and Orange County Extended Areas, at a monthly rate of 85¢ above the local rate, plus a foreign exchange mileage rate of \$1.25 per quarter-mile per month; except Los Angeles residence, individual line, 60-message allowance, foreign exchange service in Rate Areas A, B and C of contiguous exchanges or district areas shall be offered at rates of \$5.10, \$6.35 and \$7.60, respectively.

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Schedules Nos. 39-T and 40-T
Classified Telephone Directory Advertising

Schedules shall be modified to show classified advertising rate groups, circulation groups and rates as set forth on page 19 of Exhibit 15. Directory circulation for the determination of directory rate groups shall be computed as follows: (a) Single exchange directories - company telephones in the exchange; (b) Multi-exchange, multi-county directories - company telephones in the largest exchange plus 25 percent of company telephones in remaining exchanges; (c) Multi-exchange, single county directories - company telephones in the largest exchange plus 45 percent of company telephones in remaining exchanges.

Schedule No. 41-T
Mobile Telephone Service

RATES

Schedule shall be modified as "proposed" on page 12, paragraph 40 on page 13, and paragraph 43 on page 14 of Exhibit No. 97.

Schedule Cal. P.U.C. Nos. 44-T, 45-T, 46-T, 104-T, 110-T, 115-T and 122-T
Private Line Services and Channels

Schedules shall be modified as "proposed" in Exhibit 140, except, that the words "OTHER SCHEDULES" and "corallary changes as required" on page 9 of said exhibit shall be stricken.

Schedules shall also be modified as follows:

Local Channels - Local Service

1. Channels terminated in customer-owned station equipment

Rate per Month

- | | |
|--|--------|
| A. Channel connecting two or more buildings, including one termination in each building. Each one-half mile or fraction thereof, air-line measurement..... | \$2.00 |
| B. Channel within the same building, including two terminations in building | 2.00 |
| C. Each additional termination on the same service or channel in the same building in connection with channels offered in 1.A. and 1.B. above | 1.00 |

2. Channels terminated in Telephone Company station equipment

Rates in 1.A., B. and C. above plus the rate and charge for station equipment apply.

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Local Channels - Local Service

	<u>Installation Charge</u>
Termination in customer-owned station equipment, each	\$5.00
Termination in Telephone Company station equipment, each	Charge for station equipment applies.

In addition, schedules shall be modified as "proposed" on page 15 of the Appendix of Exhibit No. 94, except channel terminal definition of Schedule Cal. P.U.C. No. 44-T, shall be modified to recognize change from measured local channel to flat or measured rate channel terminal treatment for low frequency 30 baud private line remote metering, supervisory control and miscellaneous signaling channels and for telephotograph channels.

Schedule No. 48-T

Private Line Services and Channels -- One-Way Loud-Speaker Equipment and Channels

Schedule shall be modified as "proposed" in Exhibit No. 93, Appendix, page 18.

Schedule No. 50-T

Private Line Services and Channels -- Supplemental Equipment

Schedule shall be modified as "proposed" in Exhibit No. 93, Appendix, pages 19, 20, 21 and 22.

Appropriate changes shall be made as required to reflect flat or mileage rate treatment for local channels in connection with local service.

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Schedule No. 53-T
Message Toll Telephone Service

Schedule shall be modified as follows:

RATES

Two-Point Service:

The following toll rate schedule shall replace present California Schedules A and B.

Mileage		Station Service - Paid				Person Service - Paid & Collect			
		Day, (Except		Night		Day, (Except		Night	
		Sat. & Sun.)		Sat. & Sun.		Sat. & Sun.)		Sat. & Sun.	
		: Each :		: Each :		: Each :		: Each :	
		Up to	First	First	First	First	First	First	First
		Over and Incl.	3 Mins.	3 Mins.	3 Mins.	3 Mins.	3 Mins.	3 Mins.	3 Mins.
			Min.	Min.	Min.	Min.	Min.	Min.	Min.
0	8	\$0.10*	\$0.05	\$0.10*	\$0.05	\$0.40	\$0.05	\$0.40	\$0.05
8	12	.15	.05	.15	.05	.50	.05	.50	.05
12	16	.20	.05	.20	.05	.60	.05	.60	.05
16	20	.25	.05	.25	.05	.70	.05	.70	.05
20	25	.30	.10	.30	.10	.80	.10	.80	.10
25	30	.35	.10	.35	.10	.90	.10	.90	.10
30	35	.40	.10	.40	.10	1.00	.10	1.00	.10
35	40	.40	.10	.40	.10	1.10	.15	1.10	.10
40	50	.45	.15	.40	.10	1.20	.15	1.15	.10
50	60	.45	.15	.40	.10	1.30	.15	1.25	.10
60	70	.50	.15	.45	.15	1.35	.15	1.30	.15
70	80	.55	.15	.50	.15	1.40	.15	1.35	.15
80	90	.60	.20	.55	.15	1.45	.20	1.40	.15
90	110	.65	.20	.60	.20	1.50	.20	1.45	.20
110	130	.70	.20	.60	.20	1.55	.20	1.50	.20
130	150	.75	.25	.65	.20	1.60	.25	1.50	.20
150	175	.80	.25	.65	.20	1.70	.25	1.55	.20
175	200	.85	.25	.65	.20	1.75	.25	1.55	.20
200	225	.90	.30	.70	.20	1.85	.30	1.65	.20
225	250	.95	.30	.70	.20	1.90	.30	1.65	.20
250	275	1.00	.30	.70	.20	1.95	.30	1.65	.20
275	300	1.05	.35	.75	.25	2.05	.35	1.75	.25
300	330	1.10	.35	.75	.25	2.10	.35	1.75	.25
330	360	1.15	.35	.75	.25	2.15	.35	1.75	.25
360	395	1.20	.40	.80	.25	2.25	.40	1.85	.25
395	430	1.25	.40	.80	.25	2.30	.40	1.85	.25
430	510	1.30	.40	.80	.25	2.35	.40	1.85	.25
510	590	1.35	.45	.85	.25	2.45	.45	1.95	.25
590	685	1.40	.45	.85	.25	2.50	.45	1.95	.25
685	795	1.45	.45	.85	.25	2.55	.45	1.95	.25
795	905	1.50	.50	.85	.25	2.60	.50	1.95	.25

* \$0.05 for each additional two minutes.

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Schedule No. 83-T
Special Assemblies of Equipment

Schedule shall be modified as "proposed" in Exhibit No. 93, Appendix, pages 23 & 24.

Appropriate changes shall be made as required to reflect flat or mileage rate treatment for local channels in connection with local service.

Schedule No. 87-T
Private Line -- Speaker-Microphone Service

Appropriate changes shall be made as required to reflect flat or mileage rate treatment for local channels in connection with local service.

Schedule No. 100-T
Telephone Answering Service

Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 3.

Schedule No. 105-T
Street Address Telephone Directory Service

Schedule shall be modified as follows:

REGULATIONS

Revise Regulation 1 to read as follows:

- "1. Street address telephone directory service is the furnishing of a directory which lists subscribers' names and telephone numbers by street name (arranged alphabetically) and numerically thereunder by address."

- I. Semi-Annual Directories and
- II. Quarterly Directories

RATES

Rates shall be increased by fifty percent.

Schedule No. 106-T
Alphabetical Directory Advertising

Schedule shall be modified as "proposed" in Exhibit No. 15, except that directory circulation for the determination of directory rate groups shall be computed as provided hereinabove for classified telephone directory advertising.

Schedule No. 117-T
Airport Intercommunicating Service

Schedule shall be modified as "proposed" in Exhibit No. 94, Appendix, page 3.

Schedule No. 121-T
Exchange Telephone Centrex Service

Schedule shall be modified as "proposed" in Exhibit No. 93, Appendix, pages 25 and 26.

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RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Schedule No. 130-T
Teletypewriter Exchange Service

Schedule shall be modified as "proposed" on pages 18 and 20 of Exhibit No. 98, except the rate applicable to local conference connections when all stations on the connection are within the exchange area is the rate applicable to inter-exchange conference connections in the lowest mileage block of 0-50 miles.

All Schedules Affected

Schedules shall be modified to the extent required to be consistent with changes hereinabove authorized.

Schedules shall be modified to the extent required to limit party line service in suburban areas to no more than eight parties per line.

APPENDIX B

TOLL CONCURRENCE STATEMENT

The message toll telephone rates, charges, and conditions of each respondent in Case No. 8609, are changed as set forth in this appendix.

Schedule No. _____

Message Toll Telephone Service

APPLICABILITY

Applicable to message toll telephone service furnished or made available by this Company between its points and between its points and points reached over facilities of connecting companies.

TERRITORY

Between points within the State of California where the respective rate centers of such points are located in said State.

RATES

The _____ Telephone Company assents to, adopts, and concurs in the tariffs of The Pacific Telephone and Telegraph Company listed below, together with amendments thereto and successive issues thereof, and hereby makes itself a party thereto until this authority is revoked by cancellation of this adoption notice, for the purpose of furnishing all intrastate message toll telephone service thereunder originated at or terminated at a point of this Company.

1. Schedule Cal. P.U.C. No. 53-T, Message Toll Telephone Service - Rates and Conditions.
2. Schedule Cal. P.U.C. No. 89-T, Message Toll Telephone Service - Toll Rate Guide General Rate Regulations.
3. Schedule Cal. P.U.C. No. 90-T, Message Toll Telephone Service - Toll Rate Guide for the State of California.
4. Schedule Cal. P.U.C. No. 92-T, Message Toll Telephone Service - Supplement to Toll Rate Guide for the State of California.

APPENDIX C
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RATES - GENERAL TELEPHONE COMPANY OF CALIFORNIA

Rates, charges and conditions of General Telephone Company of California are changed as set forth in this appendix.

Schedule No. A-1
Individual and Party Line Service

RATES

	Monthly Rate				
	Business Service	Residence Service			
	Indi- vidual Line	Two- Party Line	Indi- vidual Line	Two- Party Line	Four- Party Line
Each Primary Station:					
<u>Local Service</u>					
Etiwanda	\$ NC	\$ NC	\$4.15	\$ -	\$2.45
Ontario - Cucamonga C.O.	NC	NC	4.65	3.75	2.95
- Ontario and Upland C.Os.	NC	NC	4.10	3.15	2.30
Oxnard	NC	NC	5.10	4.00	3.25
Pomona - Chino and Claremont C.Os.	NC	NC	4.25	-	2.60
- La Verne C.O.	NC	NC	4.20	-	2.55
- Pomona C.O.	NC	NC	4.10	-	2.50
- Walnut C.O.	NC	NC	4.10	-	2.45
- San Dimas C.O.	NC	NC	4.15	-	2.50
<u>Extended Service</u>					
Covina - Azusa, Baldwin Park and La Puente C.Os.	10.20	8.15	4.60	3.70	2.90
- Covina, Glendora, & Rowland C.Os.	8.90	7.15	4.50	3.60	2.80
Downey*	10.30	8.25	4.65	3.75	2.95
Huntington Beach	NC	NC	5.10	3.95	3.10
Long Beach	10.30	8.25	4.65	3.75	2.95
Malibu	10.30	8.25	4.65	3.75	2.95
Monrovia	5.50-80	-	4.65	3.75	2.95
Redondo	10.30	8.25	4.65	3.75	2.95
San Fernando	5.50-80	-	4.65	3.75	2.95
Santa Monica*	10.30	8.25	4.65	3.75	2.95
Sierra Madre	5.50-80	-	4.65	3.75	2.95
Sunland-Tujunga	10.30	8.25	4.65	3.75	2.95
West Los Angeles*	10.30	8.25	4.65	3.75	2.95
Westminster	NC	NC	5.10	3.95	3.10
Whittier	10.30	8.25	4.65	3.75	2.95

NC No change in rate.

* No change in business message rate service.

The special rate area differential shall be maintained in all exchanges where applicable.

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RATES - General Telephone Company of California--Contd.

Schedule No. A-3
Semipublic ServiceRATES

Each Primary Station:

	<u>Monthly Rate</u>	<u>Daily Guarantee</u>
Covina - Azusa, Baldwin Park, and La Puente C.Os.	\$1.15	\$0.22
- Covina, Glendora, and Rowland C.Os.	1.00	.20
Downey	1.25	.22
Long Beach	1.25	.22
Malibu	1.25	.22
Monrovia	1.25	.22
Redondo	1.25	.22
San Fernando	1.25	.22
Santa Monica	1.25	.22
Sierra Madre	1.25	.22
Sunland-Tujunga	1.25	.22
West Los Angeles	1.25	.22
Whittier	1.25	.22

The special rate area differential shall be maintained in all exchanges where applicable.

Schedule No. A-5
Suburban ServiceRATES

Each Primary Station:

	<u>Monthly Rate</u>	
	<u>Business Service</u>	<u>Residence Service</u>
<u>Local Service</u>		
Etiwanda	\$ NC	\$3.05
Ontario - Cucamonga C.O.	NC	3.55
- Ontario & Upland C.Os.	NC	3.10
Oxnard	NC	3.75
Pomona - Chino and Claremont C.O.s	NC	3.15
- La Verne C.O.	NC	3.10
- Pomona C.O.	NC	3.10
- Walnut C.O.	NC	3.00
- San Dimas C.O.	NC	3.05

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RATES - General Telephone Company of California--contd.

Each Primary Station:

	<u>Monthly Rate</u>	
	<u>Business Service</u>	<u>Residence Service</u>
<u>Extended Service</u>		
Covina - Azusa, Baldwin Park, and La Puente C.Os.	\$7.30	\$3.50
- Covina, Glendora and Rowland C.Os.	6.45	3.40
Malibu	7.40	3.55
Monrovia	-	3.55
San Fernando	-	3.55
Santa Monica	7.40	3.55
Sunland-Tujunga	5.75	3.55

NC No change in rate.

Schedule No. A-6
Commercial Private Branch Exchange ServiceRATES

Trunk Rates, Each Flat Rate Trunk:

	<u>Monthly Rate</u>
Covina	
Azusa, Baldwin Park and La Puente C.Os.	\$15.35
Covina, Glendora, and Rowland C.Os.	13.40
Downey - Norwalk D.A.	15.45
Long Beach	15.45
Malibu	15.45
Redondo	15.45
Santa Monica	15.45
Sunland-Tujunga	15.45
West Los Angeles	15.45
Whittier	15.45

Trunk Rates, Each Message Rate Trunk:

Downey - Downey D.A.	NC
Monrovia	2.75
San Fernando	2.75
Santa Monica	NC
Sierra Madre	2.75
West Los Angeles	NC

NC No change in rate.

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RATES - General Telephone Company of California—Contd.

Schedule No. A-15
Supplemental Equipment

Nonrecurring Charges for
Providing Set in Color

Telephone Sets - Standard Types and Colors, each Set

\$5.00

Schedule No. A-19
Foreign Exchange Service

LISTED ROUTES BETWEEN NONCONTIGUOUS EXCHANGES

RATES

Each Additional Message

In All Exchanges Listed

\$0.05

LOS ANGELES BUSINESS AND RESIDENCE

RATES

Each Additional Message

In All Exchanges Listed

\$0.05

Decision No. 74917

COMMISSIONER GATOV, Concurring and Dissenting:

I concur in all of the findings, conclusions and order to the extent that they are not affected by my dissent to the finding, conclusion and order that the rate of return of 6.90 percent is fair and reasonable.

The applicant, having the burden to do so, did not justify a 6.90 percent rate of return. Furthermore, the majority does not interpret its own finding, conclusion and order for such rate of return. Instead, it offers two rationalizations which are in fact excuses and not explanations. The first is a "consensus" showing that three witnesses in this case (they also testified in applicant's last rate case), using widely diverse and tortuous routes, arrived at virtually the same destination, i.e., approximately one-half percent above those rates of return which they espoused in the last rate proceeding of applicant (Case No. 7409). The following analysis shows, however, that though only the high side of the "consensus" was considered, quite a different result is obtained if the low or mid point is used:

	<u>Rate of Return Recommended For California Operations</u>			<u>Appl. 49142</u>		
	<u>Case 7409</u>					
	<u>Low</u>	<u>High</u>	<u>Midpoint</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
Applicant (Witness Mason)	7.50	8.00	7.75	7.50	8.50	8.00
Increase				0	.50	.25
PUC Staff (Witness Deal)	6.59	6.59	6.59	6.85	7.10	6.98
Increase				.26	.51	.39
City of L.A. (Witness Kroman)	6.24	6.24	6.24	6.75	6.75	6.75
Increase				.51	.51	.51
Cities of S.F. and San Diego	6.24	6.24	6.24	6.40	6.60	6.50
Increase				.16	.36	.26
(Witness Kroman in C-7409 and Witness Bernstein in A-49142)						

Since the majority leaned heavily on this slender reed, it had the obligation to explain why the middle or low side was rejected.

The second rationalization concerns the following judgment criteria which the majority states consideration thereof influenced its judgment:

- Investment in plant,
- Cost of money,
- Dividend-price and earnings-price ratios
- Territory,
- Growth factor,
- Comparative rate levels,
- Diversification of revenues,
- Public relations,
- Management,
- Financial policies,
- Reasonable construction requirements,
- Prevailing interest rates and other economic conditions,
- Trend of rate of return,
- Past financing success,
- Future outlook for the utility,
- Outstanding securities and those proposed to be issued,
- Adequacy of service,
- Rate history,
- Customers' acceptance and usage developed under existing rates, and
- Value of the service and cost to serve.

With the notable exception of cost of money and because it would be most difficult, if not impossible, to do so, the decision attributes no specific value to any of the other criteria. Some of the criteria, however, are repetitive, others have little if any applicability, and consideration of many could actually tend to counteract an increase justification. There is need here for identification of those criteria which can justify an increase, how they would justify it, and why they outweigh those which might militate against it.

Basing a rate of return in this case on the shaky "consensus" and the bare listing of judgment criteria falls short of what the public and the applicant are entitled to expect from this Commission.



Commissioner

San Francisco, California
November 6, 1968

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WILLIAM M. BENNETT, COMMISSIONER, Dissenting Opinion

At the outset I wish to point out that today's decision is basically a "private" decision. The usual process of participation by way of discussion, access to staff advice and counsel, and particularly communication with Examiner Emerson (the assigned examiner herein) has been denied me. We are confronted with the question of whether or not a valid order may issue from this Commission through sheer voting power when as is abundantly clear complete participation, indeed, perhaps any significant participation in the decision-making process, is frustrated as to at least one member of the Commission. My views, therefore, expressed herein are enunciated from a background of regulatory experience over the years, a general familiarity with Pacific Telephone and Telegraph Company and a knowledge of the prime purpose of this Commission, that is, protection of the California consumer. Mystery surrounds the majority decision, its rationale, its author and the role of the assigned examiner with reference to it. One may speculate as to whether the first judgment of the examiner recommended against any increase whatsoever.

I have always held to the view that political changes in California which result in Commission changes can in no way diminish the powers of a member of the Public Utilities Commission of the State of California. And if the philosophy of a commissioner and his ability to articulate that philosophy, whether participating with the majority or as a dissenter, is frustrated then in my view only a "private" order so to speak issues and not a decision of the Public Utilities Commission of the State of California. In short, I am simply enunciating the doctrine that the majority may not frustrate the constitutional responsibilities of any commissioner.

That some commissioners had a clear advantage over others is evident. While I do not quarrel with the assignment of commissioners to "manage" the instant application nonetheless one is struck by the fact that the most massive rate application

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proceeding in the history of California was assigned to a fledgling commissioner and to a holdover commissioner whose past opinions disclose a clear sympathy toward the Pacific Company.

The Role of the Examiner

Upon submission of this matter early request was made by me for a copy of Examiner Emerson's "first, unedited, unchanged draft opinion". Such was denied me by formal Commission action. The examiner was under oral instructions not to communicate with me concerning his judgments, written or oral, and he was under specific instructions to withhold from me his original draft opinions. Such was pointed out by me in that proceeding entitled "William M. Bennett, Petitioner, v. William Symons, Jr., et al, California Supreme Court, SF 22613". Examiner Emerson, a respondent therein, admitted in his Answer that he was under instructions to withhold from me his draft opinion and his work. The examiner stated in that Answer "That one such directive is not to provide Petitioner with a copy of his draft of his proposed decision." I wish to make it plain that the Commission draft opinion ultimately distributed to me long after my unsuccessful efforts to gain access to the examiner's original judgments was not the examiner's "fresh views". On the contrary, it was a changed, edited, revised version admitted to be such by the majority.

The examiner's role in this telephone case is crucial in view of his expertise, his constant unbroken attendance at all hearings and his evaluation as the one who has "heard" of the credibility of witnesses and the weight of testimony and evidence. I do not quarrel for a minute with the power of the majority to reject the views of the examiner but I do object and strongly to my inability to determine how the majority has differed from the examiner and most importantly why. At one point the examiner advised members of the Commission "In my opinion the record will not support the 6.9% rate of return set forth in the opinion. Nor

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can I subscribe to the 10 page rewrite on the subject of return prepared by Commissioner Morrissey." We were so advised on September 27, 1968, however, subsequently the examiner under "persuasion" withdrew his objections. The examiner here has been used and misused by this Commission. And the parties to the proceeding are receiving a decision written not by the examiner to whom they addressed testimony and evidence but by a collection of Commission individuals some of whom under any standard of fair play and due process should not be taking part in the decision-making process. This matter of decision authorship became so ludicrous at one point that the Commission was unable to identify the author of the rate of return portion of the decision and indeed was reluctant to disclose it except upon pressing questioning.

The Origin of This Case

This rate application really began shortly after the Commission decision in C. 7409 wherein Pacific's rates were reduced on June 11, 1964, on an annual basis by \$40,722,000. Case 7409 represented a significant victory for California consumers and was adjudged by the California Supreme Court to be a lawful decision in all major aspects (62 Cal 2634). Pacific vigorously litigated before the California Supreme Court both the rate of return and the expense items disallowed in C. 7409. Pacific lost--and then began the massive effort to recoup. Thereafter followed a complete change in the corporate hierarchy of Pacific Telephone and Telegraph Company. American Telephone and Telegraph Company the prime mover in all Pacific cases before this Commission imported so called "rate experts" from other states, a new president, a new commission "lobbyist" and to insure the most favorable setting of all for its present rate play even went so far as to influence a governor in the selection of his appointees to this Commission. Indeed one of my colleagues, Commissioner Morrissey who is the real author of the 6.9 rate of return formerly was employed as a "rate of return" consultant to Pacific Telephone and Telegraph Company. I have

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advised my brethren that in my opinion there is a clear conflict of interest upon the part of Commissioner Morrissey which ought to preclude him from participation in this proceeding increasing Pacific's revenues. Commissioner Morrissey has seen fit to participate however and we should note that his is the critical vote in a 3 to 2 decision. His participation on a consumer watchdog agency is a contradiction to the very purpose of this Commission. A Rate of Return study submitted to Pacific by Commissioner Morrissey points out that in the era of the 50's when debt capital was a mere 3.2% he advised Pacific that in his view they were entitled to a rate of return from 6.5% to 7.0%. That Commissioner Morrissey approached the alleged financial problems of his former clients with an open mind is questionable; that he should not have participated in a decision affecting the telephone bill of every Californian is not questionable to me in the slightest degree. I am reinforced in my view by reference to past writings of then Professor Morrissey found in Public Utilities Fortnightly on April 28, 1966, wherein he strongly criticizes the rate making treatment accorded Pacific Telephone and Telegraph Company by past Commissions. Commissioner Morrissey particularly criticizes the return this Commission has allowed Pacific and its treatment of the Western Electric and bank and corporation tax adjustments. We also find in Commissioner Morrissey's writing of November 10, 1966, in the Public Utilities Fortnightly that unless this Commission gives a higher return to Pacific than was authorized in Case 7409, "AT&T would be justified in restricting its capital investment in California and showing a preference for states with higher returns." Not merely as a Commissioner but as a telephone subscriber I am disheartened at the prospect of this pro-utility philosophy coupled with a past employee relationship to the applicant sitting now in judgment upon this case.

The timing of the application of Pacific herein with reference to the political change in California and then its influence upon appointments to this Commission made it abundantly clear at the outset that the ground gained in 1962 by the Public Utility Commission in C. 7409 would not be long held. And such is the way it turned out!

The Rate of Return

The rate of return portion of this decision is obviously the heart of it. Pacific based its case upon the notion that other state jurisdictions were more generous than California and therefore in some way California regulation was restrictive and unfair. This has long been the play of Pacific heretofore never heeded. Pacific in some way would have the Commission believe that it is subject to greater risks than other utilities particularly the electric utility industry and therefore should be given a higher rate of return. This Commission has long known that California regulation is unique; that it has been successful in terms of protecting the consumer and that all California utilities including Pacific have prospered under it. We have rejected comparative rate making. Now however the Commission having decided upon a 6.9 return is in reality increasing Pacific's revenues by a deleted reference to electric utilities in other states. One of the second or third draft opinions herein was in fact written by the Director of Finance and Accounts with language in which the examiner's first "known" rate of return of 6.7 was increased to 6.9. This comparison was the basic reason for the increase to 6.9%. However, when it was pointed out that this was not traditional California rate making the language as to the electric utility industry was stricken but the 6.9 remained. And of course the majority reached back to an old commission case, an anachronism irrelevant to 1968 which was thrown in to justify a 6.9 return. One is struck with the fact that the majority supports 6.9% by telling the world that after all a giveaway such as here is just a matter of "judgment". And who really can quarrel with "judgment" which is as subjective as one's ego. The majority is really speaking of "philosophy" and not judgment. Upon the basis of regulatory philosophy 6.9 is easily understood.

I would point out the lack of due process in this proceeding in permitting the Director of Finance and Accounts to determine the ultimate rate of return when in this very proceeding and at the outset his division's witness with his approval recommended that a range of "6.85 to 7.10" be used. In short the Division of Finance

and Accounts recommended the rate of return and then by the so called "institutional decision process" - whatever that means - selected a rate of return which by sheer coincidence fell between its original 6.85 and 7.10. Decision making of this nature in my view does not conform to the basic requirements of due process. The parties should have been placed upon notice that their testimony and arguments as to rate of return should in reality have been addressed not to the examiner but to the Finance and Accounts Division of this Commission.

The Western Electric Adjustment and the Bank and Corporate Franchise Tax

Today's order fixes a rate of return of 6.9%, finds all of the rate making adjustments to be reasonable including the two here discussed but then sets down for future hearings next year the question of whether or not historic treatment of these items by the Commission is proper. This of course is in line with Commissioner Morrissey's written public criticism of these issues. They are contrary however to the long history of these adjustments by this Commission - dollars savings to the consumer by the way -- and contrary to the decision of the California Supreme Court in 1964 affirming such treatment. I am struck by the curious notion that the majority has in fact reopened Pacific's rate case. I do not understand how we can fix the dollar requirements of Pacific based upon a finding as to rate of return and expenses and then reopen two significant expense items. If expenses are to be reopened so also must rate of return be reopened.

The Western Electric adjustment is critical to proper telephone regulation not only in California but in the United States of America. For decades AT&T through its affiliate Pacific has been attacking these adjustments. And other states including the FCC are impressed by the example of California in disallowing exorbitant purchases from Western. If however these two adjustments can be set aside then the national telephone bill will be affected and it can be expected that other jurisdictions will be easy prey to the telephone insistence that Western is not to be controlled in any way either directly or indirectly by a regulatory body. The tele-

phone company makes a grave mistake with reference to this item of telephone equipment. It is plain to me that AT&T, its operating companies and Western Electric are subject to the Sherman Act. If regulation which is a poor substitute for enforcement of the monopoly laws is denied any meaningful victories then the nation's telephone users and I include myself among them must demand that the Bell System be judged in light of the provisions of the Sherman Act. And it is beyond explanation how a dominance of the communications industry somehow escapes the attention of the United States Department of Justice year after year, administration after administration. And one of the things which should be covered in the forthcoming Western Electric adjustment hearing is the relationship of the monopoly laws to the Bell System and the dominant rule of Western Electric in that industry.

It is almost startling that after 82 days of hearing, a complete shown by Pacific and not request to augment the record and no enunciation by any member of the Commission or any party that the record was less than complete that now the Commission reopens these two adjustments. In my view the Commission and Pacific are bound by the decision of the California Supreme Court as to this matter. Pacific stated no new circumstances or facts and Pacific made no request for opportunity to furnish additional information. It is only the majority led by Commissioner Morrissey which casts any doubt upon these items at all.

Exparte Contacts

The Commission fails its responsibilities toward impartiality in refusing to pass upon the issue of exparte contacts revealed in Volume 82 of the record herein. It is beyond question that representatives of applicant discussed matters of substance with members of this Commission. Matters being litigated in hearing on the first floor were discussed in Commission offices on the fifth floor. And such a practice when stumbled upon makes plain that if a rate case in the process of hearing and decision is exposed to the influence of one party as against others then such

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party obtains an advantage whether great or small. At the very least Pacific should be admonished for such conduct and perhaps more than that simply because of the great public trust which inheres in this agency its application ought to be dismissed. There is adequate precedent for doing so. The majority it is clear is highly unimpressed with my views upon this matter and apparently sees no wrong in contacts which are onesided. In view of the magnitude of the application and the critical issues involved it may be that such advantages as accrued to Pacific by its private persuasions have frustrated a valid order.

Let me comment about certain other matters in the decision beginning with the capital structure. The Bell System and Pacific as one of its divisions has long refused to raise capital upon the best of terms. It has persisted in equity financing, that is, more expensive dollars even in the face of regulatory warnings and an abundance of economic and financial writings criticizing its capital policies. In short, Pacific deliberately chooses to purchase more expensive capital when cheaper capital is available. Obviously this creates a requirement for increased revenue at the expense of its customers. Rather than penalizing its customers for such high cost money this Commission should do the only thing left to it to discourage such policies as by imputing to it a hypothetical debt-equity structure. Such has not been done and indeed Pacific has been authorized to obtain an additional \$165 million in equity financing which will only aggravate the burden upon its customers.

Pacific is a corporation whose bonds are rated AAA, whose president tells us under oath that the service is excellent and will not deteriorate and who also points out that Pacific has never ever experienced any difficulty in raising capital. Pacific is also a corporation whose revenue in 1967 exceeded the previous year by \$10 million (about \$153 million in 1966 as against \$163 million in 1967). The reports filed with this Commission disclose

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that earnings per share of Pacific have increased since the submission of this matter. The records of this Commission and the record herein show that Pacific has raised capital, maintained adequate service, met all its expenses including its dividend and even made \$10 million more than the preceding annual period. One is struck then with the question -- Why an increase? Not for improved service! As a Pacific telephone witness testified (Mr. Frey):

Question: "In other words your basic service is not tied into or is not linked in any way with the \$180 million increase?"

Answer: "That is correct at the present time."

I agree with the witness and point out to the California telephone user that he is going to receive the same basic service without improvement but that his additional telephone bill is going to increase the dividend pay out 90% of which goes to American Telephone and Telegraph Company.

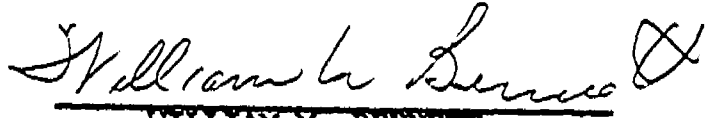
I would point out that on the settlement award of \$7million assessed against Pacific Telephone customers for the benefit of General Telephone customers there is no precedent. A Pacific Telephone customer is obligated to pay for the costs of the Pacific Telephone and Telegraph Company. He may not be compelled involuntarily to pay for the telephone costs of General Telephone Company. And simply because there is public criticism as to the rate disparity between the two companies in the form of editorial criticism, newspaper comment, and public outcry does not permit the majority to make a gift of \$7 million from Pacific customers to the General Telephone Company of California.

To tell it the way it is the pro-business philosophy is beginning to show more and more. The consumer is not king -- his place is second. The pleas of financial experts about hardship, the pitiful cries of the financial plight of a powerful monopoly and the vague promises for unspecified better telephone service are now falling upon receptive ears. The great precedents of this Commission are being revised. Today's decision issued from the background of circumstances I have articulated demonstrates to me a commitment to a rate increase and questions of due process. Fair play and the rest were ignored.

✓ The views I have expressed herein are I am sure based upon a glimpse only of the top of the iceberg. The real Commission meetings in connection with this increase were conducted between and among but three members of the Commission with decisions there made beyond the challenge or recall or persuasion, logic or precedent. And today's rate of return was dictated arbitrarily by the majority and then directions given to find some reasons to justify it. Such rate making is arbitrary, unsound and in my view invalid. In closing I must voice the wistful wish that it would have indeed been refreshing, enlightening and unique if either Commissioner Mitchell or Commissioner Symonds -- the assigned Commissioners -- had written a single word of today's order. Is it too much to expect that the public has the right to know the thinking, the rationale and the judgment of these commissioners or must the public always accept as Commission thinking the grand composition of the institutional decision the product of all but really the responsibility of none. I question whether either Commissioner Mitchell or Commissioner Symonds could articulate to either private or public satisfaction any reason as to why an increase of any magnitude was warranted. And I question how Commissioner Mitchell or Commissioner Symonds could justify private meetings with officers of the PT&T in which matters which now represent significant dollar items in this record were discussed and possibly even influenced. The public of California should be on notice that the watchdog agency is now toothless.

Let me point out one curious fact with reference to an

order of today's magnitude and public impact. The majority after deferring decision time after time suddenly finds it expedient to act upon the day following the national election when public concern for utility rates is less than high. And by way of closing observation to the California consumers they should be on notice that Pacific has publicly advised the world by press release dated today that the order "falls short of what we need ... we may have to seek further rate increases." This Commissioner is quite impressed but equally curious as to the prescience of Pacific in having prepared and ready for public distribution a press analysis of a rate order not even yet signed. Is there a form of communication between the Commission and Pacific which is a breakthrough in technology?


WILLIAM M. BENNETT
Commissioner

DATED: November 5, 1968

San Francisco, California

Decision No. 74917

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of THE PACIFIC TELEPHONE AND
TELEGRAPH COMPANY, a corporation,
for authority to increase certain
intrastate rates and charges
applicable to telephone services
furnished within the State of
California.

Application No. 49142
(Filed February 10, 1967)

Investigation on the Commission's
own motion into the rates, tolls,
rules, charges, operations, separa-
tions, practices, contracts,
service and facilities of The
Pacific Telephone and Telegraph
Company.

Case No. 8608
(Filed March 14, 1967)

Investigation on the Commission's
own motion into the rates, tolls,
rules, charges, operations, separa-
tions, practices, contracts,
service and facilities of the
telephone operations of certain
telephone corporations.

Case No. 8609
(Filed March 14, 1967)

Tom C. Carrell and Petitioners,

Complainants,

vs.

California Water and Telephone
Company, General Telephone Company
of California, a corporation, and
The Pacific Telephone and Telegraph
Company,

Defendants.

Case No. 8690
(Filed September 20, 1967)

COMMISSIONER FRED P. MORRISSEY CONCURRING

COMMISSIONER FRED P. MORRISSEY CONCURRING:

This decision is not written in the manner that I would have preferred, nor are the more significant elements discussed in the context that I would have selected. The difficulties encountered by the assigned commissioners and examiner in selecting, discussing, and resolving the major problem areas are readily appreciated, however, in view of the demanding circumstances surrounding this case. I commend the assigned commissioners and the examiner for their patience, diligence and prudence and I believe that the net effect of the order is reasonable and I concur in it.

There are too many issues to present my own views individually on each and accordingly I will restrict myself to two, the affiliated company issue and the rate of return determination.

The Affiliated Company Issue and
Western Electric Adjustments

While the burden of proof in an application for a rate increase is on the applicant, I am not entirely satisfied that a more adequate record might not have resulted in different conclusions in treatment of the affiliated company issue. The Order Instituting Investigation that was issued concurrently with the decision should provide a procedural vehicle for a further in-depth presentation of this issue.

So that there is no misunderstanding of my position on this issue, let me emphasize at the outset:

1. There is no doubt in my mind that this Commission has the authority to deny for rate-making purposes, unreasonable costs for equipment, materials, and services.

"It is settled that commissions have power to prevent a utility from passing on to rate payers unreasonable costs for materials and services." (Page 826) (Pac. Tel. & Tel. Co. v. P.U.C., 34 C2d 822; 215 P2d 441.)

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"Moreover, in fixing rates the Commission may disallow expenditures that it finds unreasonable, thus insuring that any excessive costs will be met from Pacific's profits." (Page 832, *ibid.*)

2. While there is no public policy against affiliated corporations, they can be used to circumvent regulation to the detriment of the public interest. The electric utility holding company episodes of the 1920's and 1930's are ample evidence of the facility with which operating expenses and capital costs can be inflated through the use of affiliated construction and service companies. Close and careful scrutiny of intercorporate transactions between affiliates is essential if regulation is not to be thwarted by having an affiliate of the regulated company syphon off or divert excessive profits hidden in fees, contract services, or other purchases. If these inflated expense and capital items where they occur are not to be paid for by the ratepayers, the regulatory commission must minutely examine these affiliated transactions and weed out all unreasonable costs and profit components.

3. The task faced by utility regulatory agencies is an increasingly difficult one because affiliated manufacturing companies are the "in" thing in the communications field^{1/} and construction and service affiliates are fairly common in the water and gas pipeline utilities. Accordingly, if utility regulation at the consumer level is not to be thwarted, the regulatory agency must systematically examine the expense and capital items to determine that they are reasonable, and particularly so in the case of transactions with affiliated companies.

The treatment of the Western Electric adjustment is essentially an attempt to determine the prudent historical cost of the entire Pacific operation. To do so the Commission has considered the rate of return that the utility is allowed on purchases from Western Electric, since return is a component of cost. The decision follows the principles enunciated in

1/ In the communications field one notes that not only has A.T.&T. a manufacturing and/or service subsidiary in Western Electric, but that General Telephone has Automatic Electric, Continental Telephone has Superior Continental Corporation, Mid Continent Telephone Corporation has Communications Supply, Inc., and United Utilities has North Electric Company and United System Service Company, to mention some of the more obvious.

every Pacific Telephone case since 1949, as restated in Decision No. 67369, Case No. 7409, 62 CPUC 775 (affirmed Pac. Tel. & Tel. Co. v. C.P.U.C. 62 C2d 634 (1965)) to the effect that an affiliate will not be permitted to profit at the expense of a regulated utility. It has restricted the return on Western Electric's investment for sales to Pacific Telephone, to that allowed Pacific, by adjustments to Pacific's rate base and expenses.

In this determination of the reasonableness of a utility's transactions with affiliated companies, the Commission must employ not only legally adequate standards but also criteria which are economically sound.

I am concerned with the economic and financial implications of the Commission's treatment of the affiliated interest. In the examination of these transactions with affiliates it is imperative to have some standard or criteria for determining what is reasonable or unreasonable in an affiliate's costs and profits. While rates are fixed to yield a reasonable return on Pacific's investment, it may also be useful to weigh the effect of the adjustment on Western.^{2/} If one were to consider this in terms of Western's income or operating statement, one could express it thus:

<u>Western Electric Sales to Pacific</u>		<u>As Restated by CPUC</u>
Sales	100.0%	
Expenses	<u>95.3%</u>	
Profit margin from sales	4.7%	<u>2.8%</u> ^{3/}

^{2/} I recognize that Western Electric is more than a manufacturer--it is salvager, installer, warehouser, purchasing agent, etc., to the Bell System. I am referring to its function as a manufacturer only in these comments in recognition that the other functions could be performed by Pacific directly equally well.

^{3/} It must not be construed that this profit margin is equivalent to the rate of return concept in utility rate making, since it overlooks the capital turnover component.

I am of the view that in our following previous determinations we have not had before us in adequate detail either from the applicant, upon whom the initial burden rests, or from the staff, the economic implications or consequences of our procedures. In the acceptance of the concept of including Western as a manufacturing arm of a utility function, the tests applicable to a reasonable rate of return for utilities must also, in my view, be applied to the manufacturing arm, namely, the adequacy of the allowed return to ensure capital attraction,^{4/} to maintain credit and to meet the test of comparable earnings for comparable risk, if there is in fact any comparable situation.^{5/}

Nowhere in the record did any witness supporting the traditional approach attempt to determine if the return allowed a utility would meet these tests for the manufacturing arm. (Tr. 6300). Moreover, as the staff witness testified (Tr. 6308), no study of the production efficiency of Western Electric was made, nor was any attempt made to construct or evaluate efficiency ratios similar to those introduced relative to Pacific's operations. This Commission has the obligation to the people of California to promote the most efficient and effective utility service at the lowest cost consistent with that obligation. Certainly Western Electric has a privileged place in the market for communications products. It also supplies that market, protected as it is, at prices undisputably below those of any other source of supply--on the average 50% below (Exhibit 8). Moreover, the rate of return on Western Electric equity capital has averaged 10.6% from 1946 - 1966 (Exhibit 67) and currently is below that level, whereas the return on equity for the same period would be reduced to approximately 6.8% if this Commission's adjustment were reflected on the entire Bell business. Clearly investors would not invest equity

4/ That Western Electric has needed capital is evidenced in Exhibit 67 wherein it is stated the capital utilized has increased from about \$200 million in December 1945 to \$2,000 million in December 1966.

5/ F.P.C. v. Hope Natural Gas, 320 US 591 (1944).

capital in a non-Bell manufacturing enterprise if a 6.8% return was to be the ceiling. Hence while what may appear to be a meritorious procedure of limiting profits in an affiliate to reduce the cost to California telephone users through a reduced return on investment, the end result may well be to create inefficiencies, preclude innovation, and destroy the incentives for capital investment and cost-reduction programs.

It is clear that the affiliated interest principle so embraced in this decision has serious implications and this Commission must re-examine the bases and the consequences of its actions in this area for the benefit of future proceedings. It is not enough to state that Western Electric is merely a division of an integrated communications network and an "alter ego." While there is the legal authority to act as this Commission has done, economic reality should also be adequately explored. Accordingly, this Commission should reexamine its affiliated interest principle, particularly in view of the magnitude of the affiliate problems which it and other regulatory agencies must face in the near future. If it chooses to pursue its present path, it should strive to determine what constitutes efficient operations, adequate profit levels, incentives for innovation and cost-reduction programs.

Rate of Return

The determination by a regulatory agency of a reasonable rate of return to be allowed a utility is difficult and complex under the most favorable circumstances. The often quoted Supreme Court decisions in the Hope and Bluefield cases establishing the capital-attraction standard, the credit maintenance standard, and the comparable earnings standard, leave a great deal of room for judgment on the part of the regulatory agency.

Accordingly, reasonable men will interpret capital needs and capital market conditions differently. Usually, however, an agency can base its determination on, or check its judgment by reference to, the

financial criteria of other companies of comparable size, market characteristics, investor tests, service and customer needs, etc. Because applicant is an operating subsidiary of the Bell System, it receives most of its equity capital directly from A.T.&T. and competes only indirectly in the capital market for those funds. (Debt capital is raised by competitive bidding in the open market and accordingly its cost can be determined more readily.) The return to be allowed on the equity portion of the capital structure presents the difficult problem. The customary comparisons are all the more complex because Pacific Telephone has a conservative capital structure involving greater amounts of equity than most non-Bell utility companies, communications, electric and gas. Also, for some years Pacific has issued its stock to the parent and to the minority stockholders in a manner unlike most other utilities precluding some growth component in earnings and dividends per share and nullifying precise comparisons of market performance. In the face of these characteristics of Pacific's financing the regulatory agency loses one of its most significant and readily available tools in arriving at a return on equity, the comparisons of criteria based upon the test of the market.

Nevertheless the obligation of a regulatory agency still exists to establish a return that will be equitable to the suppliers of capital without placing any unnecessary burden on the ratepayers. The assigned commissioners recommended a 6.9% return on the adopted rate base, concluding that would result in a rate of return of approximately 8.40% on common equity, a favorable interest coverage and the ability to finance efficiently the continuing need for large amounts of new funds.

The decision does not note this but the resultant 8.4% on common equity compares with the median of 20 Bell System operating companies earning 8.50% to 8.99% on common equity over the past five-year period (the complete range was 7.25% to 10.14%, Exhibit 65, Table 17). It can be inferred that this range has enabled the Bell companies to meet their service requirements and effectively attract capital and adequately

compensate the suppliers of equity capital. Pacific should be able to do as well with the same level of return.

Just as Pacific has required enormous amounts of capital for expansion, so has the electric industry, characterized by a much larger use of debt capital and a higher return on equity. I believe that it is appropriate to compare the burden on the ratepayer for return and related taxes on income under the 8.40% return on equity, using Pacific's current capital ratios and those generally prevailing in the electric industry. This comparison detailed in the accompanying tabulation shows the present charge to subscribers under the 6.9% return adopted for Pacific and the earnings on common equity which would result if Pacific's capital structure paralleled those of the larger California electrics.

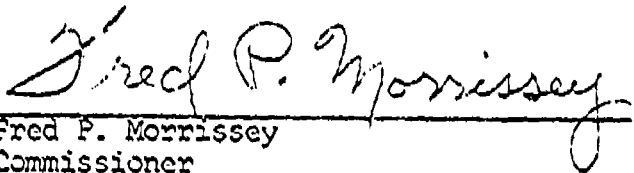
SUBSCRIBER BURDEN OF PACIFIC TELEPHONE AND ELECTRIC UTILITIES

	Pacific Actual			Electrics		
	Capital Proportions	Cost Factor	Allow- ance	Capital Proportions	Cost Factor	Allow- ance
Long Term Debt	35%	4.38%	1.55%	55%	4.38%*	2.41%
Advances	3	6.00	.18	-	-	-
Preferred Stock	2	6.55	.13	10	6.55*	.65
Common Equity	60	8.40	5.04	35	12.00	4.20
Total Return			6.90			7.26
Required Related Taxes			5.52			5.16
Cost for Return and Related Taxes			12.42%			12.42%

* It is unlikely that a 55% debt ratio could be obtained at the same interest cost (4.38%) currently available to applicant. However, the preferred stock cost is probably above that of electrics.

The computed earnings of 12% on common equity based on the capital structure of the electrics approximate the latest five-year average for the 50 largest electrics shown in Pacific's exhibit. Accordingly, the similarity of the cost to the subscriber for return and related taxes under the two circumstances confirm that the adopted rate of return does not place an unnecessary burden on the ratepayer in comparison with the electric industry.

Despite the complexities of arriving at an appropriate rate of return for the applicant, I conclude that the 6.9% rate of return recommended by the assigned commissioners meets the test of reasonableness prescribed by the U. S. Supreme Court and gives adequate and fair compensation to the suppliers of capital without any unnecessary burden on the ratepayers. This rate of return decision will be interpreted by the financial community as well as by telephone subscribers that utility regulation is fair and reasonable in California reflecting a careful balancing of consumer and supplier interests. California consumers are entitled to the finest telecommunication service available and this decision should ensure it is available at reasonable cost.


Fred P. Morrissey
Commissioner

San Francisco, California

November 13, 1968