JR

Decision No. 78851

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. 51774 (Filed March 17, 1970)
William M. Bennett, Consumer Spokesman, and Consumers Arise Now, an association, Complainants, vs. The Pacific Telephone and Telegraph Company, a corporation, Defendant.	Case No. 9036 (Filed April 13, 1970)
144 SPANISH-SPEAKING TELEPHONE SUBSCRIBERS FROM SAN FRANCISCO, SONOMA, AND IMPERIAL COUNTIES, THE SPANISH SPEAKING/SURNAMED POLITICAL ASSOCIATION, THE MEXICAN-AMERICAN POLITICAL ASSOCIATION, THE HEALDSBURG AND WINDSOR LOCAL ACTION COUNCILS, Complainants and (Proposed) Protestants, vs. THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, Defendant and Applicant in Proposed Rates Increase #51774.	Case No. 9042 (Filed April 2, 1970)
WILLIAM M. BENNETT, Consumer Spokesman, and Consumers Arise Now, an association, Complainants, vs. Western Electric Company, joining Pacific Telephone and Telegraph Company and American Telephone and Telegraph Company as Interested Parties, Defendants.	Case No. 9043 (Filed April 6, 1970)

Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, separations, practices, contracts, service and facilities of The Pacific Telephone and Telegraph Company.	Case No. 9044 (Filed April 7, 1970)
Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, separations, practices, contracts, service and facilities of the telephone operations of all the telephone corporations listed in Appendix A, attached hereto.	Case No. 9045 (Filed April 7, 1970)

(See Appendix A for Appearances)

O P I N I O N

Introduction

In Application No. 51774, The Pacific Telephone and Telegraph Company (Pacific) seeks authority to revise certain of its intrastate rates and charges so as to increase its annual revenues, based upon the level of operations during the test year 1970, by approximately $195,000,000.

In Case No. 9036, a consumer association known as Consumers Arise Now (CAN), together with William M. Bennett, seeks (1) an order requiring submission to the Commission by Pacific of records regarding adequacy and cost of service, (2) a hearing on the adequacy of Pacific's service, and (3) an order requiring Pacific to correct service deficiencies and denying any rate relief until such deficiencies are corrected.

In Case No. 9042, 144 Spanish-speaking telephone subscribers (SSTS), together with the Spanish-Speaking/Surnamed Political Association, The Mexican-American Political Association and the

Healdsburg and Windsor Local Action Council, seek (1) an order requiring Pacific to provide full bilingual Spanish-English services, (2) an order establishing reduced rates to Spanish-speaking, non-English-speaking subscribers until such time as full bilingual service is provided, (3) consolidation of this complaint with Pacific's rate application and (4) a public hearing regarding the service offered by Pacific to Spanish-speaking subscribers.

In Case No. 9043, CAN, together with William M. Bennett, seeks (1) an order declaring Western Electric Company, Inc. (Western) to be a public utility under the jurisdiction of the Commission, (2) regulation of the prices for telephonic equipment charged by Western to Pacific and (3) regulation of Western's rate of return at a level no higher than that allowed Pacific.

In Case No. 9044, an investigation initiated by the Commission, the scope of these proceedings is enlarged to cover essentially all aspects of Pacific's public utility operations.

In Case No. 9045, another investigation initiated by the Commission, the scope of these proceedings is further enlarged to cover (1) separations procedures affecting the toll and other settlements of Pacific and other California telephone utilities, (2) multi-message unit rates of Pacific in the Los Angeles Extended Area and Extended Area Rates affecting the rates of other California telephone utilities, (3) toll rate disparities between interstate and intrastate message toll rates affecting California telephone utilities, and (4) any disparity between exchange rates and conditions of service of Pacific and the other telephone utilities.

Copies of Pacific's application were served, notice of filing of the application was published, and notices of hearings were published, in accordance with this Commission's rules of procedure. A prehearing conference was held before Commissioner Sturgeon and Examiner Catey on June 8, 1970. Eighty-one days of hearing were held before Commissioner Sturgeon and/or Examiner Catey commencing June 15, 1970, and continuing until March 26, 1971. Most of these hearings were in San Francisco, Los Angeles or San Diego. Other hearings, however, were held in Fresno, Bakersfield, San Luis Obispo, Monterey, Eureka, Redding, Sacramento and Calexico. The consolidated proceedings were submitted on March 26, 1971, subject to receipt of concurrent opening briefs in 38 days, on May 3, 1971, and concurrent reply briefs on May 18, 1971.

Testimony and exhibits were presented by witnesses for Pacific, the Cities of San Francisco, Los Angeles and San Diego, the California Farm Bureau Federation, a number of other organizations and individuals, and the Commission's staff. Eighteen of the hearing days were reserved specifically for the presentation of testimony by members of the general public.

Service Area

Pacific's service area includes relatively large portions of the coastal and central areas of the state and relatively small portions of the rest of the state. Of the estimated total of approximately 93,000 square miles of California that is provided with telephone and related services, Pacific serves about 50,000 square miles. Pacific has some 393 exchanges, with approximately 10,100,000 company telephones. The remaining area is served by about 29 independent telephone companies, with 228 exchanges, serving approximately 2,700,000 company telephones.

Affiliated Interests

Pacific is one of 21 principal telephone operating subsidiaries of American Telephone and Telegraph Company (American). The operating subsidiaries, together with two operating companies in the United States in which American owns less than a majority interest, are termed associated companies. American also owns Western, which manufactures and installs equipment for the associated companies and the long-lines department which connects the operating companies of American. American and Western each owns 50 percent of the outstanding capital stock of Bell Telephone Laboratories, Inc. (LABS), which is the research and development organization for the Bell System. The associated companies, Western and LABS, together with American, form the Bell System.

About 90 percent of the outstanding capital stock of Pacific is owned by American. Pacific, in turn, owns all of the outstanding capital stock of one subsidiary, Bell Telephone Company of Nevada. That company renders telephone service only within the State of Nevada.

Service

Service is an important aspect of a utility rate proceeding. Hearings devoted exclusively to testimony of public witnesses were held early in these consolidated proceedings so that Pacific and the Commission staff would have an opportunity to review and evaluate any service problems described by those witnesses. The presiding examiner required Pacific to investigate and prepare written reports wherever witnesses had specific service complaints. A copy of the appropriate report was mailed to each such witness and copies of all 42 of the reports, collectively, were received as Exhibit No. 57.

A review of Exhibit No. 57 shows that many of the complaints were valid, but that they were primarily related to isolated problems that could be, and now have been, solved by corrective action on the part of Pacific. Some of the other conditions complained of will be corrected in the near future by Pacific's budgeted plant improvement program. Three of the public witnesses who presented complaints were not completely satisfied with the report sent to them by Pacific. Reports on Pacific's further investigation were received as Exhibit No. 57-A. The Commission staff's review of Exhibit No. 57 indicated that two others may warrant further study. In general, however, there does not appear to be a significant number of unresolved service complaints.

Some public witnesses recommended that, in order to keep rates as low as possible, Pacific should budget lower capital expenditures for plant required primarily to improve service. Exhibit No. 10-A indicates that, during the period from 1964 to 1968, Pacific did, in fact, concentrate its resources on the provision of basic telephone capacity and minimized its discretionary expenditures. We considered this practice ultimately to be detrimental to good telephone service. The record shows that we so advised Pacific in 1969 and strongly urged greater emphasis on plant investments for decreasing the liklihood of service problems. We are still of the same opinion. The order herein requires Pacific to install plant additions at the rate of at least $750,000,000 per year for the next three years.

Pacific maintains statistical studies which develop, on a continuing basis, "performance index" figures which provide an appraisal of service quality. Exhibit No. 10 shows six of the principal overall indexes for recent years and Exhibit No. 73 shows detailed dial service indexes for one of the San Francisco exchanges. These indexes are quite comprehensive and tend to pinpoint potential weaknesses in Pacific's system at a sufficiently early date to permit corrective action before service has deteriorated to unacceptable levels. In fact, in a recent decision, the Commission ordered General Telephone Company of California to adopt the service index procedures used by Pacific.

At the request of the Commission staff, Pacific presented Exhibit No. 58, a summary of information relating to customer service. This includes such items as quarterly reports of actual and expected service weak spots, quarterly reports of the backlog of main service and regrades, report of the current status of telephone service in the San Francisco Bush-Pine complex, and a summary of customer opinions about service, compiled from questionnaries sent to customers. These data indicate that service generally is good and that Pacific is taking steps to eliminate potential trouble spots in the near future. In Exhibit No. 61, the staff states that the various index figures show that Pacific's service, in general, is above the Bell System average, but that the San Francisco Bay Area has more weak spots than the rest of Pacific's area.

Present and Proposed Rates

Pacific's present tariffs include numerous schedules for telephone and related services. The present rates and charges and those proposed by Pacific are set forth in detail in the 133-page Exhibit F attached to the application. In general terms, the increases and decreases proposed by Pacific are as follows:

Exchanges in the San Francisco-East Bay, Sacramento, Los Angeles, San Diego and Orange County Extended Areas would receive increases resulting from the application of uniform sets of basic exchange rates for residence and business service. The increases would generally be in the range of about $1.85 per main residence telephone and $3.80 per main business telephone.

For exchanges located outside the aforementioned extended areas, increases in basic exchange, residence and business rates would depend upon the size of the exchange and whether or not extended area service is offered in the exchange. These increases would be generally about $1.85 per main residence telephone and would range from $3.80 to $6.30 per main business telephone.

The message unit charge would be increased from $0.0405 to $0.045.

Some intrastate message toll telephone rates would be increased and some reduced. Residence Foreign Exchange Service basic rates, Airport Intercommunicating Service rates, and Centrex Service rates would be increased.

Directory Listings rates for certain Additional Listings and Lines of Information would be increased.

Key Equipment Services rates and charges would be increased for certain MKC, DIAL, PAK, and Business Interphone Services.

Mobile Telephone Service monthly rates and service and equipment and non-recurring charges would be increased.

PBX Services and Dispatching System Service rates and charges would be increased.

Service Connection, Move and Change, and In-Place Connection Charges would be increased. These increases would range from $1.00 to $3.00.

Supplemental Equipment rates and charges would be increased for some items and reduced for Special Type Cords.

Special Assemblies of Equipment rates and charges would be increased, and special arrangement for use with tandem dial connection would be withdrawn.

Telephone Answering Service rates and charges for cord-operated equipment would be increased.

The effect of Pacific's proposed changes would be to increase basic exchange rate revenue and mobile telephone service rate revenue in the range of 40 to 50 percent, to increase revenues from various other rates by lesser percentages, to reduce revenues from a few rates by nominal percentages and to increase the resultant intrastate revenue by about 12 percent.

Results of Intrastate Operations

Witnesses for Pacific and the Commission staff have analyzed and estimated Pacific's intrastate operational results for a 1970 test year. Pacific's estimates were presented in Exhibit No. 2 and the staff's estimates were presented in Exhibit No. 66. Additional details and comparisons of the two estimates are set forth in Exhibit No. 102. Both Exhibits Nos. 2 and 66 were prepared before actual recorded results for 1970 were available. Exhibit No. 75 shows those actual recorded results, together with certain rate-making adjustments similar to some of those adopted by the Commission in Decision No. 74917, in Pacific's previous rate proceeding.

It is difficult to compare directly the summaries presented by Pacific and the staff because some of the items were not presented in a consistent format. Pacific's adjustments to reflect changes in operations prescribed by Decision No. 74917 but not fully reflected in actual 1970 operations were shown as additional revenue requirements, whereas the staff showed those items as adjustment to the rate of return that had been derived excluding the adjustments. A revision in allocation of expenses and rate base items between interstate and intrastate operations (Ozark Separations Plan) became effective after Pacific's Exhibit No. 2 had been prepared and thus was not reflected therein. Adjustments to expenses and rate base were included to modify actual recorded results in Pacific's Exhibit No. 75, to reflect the Ozark Plan, whereas in Exhibits Nos. 2 and 102, the staff's corresponding adjustments are shown as composite adjustments to rate of return.

Table I herein summarizes the staff's estimates in their original form and on an equivalent basis consistent with the format used by Pacific. This simplifies comparison of the various corresponding components of the estimates presented by Pacific and the staff. The adjustments are described in more detail in the discussions hereinafter of revenues, expenses and rate base.

Table I

Restatement of Staff Estimate
Test Year 1970
(Dollars in Millions)

Item	Original Format	Modifications: 10¢Toll 2 MMU	S.Jose Exch.	Ozark Plan*	Restated Format
Operating Revenues	$1,602.0	$(24.3)	$(2.1)	$ 0.0	$1,575.6
Operating Expenses					
Excl. Taxes	1,077.8	0.0	0.0	(9.2)	1,068.6
Taxes, Excl. Inc. Taxes	137.4	0.0	0.0	(1.1)	136.3
State Income Tax	20.9	(1.7)	(0.1)	0.7	19.8
Federal Income Tax	132.1	(11.1)	(1.0)	4.7	124.7
Total	$1,368.2	$(12.8)	$(1.1)	$ (4.9)	$1,349.4
Net Revenue	$ 233.8	$(11.5)	$(1.0)	$ 4.9	$ 226.2
Rate Base	$3,369.4	$ 0.0	$ 0.0	$(28.8)	$3,340.6
Rate of Return	6.94%	(0.34)%	(0.03)%	0.20%	6.77%
Adjustments	(0.17)%	-	-	-	0.00%
Adjusted Rate of Return	6.77%	-	-	-	6.77%

(Red Figure)

*Assuming that the relationship between incremental change in expenses (before income taxes) and incremental change in rate base, due to change to the Ozark Plan, would have been in approximately the same proportions in the staff estimates as in Pacific's estimates in Exhibit No. 75.

Summarized in Table II, from the exhibits of Pacific and the staff, are the estimated, recorded and adjusted results of intrastate operation for the test year 1970 under present telephone rates. For comparison, this table also shows the corresponding adopted results of operation as discussed hereinafter.

TABLE II
RESULTS OF INTRASTATE OPERATIONS
UNDER PRESENT RATES - TEST YEAR 1970
(Dollars in Millions)

Item	Pacific Estimated & Adjusted	Pacific Recorded & Adjusted	Staff Estimated & Adjusted	Adopted
Operating Revenues				
Unadjusted for 1971 Rate Changes	$1,579.8	$1,593.1	$1,602.0	$1,593.1
Eliminate 10¢ Toll & 2 MMU	(24.7)	(24.7)	(24.3)	(24.7)
Changes in San Jose Exchange	0.0	(2.4)	(2.1)	(2.4)
Increased Directory Adv. Rates	1.7	1.7	0.0	1.7
Adjusted	1,556.8	1,567.7	1,575.6	1,567.7
Operating Expenses Excl. Taxes				
Excl. Following Five Items	851.9	856.4	852.2	852.2
Adjust for Year-End Wage Levels	10.7	10.5	0.0	10.5
Adjust for Pension Fund Int. Rate	0.0	0.0	(7.5)	0.0
Depreciation, Excl. Following Two Items	238.8	237.8	236.8	237.8
Change to Ozark Separations	0.0	(7.3)	(9.2)	(7.3)
Western Electric Adjustment	0.0	0.0	(3.7)	0.0
Adjusted	1,101.4	1,097.4	1,068.6	1,093.2
Taxes Other Than On Income				
Payroll, Excl. Ozark Adjustment	24.9	23.8	24.7	23.8
Ad Valorem & Other, Excl. Ozark Adj.	115.1	117.8	112.7	117.8
Change to Ozark Separations	0.0	(0.9)	(1.1)	(0.9)
Adjusted	140.0	140.7	136.3	140.7
Income Taxes				
State, Excl. Ozark Adjustment	19.3	18.6	19.1	19.0
Federal, Excl. Ozark Adjustment	98.8	100.0	120.0	101.8
Change to Ozark Separations	0.0	4.6	5.4	4.6
Adjusted	118.1	123.2	144.5	125.4
Total Expenses & Taxes	1,359.5	1,361.3	1,349.4	1,359.3
Net Revenue	197.3	206.4	226.2	208.4
Average Rate Base				
Excl. Ozark Adjustments				
Telephone Plant	4,337.2	4,362.3	4,306.9	4,362.3
Working Cash	79.3	77.0	55.8	55.8
Materials & Supplies	13.1	18.3	13.1	18.3
Depreciation Reserve	(980.8)	(986.9)	(971.8)	(986.9)
Western Electric Adjustment	0.0	0.0	(31.6)	0.0
Reserve for Deferred Taxes	(3.4)	(3.3)	(3.0)	(3.3)
Subtotal	3,445.4	3,467.4	3,369.4	3,446.2
Change to Ozark Separations	0.0	(23.1)	(28.8)	(23.1)
Total	3,445.4	3,444.3	3,340.6	3,423.1
Rate of Return on Avg. Rate Base	5.73%	5.99%	6.77%	6.09%
Net Revenue for Pro Forma Rate Base	$ 197.3	$ 206.4	-	$ 205.4
Pro Forma Rate Base	$3,586.8	$3,587.4	-	$3,540.6
Rate of Return on Pro Forma Rate Base	5.50%	5.75%	-	5.80%

(Red Figure)

Operating Revenues

The first item shown in Table II is the 1970 operating revenues before adjustment for 1971 rate changes. Pacific's original estimate is about 22 million dollars lower than the staff's. Actual revenues were between the two estimates and somewhat closer to the staff's estimate than to Pacific's. The staff expressed some doubt that the recorded revenues for the last half of the year followed a normal pattern but had not analyzed them to resolve that doubt. We hereby take official notice of the monthly reports for the past three years filed by Pacific pursuant to General Order No. 65-A. A review of monthly revenues in those reports shows a relatively uniform seasonal pattern during that 3-year period. Revenues reached a yearly peak in October of each year, fell about 4 1/2 percent in November of each year, and rose again in December of each year. We find that recorded revenues were not abnormally low or high in the last half of 1970. Actual revenues for the full year are adopted as the first item in Table II.

Paragraph 5 of the order in Decision No. 74917 required Pacific to establish extended service, in lieu of toll and multi-message unit service, over all routes where the toll route mileage is 8 miles or less. The completion thereof is to be no later than December 31, 1971. The resulting elimination of 10-cent toll and 2 MMU is on schedule and, barring unforeseen circumstances, will be completed as required by the previous order. The loss of revenue resulting from this change must be reflected in the test year 1970 to make the test year indicative of future operations. There is only a minor difference between the estimates of Pacific and the staff for this adjustment. The staff's estimate is based upon the 1971 level of operations, added to or subtracted from 1970 revenues. Pacific's estimate is based upon the 1970 level of operations. Pacific's basis is more appropriate for the test year 1970 and is reflected in the adjustment adopted for this item in Table II.

Paragraph 6 of the order in Decision No. 74917 required Pacific to establish revised district areas in its San Jose exchange. This results in reduced revenues from the San Jose exchange. The completion date prescribed by the Commission is July 1, 1971. This work is proceeding somewhat ahead of schedule. Pacific did not include an estimate for the effect of this change in its original presentation, but did include an adjustment to the recorded results in Exhibit No. 75. As in the case of the preceding item, Pacific's estimate based upon the 1970 level of operations is more appropriate than the staff's estimate based upon the 1971 level of operations. Pacific's estimate for this item is adopted in Table II.

Directory advertising rates are included in the rates increased by Paragraph 1 of the order in Decision No. 74917. As old directories expire, the new rates become effective for advertising in the new directories. The additional revenues which would have been produced during 1970, if the new rates had been applicable to both new and old directories, were included by Pacific in its original estimates and as an adjustment to recorded revenues but were not included by the Commission staff. Consistent with the adjustment for reduced revenues in the preceding two items, the increased revenues for this item should be included as an adjustment. Pacific's estimate for this item is adopted in Table II.

Operating Expenses Excluding Taxes

The first expense item in Table II excludes taxes and depreciation and also excludes adjustments for wage levels, pension fund interest rate, Ozark separations and Western Electric prices. With those exclusions, the total expense estimates of Pacific and the staff are almost identical, although there are differences in the distribution of the expense estimates by accounts. The similarity in the two estimates is due in part to the fact that, for the purposes of this proceeding, Pacific does not dispute certain adjustments made by the Commission in Decision No. 74917. These include the exclusion of expenses related to legislative advocacy, dues to certain organizations, general services and license fees paid to AT&T, write-off of pay TV facilities and plant acquisition adjustments, and the unfunded pension expense adjustment.

Actual recorded expenses for the first expense item on Table II exceeded the estimates of both Pacific and the staff. A review of the monthly reports referred to in the discussion herein of revenues shows that for a few of the months certain expenses such as maintenance expenses were somewhat higher than a normal trend would indicate. The amount adopted for the first group of expenses in Table II is based upon the estimates of the staff, which estimates we find to be representative of a normal level of such expenses for 1970.

Maintenance Expenses

One of the staff engineers who had reviewed Pacific's maintenance expenses recommends in Exhibit No. 63-A that the estimate of such expenses included by the staff in Exhibit No. 66 should be reduced because Pacific's maintenance expense per telephone during 1969 was higher than the average of other Bell System operating companies. Cross-examination of this witness disclosed, however, that there were significant errors in his calculations and that he had failed to give adequate consideration to such undisputed facts as Pacific's higher wage levels, differences in the departments to which engineering personnel of the various companies are nominally assigned, relative quality of service, offsets due to work done by Pacific for compensation relating to other Bell System operations, relative rates of turnover of personnel, and relative complexities of the various telephone systems. We find that the further adjustment to Pacific's maintenance expenses recommended in Exhibit No. 63-A is not appropriate.

Advertising Expenses

The item of Pacific's expenses which was subject to the most criticism of public witnesses is advertising. The criticism ranged from generalized statements that "a monopoly doesn't need to advertise" to specific examples of advertising which the customers contended were of no benefit to them and which they considered to be merely self-laudatory on Pacific's part.

In Exhibit No. 61-A, the staff cites Decision No. 50258, dated July 6, 1954, in Application No. 33935. In that decision the Commission expressed an opinion regarding the general benefits and reasonable level of advertising for Pacific at that time:

> "Applicant's program, in our opinion, results in obtaining sufficient numbers of employees to avoid expensive overtime pay, increasing revenues from directory advertising and long-distance service, improved service and reduced cost of handling public inquiries. In 1952 the applicant spent less than three quarters of one percent of its revenue on advertising. In our opinion an expenditure of no greater magnitude than this is not excessive considering the results achieved. It is obvious that should the amount be disallowed in its entirety, such action would not obviate the need for a rate increase, as some protestants appeared to believe."

In Exhibit No. 61-A in the current proceeding, the staff lists some of the subjects covered by Pacific's advertising which inform, advise, instruct and solicit the cooperation of telephone users in making the most efficient use of the telephone. The amount of all such advertising by Pacific, chargeable to total California operations, as estimated by the staff for 1970, is 11.5 million dollars. This represents less than six-tenths of one percent of total revenue at present telephone rates.

Exhibit No. 54 shows that the actual 1970 advertising expense was almost one million dollars higher than had been estimated by the staff. We are of the opinion that the level of Pacific's advertising expense in 1970 was not excessive. It falls well within the proportion of gross revenue which historically has been considered reasonable. If we could conclude from the record that, in addition to being reasonable in cost, the message in each advertisement was of benefit to customers, we would not hesitate to allow the actual 1970 advertising costs in full for the test year. There is serious question, however, that all of the 1.4 million dollars of actual 1970 expenses related to "informative advertising", such as descriptions of instances of employee helpfulness, are of significant benefit to customers. By not adopting the recorded expenses for 1970, we have in effect disallowed about one million dollars of advertising expense. We find that end result to be reasonable.

<u>License Contract Services</u>

Pacific's parent, AT&T, provides certain services such as basic research, advice and assistance in engineering, traffic, plant, commercial, accounting, legal, financing and other matters for the Bell System operating companies, where these services can be performed more efficiently and effectively on a centralized basis. Payments to AT&T for these services are based upon the application of a factor, currently one percent of the gross revenues (with minor adjustments) of each operating company.

Historically, the Commission has rejected the percentage-of-revenue basis of payment to AT&T when determining reasonable expenses for the purpose of setting rates for Pacific. Although over a period of years the percentage basis might result in average charges that are reasonable, the end result in a particular year at a particular level of rates may not be reasonable. For example, a ten-percent increase in Pacific's telephone rates would result in a ten-percent increase in payments to AT&T for exactly the same services. In lieu of the percentage allocation basis, the Commission generally has based its prior decisions on a determination of actual costs to AT&T for the services rendered to Pacific. In the current proceedings, both Pacific and the staff have based their estimates of intrastate expenses on that same concept. The result is a slightly higher allowance than the actual payments under present telephone rates and a slightly lower allowance than would actually have been payable under the telephone rates authorized herein.

Counsel for the Commission staff disagree with the estimates presented by their "client" and by Pacific. Staff counsel, in their opening brief, recommend disallowance of all or part of the payments to AT&T for the services provided under their contract because specific dollar values for each of the services rendered could not be cited. The undisputed evidence is that most of these services would have to be performed by Pacific if AT&T did not provide them and that Pacific would not be able to duplicate those services for the amounts paid AT&T. The expenses adopted in Table II include payments to AT&T for those services on a cost basis in lieu of the percent-of-revenue basis.

Year-End Wage Levels

Utility rates are set prospectively, not retroactively. As in the present proceeding, it is not always practicable, however, to use a future year as a test year in determining the level of earnings which will prevail at any given rate level. Instead, a prior year is used as a test year. In the absence of convincing evidence to the contrary, it is generally assumed that the higher rate base and expenses resulting from increases in customers in the near future will be approximately offset by the additional revenues from the new customers. Known changes during and beyond the test year which are unrelated to the future growth normally are "rolled back" into the test year so that the end results reasonably reflect the operating conditions which will prevail during the period when the new rates will first be in effect.

One of the known changes unrelated to growth is the general wage increase which became effective during 1970 for Pacific's employees. Pacific included an adjustment to show the increased level of expenses which would have resulted if the wage increase had become effective on January 1 of 1970, whereas the staff did not make a similar adjustment. The adjustment is reasonable in setting rates for the future and is adopted in Table II.

Pension Interest Rate

Pacific's present pension plan for its employees is funded. That is, even though the pension is not yet payable to those employees who have not retired, payments are made into a fund for future pensions. The pension fund accruals, by themselves, are calculated to provide part of the total ultimately paid to retired employees. The rest of the amount needed comes from earnings on the pension fund obtained by the investment of those funds by the fund's trustees.

Many factors go into the computation of the proper accrual which, together with earnings of the fund, will provide the required pension for each employee when he retires. Detailed actuarial studies provide projections of probable future effect of such things as turnover of personnel and personnel mortality statistics. Other considerations, such as the effect of future wage changes, future negotiated changes in the plan's benefits and average earnings on the fund's investments are not easily evaluated.

Pacific, in determining its accrual, assumes no future changes in the plan nor in wage levels. This would result in serious deficiencies if some means were not used to cover such contingencies. The assumption by Pacific of a low interest rate on the fund's earnings tends to provide for such contingencies, although for the past twenty years even this expedient has not proven sufficient to avoid deficiencies. For example, in Decision No. 74917, the Commission disallowed a portion of the accrual used by Pacific. Pacific continued to pay more into the pension fund than had been allowed as an operating expense. Despite this, the reserve has continued to be deficient.

In the current proceeding, the staff contends that each of the factors which go toward determining pension fund accruals should be evaluated as accurately as possible rather than to have offsetting infirmities cancel out to a reasonable end result. We agree and in future proceedings will expect Pacific to present its support for the pension accrual rate on the basis of more realistic interest rate assumptions and separately stated contingency provisions. We do not concur with the staff that the low interest rate assumed by Pacific should be used as a basis for reducing the accrual where the effect of the low interest rate has been shown to have been offset by other factors. In this instance, we find that Pacific's pension accrual for the test year 1970 is reasonable. The staff adjustment is not adopted in Table II.

Depreciation

Depreciation expense was estimated by both Pacific and the staff on the basis of the straight-line remaining-life method adopted in previous Commission decisions. Also, the recorded straight-line total-life depreciation was adjusted by Pacific to a straight-line remaining-life basis. After that adjustment, recorded depreciation fell midway between the estimates of Pacific and the staff. Pacific's original estimate was apparently a little high because, even though the plant additions in 1970 actually were higher than Pacific had estimated, the resulting depreciation expense was lower than Pacific originally estimated. The staff estimate is too low primarily because the staff estimate of plant additions is less than were actually installed. The recorded depreciation expense, adjusted to a straight-line remaining-life basis, is adopted in Table II.

Change to Ozark Separations Plan

The Ozark Plan of separations affects the allocation of plant between intrastate and interstate operations pursuant to an order of the Federal Communications Commission dated October 28, 1970, in Docket No. 18866. This plan increases the assignment of expenses and investments to Pacific's interstate operations starting January 1, 1971.

In the adjustments which Pacific made to recorded results in Exhibit No. 75, the benefits of the Ozark Plan to intrastate users are shown under the various items of expenses and revenues. In Exhibit No. 66, the staff derived an estimate of the effect of the change to the Ozark Plan in 1971 as a change in the rate of return.

In Table I we have converted the estimated change in rate of return shown by the staff to equivalent expense and rate base changes. As in the case of the revenue adjustments for the rate changes authorized in Decision No. 74917, hereinbefore discussed, Pacific's estimate based upon the 1970 level of operations is more appropriate than the staff's estimate based upon the 1971 level of operations. Pacific's estimate for this item is adopted in Table II.

Western Electric Adjustment

In previous rate proceedings involving Pacific, the Commission generally has adopted certain adjustments to Pacific's plant and expenses to reflect lower prices than those actually charged Pacific by its affiliated manufacturer, Western Electric Company, Inc. Those reductions were based upon the concept that Western Electric should be entitled to no higher a rate of return than would be reasonable for a regulated utility.

In the most recent of Pacific's rate proceedings, the usual Western Electric adjustment was adopted for the purposes of that proceeding, but the Commission stated that more definitive information on manufacturing costs and prices would be desirable. Concurrently with the rendering of the decision in that rate proceeding, Case No. 8858 was opened to investigate, among other things, the reasonableness of prices paid by Pacific to Western Electric as related to Western Electric's costs and profits.

Ten days of hearing were held in Case No. 8858 during which several interested parties actively participated. The issues involved were discussed at great length in Decision No. 76726, dated January 27, 1970, and need not be repeated herein. Two of the findings in that decision summarized the Commission's views on the issues pertinent to the current proceeding:

> "6. In each proceeding concerned with fixing respondent's rates, the determination of a reasonable earnings level for Western Electric Company from its manufacturing operations and sale of products to respondent will be based on what constitutes reasonable earnings for a manufacturing company.
>
> "7. In the performance of its manufacturing functions, Western's prices to Pacific and its earnings on its sales of manufactured products to Pacific have been fair and reasonable when compared to the earnings of manufacturing companies. The prices paid by Pacific to Western for manufactured products are fair and reasonable."

In Case No. 9043, one of the proceedings consolidated herein, CAN and William Bennett allege that Western Electric is a public utility under the jurisdiction of this Commission. No evidence was presented, however, in support of that allegation. In fact, although five of Pacific's witnesses on the subject of Western Electric were available during 17 days of hearing and were cross-examined by other parties, neither Bennett nor any of the other individuals who appeared for CAN undertook to cross-examine those witnesses.

Pacific contends, under the principles outlined in Decision No. 76726, that the Western Electric adjustment now is reduced to zero for the test year 1970. In support of that position, Pacific presented testimony by four witnesses: Witness Harrigan, Vice President-Finance of Western Electric; Witness Kendrick, a consulting economist; Witness Kamps, Engineering Manager-Price Surveys of Pacific; and Witness Mobraaten, the Vice President-Operations Staff of Pacific at the time the application was filed.

The evidence of Witness Harrigan in Exhibits Nos. 5 and 5-A was presented to show that (1) Western Electric has a manufacturer's financial profile and a capital goods manufacturer's degree of risk, (2) affiliation of Western Electric with the Bell System produces its own peculiar risks and uncertainties for the manufacturing affiliate, (3) Western Electric is subject to regulatory restraint in setting its earnings objectives and its prices, (4) these restraints prevent Western Electric from experiencing peaks in good times high enough to act as offsets for the earnings troughs experienced by most manufacturers in periods of recession, (5) Western Electric's potential for higher earnings in good years is largely translated into reductions in prices to the operating companies, (6) Western Electric's pricing is necessarily prospective in nature, adding to the possibility of failure to achieve earnings objectives, (7) Western Electric experiences variations between forecasts and actual sales to about the same degree as other manufacturers, and (8) Western's earnings in the postwar period have been modest in view of those of other manufacturers.

In Exhibits Nos. 6 and 6-A, Witness Kendrick presented the results of his productivity study to show that, during the period 1948 through 1968, Western Electric's increases in its productive efficiency were (1) over twice as great as the corresponding efficiency increases in the economy as a whole, (2) over twice as great as the corresponding efficiency increases in the manufacturing industries, and (3) over one and one-half times as great as efficiency increases in the electrical equipment industry of which Western Electric is a part. The study of Western Electric operations over a period of years by this witness showed that the company's management had utilized the increased productivity and efficiency primarily to absorb increased wages for its employees, increased prices for the materials and services which it purchases, and reductions in prices of its products to the operating companies.

In Exhibits Nos. 7 and 7-A, Witness Kamps presented the results of his study of a comparison of prices charged by Western Electric and those charged by the general trade. The study indicates that, for the entire range of Western Electric products purchased by Pacific, the prices paid by Pacific were less than 60 percent of the lowest prices available in the general trade.

In Exhibits Nos. 8 and 8-A, Witness Mobraaten covered the aspect of the manufactured products and services which were provided by Western Electric but which did not involve manufacturing by it. This witness concluded that, as a practical matter, Pacific could not duplicate the services which it now receives from Western. The study indicated that if Pacific were to undertake its own installation, purchasing, warehousing, repair and salvage operations, the cost would far exceed that which is now incurred. Further, Pacific would lose the advantage of deferring income taxes on portions of capitalized charges under the Bell System consolidated returns.

In addition to the four witnesses presented by Pacific, Witness Jizmagian was made available for cross-examination at the request of the Commission staff. That witness was in charge of a pricing study prepared by a consulting firm, which study had been used by Witness Mobraaten as the basis for some of his conclusions.

The Commission staff presented information on Western Electric through two witnesses: Witness Gibbons, an accountant in the Finance and Accounts Division, and Witness Hoeman, an engineer in the Utilities Division. There apparently was some misunderstanding regarding the previously quoted findings in Decision No. 76726. Despite the finding in 1970 in that decision that Western Electric prices to Pacific had been fair and reasonable, the staff deducted some 47 million dollars from presently surviving plant installed prior to 1968 as though Western Electric prices to Pacific had not been fair and reasonable. This was calculated by allowing for Western Electric only the rates of return which presumably would have been allowed over those years if it had been a telephone utility.

A further adjustment was made by the staff, reducing by about 8 million dollars the prices of plant installed between 1968 and 1970. This was calculated by allowing for Western Electric only a 6.3, 6.9 and 7.7 percent return on net investment respectively for the three years on services and supplies and an 8.5 percent return on manufacturing operations, in lieu of the 10.1 percent composite return which the staff estimates[1/] was earned during that period.

Counsel for the Commission staff contend that the staff, in determining Pacific's rate of return for the test year 1970, could reasonably have continued to make an adjustment to disallow any Western Electric charges through the year 1970 which resulted in earnings to Western Electric that exceeded the rate of return allowed Pacific, despite the findings in Decision No. 76726. The arithmetical computations for such further adjustment are included in Exhibit No. 65. Witness Hoeman testified that, if he were the expert witness on a reasonable rate of return for Western Electric, he, too, would favor limiting the rate of return to the levels allowed Pacific over the years. Staff counsel also state that the method actually adopted by the staff in determining the rate of return for Pacific in the test year 1970, insofar as it relates to the Western Electric adjustment,

1/ Exhibit No. 65, Table 6-C, Sheet 2, Column c, Line 18.

also will protect the public. That method treats Western Electric as though it were a public utility telephone company with a public utility telephone company capital structure prior to 1968 and treats Western Electric as though it were a public utility telephone company with a manufacturer's capital structure for 1968, 1969 and 1970.

The Cities of Los Angeles, San Diego, San Francisco, and the General Services Administration indicate in their briefs that they are in general agreement with the recommendations of staff witness Gibbons that the Commission ignore, or at least modify, its previous findings in Decision No. 76726.

We will first discuss whether or not there should be any inconsistency in treatment of Pacific's plant installed in various years insofar as review of Western Electric earnings are concerned. The findings in Decision No. 76726 constituted a change in regulatory concept from what had previously been utilized. Historically, other changes in regulatory concepts have been reviewed and revised from time to time by the Commission. For example, after the Commission discontinued the allowance in rate base of "present market value" of land used by California utilities, all land was included in a utility's rate base at original cost regardless of the fact that some of the land had been appraised in earlier proceedings at other than original cost. Also, after the use of an undepreciated rate base with sinking-fund depreciation was abandoned by the Commission in favor of a depreciated rate base, generally with straight-line depreciation, the plant was not segregated even though some of the plant had previously been allowed in the rate base at its full undepreciated original cost. Similarly, it would not be appropriate to consider that Western Electric was a manufacturer in some years and not in others. Uniform treatment of rate base items of various vintage years for setting future telephone rates is appropriate and does not constitute retroactive rate making.

We have already determined in Decision No. 76726 that Western Electric prices to Pacific for manufactured items were reasonable prior to that decision. The data upon which that finding was made covered primarily the period 1946 through 1967. Most of Pacific's then existing plant had been installed or acquired within that period.

The Commission intends, as stated in Decision No. 76726, to maintain continuing surveillance over the prices subsequently charged Pacific by Western Electric, to be sure that they remain reasonable. For that purpose, Pacific brought up to date through the year 1969 in Exhibits Nos. 5, 5-A, 5-B and 5-C material which previously had been presented on comparative earnings. By means of comparisons similar to those made in Case No. 8858, this updated information shows that, in the performance of manufacturing functions, Western Electric's prices to Pacific and Western's earnings on sales of manufactured goods to Pacific from 1946 through 1969 have been fair and reasonable when compared with the earnings of manufacturing companies. Similar comparative data for 1970 were not available at the time the exhibits were presented but, for the purposes of this proceeding, it is reasonable to assume that no significantly different conclusion would have been reached for the plant installed from 1946 through 1970.

In Decision No. 76726, the Commission discussed Western Electric's weighted average profits on Bell System sales and its weighted average corresponding return earned on net investment and on equity capital since 1946. That evidence was included in the data considered by the Commission in arriving at its finding that Western Electric prices and profits, as of that time, had not been excessive.

The following Table III shows those statistics and comparable later data covering the period 1946 through 1969 presented in Exhibit No. 5-B in the current proceeding:

TABLE III

Comparisons of Western Electric Profits & Earnings on Bell System Sales

Item	C. 8858	A. 51774
Profits on Sales (Markup)	4.8%	4.9%
Return on Net Investment	9.1%	9.2%
Return on Equity	10.1%	10.2%

Two important factors relating to the return that investors in an enterprise, regulated or not, reasonably expect to earn are risks inherent in the type of operation and risks inherent in the capital structure. These factors are separate but interrelated. For example, an enterprise with operations entailing widely fluctuating profits might adopt an extremely low debt ratio to avoid having profits in poor years completely wiped out or drastically reduced in covering interest charges. In general, a higher than average composite of the two types of risks warrants a higher-than-average expected return.

Even if two enterprises have similar risks inherent in their operations and similar capital structures, they will not necessarily realize similar earnings levels. In a competitive situation, incentive and reward for a more efficient management of an enterprise is provided by the greater earnings which the enterprise is able to achieve as compared with the earnings of a less efficient competitor who charges a similar price for his product or service. In the case of a regulated utility in California, incentive and reward for a more efficient management of an enterprise is permitted by Section 456 of the Public Utilities Code, which provides:

> "Nothing in this part shall be construed to prohibit any public utility from profiting to the extent permitted by the commission, from any economies, efficiencies, or improvements which it may make, and from distributing by way of dividends, or otherwise disposing of, such profits. The commission may make or permit such arrangement with any public utility as it deems wise for the purpose of encouraging economies, efficiencies, or improvements and securing to the public utility making them such portions of the profits thereof as the commission determines."

The intent of Section 456 also should apply to an affiliate of a California utility. It is quite possible that the risks inherent in the manufacturing operations and in the service and supply operations of Western Electric are not quite as great as the operating risks of some of the manufacturers used in the comparative data presented in this proceeding. There is no question, however, that the capital structure of Western Electric is similar to that of manufacturers. There is also ample evidence that Western Electric has been operated in an extremely efficient manner, as compared with other enterprises. Considering the risks and efficiencies of Western Electric's total operations, we deem it reasonable for Western Electric to have earned the returns it realized from 1946 through 1969. No adjustment to the prices charged Pacific for products and services during that period is warranted.

Further tests of reasonableness are appropriate in reviewing the manufacturing functions and the service and supply functions performed by Western Electric. Also, although manufacturing is not a normal function of a utility, such service and supply functions as purchasing from other manufacturers, storekeeping, installing, repairing and salvaging are normal utility functions. Even though Western Electric did not earn an unreasonably high return on its operations, a downward adjustment in prices charged would be appropriate if Western Electric prices for manufactured products were higher than similar products manufactured by others or if Pacific could perform the service and supply functions at lower cost than the charges by Western Electric. Exhibits Nos. 7 and 7-A show that Western Electric prices for manufactured products are overall about 60 percent of the level of the lowest general trade suppliers. Exhibits Nos. 8 and 8-A show that it would cost at least $14,500,000 more per year for Pacific to duplicate the service and supply functions now performed by Western Electric. These exhibits confirm that no adjustment to Western Electric prices for manufactured products or for services and supplies is warranted at this time. No adjustments to expenses or rate base for Western Electric charges are adopted in Table II.

Taxes Other Than on Income

Payroll taxes paid by Pacific in 1970 were lower than had been estimated by either Pacific or the staff. Ad valorem taxes, on the other hand, were higher than had been estimated by either Pacific or the staff. In the absence of some reasonably well-defined trend in such items, the latest experienced tax rates and assessments are utilized in a test year. In this case, the actual 1970 taxes are known and thus are adopted in Table II.

The effect of the change to the Ozark Plan is to allocate more of this group of taxes to interstate operations. Pacific's estimate of the change in allocations based upon 1970 levels of operation, is more reasonable for the test year 1970 than is the staff's comparable estimate based upon 1971 levels of operations, and is adopted in Table II.

Income Taxes

The various differences between revenues and expenses as estimated by applicant, as actually occurred, as estimated by the staff and as adopted in Table II affect the amount of taxable income and corresponding income taxes. A further difference in state corporation franchise tax results from the staff's assumption of a single-company tax return for Pacific rather than the consolidated return required by state tax authorities.

In Decision No. 76726, the Commission found:

> "8. The payment by respondent of its California Franchise Tax upon a consolidated return basis with American Telephone and Telegraph Company and its affiliates does not necessarily under all circumstances impose any additional burden upon California ratepayers over and above the burden which would be imposed if respondent computed and paid its California Franchise Taxes on a separate return basis and may in fact benefit California ratepayers under some circumstances."

In that same decision, the Commission also discussed benefits to Pacific's customers from the filing of consolidated income tax returns, which benefits sometimes more than offset any disadvantages resulting from the filing of consolidated state income tax returns. Even without considering those offsetting advantages, the state corporation franchise tax would be about 5 million dollars lower under a consolidated return than on a separate return basis, at the level of telephone rates authorized herein. The reverse was true under present telephone rates, which resulted in state corporation franchise taxes about 3 million dollars higher under the consolidated return than if a separate return had been permitted. This seeming inconsistency is due to the application of the allocation formula used by state taxing authorities, which results in a lower effective tax rate on incremental increases in Pacific's gross revenue than for the initial taxable revenue.

The state corporation franchise tax adopted in Table II reflects the use of a consolidated return. This results in allowances under the increased telephone rates authorized herein which are in line with actual tax liability. The use of a hypothetical separate return for State corporation franchise tax at this time would result in allowances of greater taxes for rate-making purposes than the actual tax liability.

In Exhibit No. 66, the staff developed Pacific's revenue requirement on the basis of "normalization" of both federal and state income taxes rather than to "flow-through" the lowering of current tax payments resulting from use of accelerated depreciation on income tax returns. This is in conformity with the treatment specified in Interim Decision No. 77984, dated November 24, 1970 herein, for federal income taxes. The adoption in that decision of the normalization basis for federal income taxes is based upon changes in the Federal Laws.

If Pacific were to adopt "flow-through" accounting for state income taxes using accelerated depreciation, it would not appear to be in compliance with the prerequisite in the Internal Revenue Code that a taxpayer such as Pacific must use the "normalization method of accounting" to qualify for the use of accelerated depreciation for federal income tax purposes. In any event, the State income taxes are a relatively small portion of total income taxes paid by Pacific. Under these circumstances it is not warranted to consider different accounting and rate-making treatment for state than for federal taxes. We find that the staff was correct in basing its determination of revenue requirement in Exhibit No. 66 on the use of normalization for both state and federal income taxes. This avoids the possibility of jeopardizing the much larger federal income tax deferrals.

The effect on intrastate income taxes of the change to the Ozark Plan at a given level of gross revenues is to increase those taxes. This is due to the lower intrastate expenses other than income taxes and the resulting higher taxable intrastate income. The change in income taxes due to the Ozark Plan adopted in Table II is consistent with the changes in other expenses adopted in that table.

Rate Base

The telephone plant installations by Pacific during 1970 were somewhat greater than had been estimated by either Pacific or the staff. This accelerated level of plant installations was discussed herein under "Service". As stated in that discussion, we are still of the opinion that the higher rate of plant improvement is important in maintaining adequate safety margins which will avoid deterioration of telephone service. The actual plant installations are included in the 1970 average plant adopted in Table II.

The basic difference between the working cash allowances estimated by Pacific and the staff is in Pacific's use of the "retail" method and the staff's use of the "cost" method. Under the retail method, consideration is given to the average lag in receipt of revenues, including the portion of those revenues assignable as earnings on net investment. Under the cost method, consideration is given to the lag in receipt of the portion in revenues which is assignable to covering expenses. In developing working cash allowances in prior decisions, the Commission has almost invariably not considered the disadvantage to stockholders which results from delay in receipt from customers of the earnings portion of revenues nor has the Commission considered the advantages to stockholders which result from any receipt from customers of the bond interest portion of revenues in advance of the actual payment of such interest. Unless and until proven not appropriate, we will adhere to the cost basis utilized in prior proceedings for working cash allowances.

The average depreciation reserve deductible from plant in determining rate base was greater than had been estimated by either Pacific or the staff. Consistent with the adoption of actual plant additions in 1970, the actual depreciation reserve is adopted in Table II.

The average level of Pacific's materials and supplies on hand during 1970 was considerably higher than the amounts included in the estimates of Pacific and the staff. Exhibit No. 1 includes the statement, however, that Pacific's estimate was not based upon any detailed special studies or projections. Exhibit No. 61 includes the statement that the staff adopted Pacific's estimate for 1970 as reasonable. From a review of the fluctuations in level of materials and supplies from 1966 through 1969, as set forth in Exhibit No. 12, it can be seen that during years when plant additions were being held to a lower level, the average materials and supplies on hand also was lower. Conversely, when plant additions were installed at an accelerated rate, the average materials and supplies on hand increased. The higher level of materials and supplies which actually prevailed in 1970 appears to be related to the plant improvement program discussed herein under "Service" and is adopted in Table II.

As discussed herein under "Expenses", the effect of the change to the Ozark Plan estimated by Pacific is more appropriate than that of the staff. This is reflected in the rate base adopted in Table II.

Pro Forma Rate Base

In Exhibits Nos. 75 and 102, Pacific includes alternative 1970 results of operation using a weighted average rate base and a year-end rate base. Pacific contends that the use of a year-end pro forma rate base is justified in this proceeding to offset the erosion of rate of return which is the inevitable effect of inflation. Pacific points out that the Commission frequently has made an allowance in rate of return to take care of anticipated attrition in earnings which results primarily from inflation.

We do not agree that the use of a year-end rate base necessarily is appropriate. For example, if all of the capital additions installed by a utility during the year are directly related to providing service to new customers, the additional net revenues to be received from those new customers normally should also be reflected in the test year if a year-end rate base is to be used. On the other hand, we often have utilized a rate base which was higher than either a weighted average or a year-end rate base when installation of non-revenue-producing plant is imminent. In such cases, the additional plant would be completed before or soon after the new utility rates became effective. Not only would there be no offsetting additional net revenues available to offset the higher investment, there would be additional expenses. Unless the non-revenue-producing plant and related depreciation expense and taxes were "rolled back" into the test year, the utility would never achieve the rate of return found reasonable by the Commission.

To determine the rate of return for the test year 1970 for rate-making purposes we will consider how much additional non-revenue-producing plant will have been installed by the approximate midpoint of the first 12 months that the new telephone rates have been in effect. Undisputed testimony of Pacific's vice president in charge of operations shows that about 75 million dollars of 1970 capital expenditures and 80 million dollars of 1971 capital expenditures are essentially non-revenue-producing. Only about half of those 1970 expenditures and none of the 1971 expenditures would be reflected in a weighted average 1970 rate base and corresponding net revenue. When we "roll back" into the 1970 test year all such non-revenue-producing plant that will have been installed by the end of 1971, including the effect of additional depreciation expense and additional ad valorem taxes, offset in part by lower income taxes which result from the higher assumed expenses and bond interest, the end result should be reasonably close to the return which will be realized by Pacific during the first 12-month period that the new telephone rates are in effect.

The return on this pro forma basis is shown at the bottom of Table II. Details of the effect of the roll-back of non-revenue-producing plant are shown in the following Table IV:

TABLE IV

ROLL-BACK OF PLANT ADDITIONS

Item	Millions of $
1970 Wtd. Avg. Rate Base	3,423.1
1970 Pro Forma Additions	37.5
1971 Pro Forma Additions	80.0
1970 Pro Forma Rate Base	3,540.6
1970 Net Revenue for Wtd. Avg. Rate Base	208.4
Adjust for Depreciation Exp. @ 5.4% (a)	(6.3)
Adjust for Ad Valorem Taxes @ 2.7% (b)	(3.2)
Adjust for Income Tax Effects	6.5
1970 Pro Forma Net Revenue	205.4
1970 Pro Forma Rate of Return	5.80%

(a) Exh. No. 12, Pg. 14-17
(b) Exh. No. 12, Pg. 12-6

Long-Term Construction Plans

One customer challenged the level of plant additions which Pacific's management estimates will be installed during the next decade. Detailed correlations of past plant construction, corresponding customer growth and other growth factors were presented by this witness to show that the projected rate of plant expansion is much greater than in the past.

This witness has overemphasized the importance of the long-term construction prognostications. We are not attempting to set rates for the next decade. We do hope to set rates which will permit Pacific to earn, during the next few years, the rate of return found reasonable in this proceeding. We have not included in the test year 1970 the large plant expansion estimated by Pacific through the next decade. Thus, if Pacific's long-term projections are either overstated or understated, this would have no significant effect on the test year results. Further, even if there is not as great a need as now expected for external financing of the long-term construction program, this does not mean that the investors who have provided the funds for the existing plant are not entitled to a reasonable rate of return.

It is essential, however, as we indicated in the discussion of "Service", that Pacific not relax its efforts to avoid deterioration of service, and that it comply with the order to install plant additions at the rate of at least $750,000,000 per year for the next three years.

Rate of Return

Evidence and testimony concerning the rate of return which Pacific should be allowed to earn were presented by Pacific, the Commission staff and the City of Los Angeles. The following Table V shows a comparison of the various recommendations:

Table V

Rate of Return Recommendations

Item	Recommended Return Pacific	Staff	L.A.
On Equity			
Maximum	12.75%	9.50%	8.93%
Minimum	10.75	8.85	8.80
On Rate Base			
Maximum	9.50	7.85	7.50
Minimum	8.50	7.50	7.50

Pacific's witness on rate of return employed three approaches to show earnings of other enterprises in comparison with earnings he recommends be allowed Pacific. These approaches are (1) comparisons of risks of the telephone business as compared with risks of electric utilities and industrial corporations, (2) comparisons of earnings of companies having capital structures similar to that of Pacific, and (3) a determination of the return sought by investors in general.

In the first approach, Pacific's witness showed that the yield of Pacific's bonds, those of Moody's "Aa" Electric Utilities and those of Moody's "A" Industrials were quite comparable. This information, coupled with a showing that Pacific's debt ratio was higher than those of the industrials and lower than those of the electric utilities, led him to the conclusion that, at least in the eyes of the bond purchasers, the risks related to operation of telephone utilities fall somewhere between the risks inherent in the electric utility operations and those of industrial corporation operations. His summaries of the earnings of the 50 largest electric utilities and the 50 largest industrial corporations then determined his recommendation of rates of return.

The rate of return witness for the City of Los Angeles contended that Pacific's showing on comparative earnings of telephone utilities, electric utilities and industrial corporations is invalid in that: (1) Comparative earnings data for the years 1964 to 1968 show electric utility earnings at a higher level than industrial corporations, contrary to Pacific's assumption of correlation of risk and return on equity, (2) the operation of a Bell System telephone utility entails no greater nor significantly different risk than the operation of an electric utility, (3) earnings of industrial corporations are not valid criteria for determining the proper level of telephone utility earnings, (4) Pacific did not give any consideration to the inverse relationship between return on equity and equity ratio, and (5) there are significant differences between Pacific and the 50 largest electric utilities as to size and as to type of regulation.

In the second approach to comparable earnings, Pacific's witness determined that the current common equity earnings level of companies having a similar capital structure to that of Pacific is about 11-3/4 percent. Various opposing parties consider this approach invalid because it treats only with the portion of risk related to capital structure and does not consider the portion of risk related to the types of operations.

In the third approach to comparable earnings, Pacific's witness first established a recent 5-year average of 6.5 for the percentage of Pacific's dividend to average book value. He then estimated that a 5.3-percent growth in earnings was expected by investors as evidenced by the annual percentage increase in earnings per share experienced by large utilities, banks and industrial corporations over a recent 10-year period. From these figures, he estimated that 11.8-percent return is required to meet Pacific's equity investor expectations.

As pointed out by several of the parties, the rationale for this third approach is not clear. The percentage of Pacific's dividend to book value is a function of Pacific's percentage payout policy and this is controllable, within limits, by Pacific's management. The annual rate of growth of earnings per share of other corporations also is dependent upon the policy of those corporations regarding the percentage of earnings to be retained and reinvested in plant. In any event, adding the two percentages does not appear to have any relevancy to the return on equity expected by investors.

The witness on rate of return representing the City of Los Angeles presented rebuttal testimony pointing out alleged defects in the approaches used by Pacific's witness on rate of return. Some of the principal contentions raised in this portion of the presentation of the City of Los Angeles are:

1. Comparison of Pacific's rates to the rising pattern of the Consumer Price Index and to the rising level of Pacific's plant investment is an oversimplification.

2. Pacific's projected estimates of increases in future embedded cost of debt are overstated.

3. Pacific's three approaches to a reasonable return on equity capital produce results which exceed the returns recently allowed Bell System telephone utilities by this and other regulatory commissions.

4. Comparisons with earnings of industrial companies have been rejected in the past by regulatory commissions.

5. Pacific has not substantiated its allegation that risks of telephone utilities are greater than those of electric utilities.

6. Historical levels of dividends and earnings per share are not pertinent to a determination of reasonable rate of return.

7. Pacific does not give adequate recognition to the significance of its relatively high equity ratio as it affects the rate of return to be allowed on equity capital.

8. Pacific does not give recognition to the rate of return consequences of its affiliation with the Bell System.

9. The fact that Pacific's interstate earnings are higher than intrastate earnings should be recognized in comparing overall returns realized by Pacific with those of other entities.

In developing a recommendation on rate of return, the witness for the City of Los Angeles started with the 6.9-percent return found reasonable for Pacific in Decision No. 74917. By substituting the recent level of embedded cost of debt for the embedded costs underlying the 6.9-percent return in Decision No. 74917, and holding constant the allowance on equity, the witness derived an updated return of 7.31 percent on total capital. Based upon the nominal increase in return on equity actually experienced by other Bell System operating companies in the past few years, the witness added only 0.04 percent to overall rate of return for increased allowed earnings on equity, raising the updated return recommendation to 7.35 percent, rounded upward to 7.4 percent. He then added 0.1 percent to give recognition to the effect of additional debt financing which was imminent but not yet effected at the time he prepared his exhibits. His final conclusion thus was for a 7.5-percent return on intrastate rate base.

The Commission staff witness on rate of return did not use a "comparable earnings" approach in determining his recommendations. He stated that such an approach involves the measurement of risk between companies or groups of companies and that there is no known formula by which risk can be measured. He did, however, give consideration to the earnings of the various Bell Systems subsidiaries, of the General Telephone companies and of several telephone holding companies, because he felt there are elements of comparability between such companies and Pacific. In addition, he testified that he exercised his informed judgment in view of the needs, circumstances and risks peculiar to Pacific. He considered many items, some of which influenced his judgment positively (higher return) and some of which influenced his judgment negatively (lower return).

Those items which he considered positively include (1) Pacific's capital structure, (2) the growth potential in Pacific's service area, (3) the trend toward higher debt cost, (4) Pacific's continuing need for large amounts of external financing, and (5) the effects of continued inflation.

Those items which he considered negatively include (1) Pacific's large size, (2) competition as compared with a captive market, (3) importance of the service to the public, (4) the generation of internal financing, (5) the upward trend of Pacific's earnings over the last four years, and (6) Pacific's affiliation with AT&T and the control exercised by that parent company.

The staff witness testified that he had given consideration to the various positive and negative factors in arriving at his recommendations but had not assigned any specific quantitative value to each factor. His final conclusion was that a rate of return on common equity within the range of 8.85 to 9.50 percent is reasonable and that the corresponding range of return on rate base would be 7.50 to 7.85 percent.

Pacific developed, through cross-examination of the staff witness, that some of the negative factors which the witness considered in arriving at his recommendation are common to most telephone utilities. The same may well be true of some of the positive factors. Since the witness had first investigated the range of returns of other telephone companies as compared with Pacific, some of the positive and negative factors may not be valid in such comparisons. Inasmuch as the witness was not able to provide even a rough estimate of the relative weight given to each positive and negative factor, it is difficult to determine what the effect would be if we disregarded any specific factor for comparative purposes.

The subject of rate of return was discussed in considerable detail in Decision No. 74917. Most of the general discussion therein would apply equally well to the current proceedings. It need not be repeated herein in its entirety but part of the discussion is so apt as to warrant duplication:

> "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."

After careful review of all of the evidence presented by the various witnesses on rate of return, we are of the opinion that a return of from 8.50 to 9.50 percent on rate base and a return of from 10.75 to 12.75 percent on equity, as recommended by Pacific's witness would be excessive. On the other hand, we are convinced that the 7.5-percent return on rate base recommended by the witness for the City of Los Angeles would not be adequate. We consider a 7.85-percent return on rate base and a corresponding return of about 9.50 percent on common equity to be reasonable. These returns are within the ranges recommended by the Commission staff.

In prior decisions the Commission has been somewhat critical of Pacific's keeping its debt ratio below 40 percent. Since the last rate proceeding, Pacific has taken steps to increase its debt ratio, which is expected to be over 43 percent by the end of the year. The higher debt ratio provides advantages to customers resulting from the reduction of Pacific's income tax included in expenses. It also provides benefits to equity stockholders resulting from the leverage of a slimmer equity. To the extent possible, consistent with maintaining the high rating of Pacific's bonds, and dependent upon market conditions at the time of issuance of additional securities, we would like to see Pacific maintain the higher debt ratio or even increase it somewhat.

Revenue Requirement

In order to produce a 7.85-percent return on rate base for the test year 1970, Pacific's gross revenues after toll settlements with the independent telephone companies must be increased by 143 million dollars. This is an increase of 9 percent over the corresponding gross revenues under present rates.

In deriving the required gross revenue increase, we have not used the net-to-gross multiplier derived by the staff in Exhibit No. 66. The staff figure does not give recognition to the expiration of the federal income tax surcharge nor to the lower effective state corporation franchise tax rate on incremental income resulting from the consolidated Bell System returns required by state tax authorities, as hereinbefore discussed. We have given recognition to a somewhat higher level of uncollectibles than estimated by the staff, as indicated by the actual 1970 experience of Pacific. Consistent with the rejection of the percentage-of-revenue basis for allowable license contract payments to AT&T, we have not included any factor for increases in this item. The end result adopted is a net-to-gross multiplier of 1.967, rather than the 2.135 derived by the staff. The lower multiplier results in a lesser increase in rates.

Rate Spread

After determining the revenue increase required to produce a reasonable return, we are always faced with the problem of deciding the proportions of the increase to be derived from the various telephone and related services provided by, and the various geographical areas served by, the utility. In such determinations, consideration must be given to many factors and objectives, some of which are conflicting. For example, it is desirable that rates for each type of service support the full allocated costs and investment related to the services, but rigid adherence to this principle could result in some charges which exceed the value of the service. If those services are then no longer used by significant numbers of subscribers, this works to the detriment of all subscribers due to the reduced sources of revenue to cover fixed costs.

In Exhibits Nos. 99 and 100, respectively, Pacific and the staff set forth recommended rate spreads at various levels of increased revenues. In general, Pacific recommends obtaining most of the increased revenue from increases in rates for basic exchange service. The rest of the required revenue increase would be derived from an increase in message unit rates and increases in some of the rates for miscellaneous service and equipment, offset in part by a reduction in some toll rates.

In contrast to this, the staff recommends obtaining less than half of the increased revenue from increases in rates for basic exchange service. The rest of the revenue increase would be derived from increases in message unit rates, miscellaneous service and equipment rates and toll rates.

Pacific's principal stated reason for increasing basic exchange rates and reducing toll rates is to eliminate or at least reduce the disparity between interstate and intrastate toll rates for calls of equal mileages. This disparity was criticized by several of the public witnesses in these proceedings. Recent increases in interstate toll rates have reduced the disparity, however, and it does not appear reasonable to obtain as much of the required revenue increase from basic exchange services as is recommended by Pacific. On the other hand, too great an increase in toll rates could discourage toll use and ultimately be to the detriment of all telephone subscribers. We have adopted what we feel is a reasonable middle ground between the recommendations of Pacific and the staff. This results in the distribution of the required increase in revenues, after settlements, as shown in the following Table VI:

Table VI

Sources of Increased Revenues

Rates		Millions of $
Basic Exchange		$ 87
Message Units+		27
Miscellaneous & Supplemental:		
Increases	$ 12	
Eliminate Color Charges	(2)	
Net Increase		10
Toll:		
Increases+	21	
Settlements	(6)	
Net Increase		15
Adjustments:		
Conversion of 7 & 8 MMU to Toll#	4	
Credit for Toll Operator Savings	4*	
EAS Settlements	(4)	
Net Adjustments		4
Total		$143

* Savings estimated by staff, resulting from reduced operator handled calls under type of toll rates authorized herein, with full flow-through of those savings to Pacific's customers.

\+ After conversion of 7 & 8 MMU to Toll.

\# Effect at present rates.

Basic Exchange Rates

Having determined, as shown in Table VI, that approximately 87 million dollars of the revenue increase is to be derived from increased basic exchange rates, we must further determine how this increase is to be spread among the various geographical areas and various types of service.

Pacific and the staff both concluded that there should no longer be a differential in basic rate levels between San Diego and Orange County EAS rates which have resulted in higher rates for Orange County. The City of San Diego presented testimony and arguments showing that San Diego rates historically have been at times less than and at times more than Los Angeles and San Francisco rates, but that a reasonable balancing of the many considerations of cost and value of service calls for uniform rates in the three areas. The California Farm Bureau Federation extends that conclusion on a statewide basis, citing that value-of-service factors for given geographical areas, such as station availability, tend to offset cost factors such as relative rates of return obtained from telephone operations in those areas. The City of Sacramento argues that subscribers in the suburbs of Sacramento should pay higher rates than those in the city, but we can reasonably assume that the City of Sacramento would not object to the removal of the present rate differentials which have resulted in higher rates for Sacramento subscribers than for those in other large cities such as San Francisco, Los Angeles and San Diego.

Most of Pacific's present basic rate differentials between geographical areas in the state stem from efforts to more nearly equalize rates of return achieved by Pacific in those areas. As pointed out by the Farm Bureau Federation, perhaps too much emphasis has been placed upon cost of service as opposed to value of service.

For example, within any one exchange there may be wide variations in theoretical cost of similar services, due to the relative proximity of subscribers to a central office, the age of the telephone instrument and connecting lines and many other items of expense and rate base. In lumping together all customers in a given geographical area for the purpose of checking rate of return, we tend to average out the variations within the particular area. If we were to adopt a statewide level of basic rates, we would merely be averaging out the variations over a larger area.

Subject to review and modification in the next rate proceeding if unanticipated adverse effects are experienced, we consider it reasonable in this proceeding to establish uniform basic rates throughout Pacific's territory except that, in areas where optional measured business rates are not yet available, business rates for 1-party flat rate, 2-party flat rate, PBX trunk flat rate service and semi-public coin box service will be lower than in areas where optional measured business rates are available. Those basic rates are set forth in the following Table VII. There will, of course, still be deviations from those basic rates where toll-free calling has been established over extended areas and where special rate areas have been authorized.

Table VII

Basic Exchange Rates

Rate	Present Range ($)	Authorized Herein ($)
1FR Flat-rate Residential (1-party)	4.65- 5.40	5.65
1MR(60) Measured Residential (1-party)ø	3.00- 3.30	4.20
1MQ(20)* Lifeline ø	2.25	2.95
2FR Flat-rate Residential (2-party)	3.65- 4.15	4.95
2MR(60)Measured Residential (2-party)	2.75- 3.05	4.05
2MQ(20)* Lifeline ø	2.25	2.95
4FR Flat-rate Residential (4-party)ø	2.95- 3.35	4.05
RES-SUB Flat-rate Residential (8-party)ø	3.40- 3.85	4.55
RES-FARML Flat-rate Residential (Farmline)ø	1.50- 1.75	2.00
RES-TK Residential Trunk ø	6.95- 8.10	8.45
4ZR Suburban Residential (4-party)ø	4.00	5.10
1FB Flat-rate Business (1-party) ø	9.00-14.50	12.50-15.65+
1MB(80) Measured Business (1-party) ø	5.15- 5.75	7.55
1MB-FX (200) Measured Business (For. Exch.)	14.00	16.40
2FB Flat-rate Business (2-party) ø	6.75-10.00	9.50-12.35+
FB-SUB Flat-rate Business (8-party) ø	6.25- 6.90	8.55
BUS-FARML Flat-rate Business (Farmline) ø	2.75- 3.50	4.00
FTK Flat-rate Business Trunkø	13.50-21.75	18.75-23.25+
MTK Measured Business Trunk#ø	5.15- 5.75	3.75
MTK-ADDL Measured Business Trunk (Add'l.)ø	2.55- 2.85	3.75
TK-FX(300) Trunk, Foreign Exchange	21.00	24.50
TK-FX-ADDL(300) Trunk, For. Exch. (Add'l.)	20.25	23.75
SEMI-PUB Semi-public Coin Box	4.50- 5.15	6.25- 7.55+
4ZB Suburban Business (4-party) ø	7.50	9.80

* Presently 30 calls, to be reduced to 20.
\# Presently 2 trunks, to be reduced to 1.
ø Where offered.
\+ The lower rate applies only where optional measured business service is not available.

Lifeline Service

In Decision No. 74917, we established a basic minimum service at the rate of $2.25 per month with a message allowance of 30 units, irrespective of whether 1-party or 2-party service is used, in those areas where residential message-rate service was then or thereafter became available, with the only restriction being that no more than one such service may be established for each dwelling unit.

Pacific proposes that the basic charge for this service be increased to $2.95 and that the 30-message allowance be reduced to zero. Individuals and groups of retired persons objected strenuously to this proposal. Although we agree that an increase in the basic charge to $2.95 is warranted, complete elimination of the message allowance is not. The rate authorized herein will reduce the message allowance to 20.

PBX Trunks

Commercial message rate PBX trunks are presently rated as follows: The first two trunks of a PBX system cost the same as the exchange business 1-party message rate but with zero message allowance; each additional trunk costs one-half the rate for two trunks. This 2-trunk minimum was adopted apparently to insure adequate service on a small PBX system. This requirement is unnecessary since the customer is able to order as many or as few trunks as he wishes and thereby obtain whatever trunk service quality he wishes. In Exhibit No. 69, the staff proposes that these trunks be priced at a rate equal to one-half the 1-party business message rate (rounded to the next lower 5¢) with a zero message allowance. This recommendation appears reasonable and is adopted.

The staff expressed concern that, under the present tariff provisions, a hotel theoretically could demand an unreasonable number of trunks in excess of its actual needs because hotel message-rate, PBX trunks are now furnished at no charge but with a premium message rate of 5¢. The staff recommended that, consistent with the uniform rate for flat-rate trunks, hotel message-rate trunks be offered at the same monthly rate, allowance and message rate as other commercial trunks. We find that this recommendation is reasonable and should be adopted.

Optional Residence Telephone Service (ORTS)

This service is an optional expanded calling area service available for an incremental charge in several exchanges of the San Francisco and Los Angeles extended areas. In Exhibit No. 69, the staff suggests that the incremental charge for this service be increased at approximately the same percentage as the increase in the message unit rates. This charge was reviewed and increased last year. In view of that increase, no further increase is made at this time.

Message Unit Service and Message Rate Service

Both Pacific and the staff have recommended that the present message unit rate of 4.05¢ be increased to 4.5¢. General Telephone Company has recommended that this rate be increased to 5¢, which would increase that utility's revenues from settlements. The staff concedes that eventually the difference between message unit rates and unit charges for toll calls should be eliminated but recommends that full elimination of the differential not be made at this time. We concur with this recommendation, but consider 4.7¢ to be a more appropriate interim step. Consistent with this, the rate for calls in excess of the allowance under message rate service also will be increased to 4.7¢.

Pacific proposes that the message unit rate for residence flat-rate foreign exchange service in the San Francisco Extended

Area be increased from 4.05¢ to 5¢. The staff concurs in this proposal. It will be adopted.

PBX Equipment

This category includes PBX manual switchboards and dial systems, other special-type switchboards such as automatic hold distributors, telephone answering switchboards and associated equipment arrangements. In general, the staff concurs in Pacific's proposed rate increases for these categories. Those increases are adopted.

The staff proposed that rates for noncabinet-type PBX equipment be decreased when such equipment has been in use for more than 5 years. Cross-examination of the staff witness on this subject disclosed that there could be serious complications in attempting to implement this plan, especially where only portions of such equipment have been replaced. The staff recommendation is not adopted at this time.

When the rate for cabinet-type equipment was established, an exception was made for a small number of customers who had this type of service but were receiving it at the lower non-cabinet type rate. The staff recommends in Exhibit No. 69 that this exception treatment be discontinued and that remaining customers be permitted to change to noncabinet-type equipment, if they so desire, without payment of basic termination charges or installation charges, provided this is done within 60 days after the effective date of revised rates in this proceeding. This suggestion appears reasonable and is adopted.

Centrex

A lower exception rate treatment similar to that discussed under "PBX Equipment" was established for certain cabinet-type

Centrex equipment. The staff recommends that this special rate treatment also be discontinued. This recommendation is adopted.

Since Pacific's application was prepared, separate rates for cabinet-type customer location Centrex have been established at a differential above noncabinet-type equipment. The staff concurs in Pacific's proposed increases in non-cabinet Centrex and recommends that the differential between cabinet and noncabinet equipment be maintained. This recommendation is adopted.

Service Connection and Move-and-Change Charges

The principal changes in these charges proposed by Pacific are an increase in the basic business service connection charge from the present $15 to $18, an increase in the residence service connection charge from $10 to $13 and the elimination of connection charges for residence extensions installed at the time of main service installation.

The staff disagrees with Pacific's proposal to increase connection charges and to provide free connection of residence extensions when installed concurrently with main service installations. Pacific's proposal appears reasonable, however, and should provide a more equitable spread of installation costs. Pacific's proposal is adopted.

Long Cords

In 1968, the Commission ordered the discontinuance of long-cord "credit". Prior to that time, no installation charge was applicable if a long-cord customer changed residence within the same exchange. The discontinuance of this credit resulted in rather widespread customer dissatisfaction. Pacific now seeks to restore the credit for long cords and to expand it to include moves company-wide. It further proposes reductions in installation charges for such cords.

The staff does not concur with Pacific's proposal. The staff contends that cost studies show that long-cord revenues should be increased rather than reduced, but did not present any of those studies. To reduce the apparent misunderstanding of subscribers that payment of installation charges mean that they have "bought" the long cord, the staff proposes a reduction in long-cord installation charges and the establishment of a monthly rate applicable to new installations. The staff contends that this proposal will result in long-cord revenues more nearly approaching actual costs.

Restoration of the long-cord credit and reduction of installation costs as proposed by Pacific should alleviate the inordinate amount of customer dissatisfaction which has been raised on this subject. Pacific's proposal is adopted.

Color Sets

When color sets were introduced some 20 years ago, the color charge was $10. In 1966, the Commission reduced this charge to the present $5. It has been generally understood that this charge would be eliminated after the proportion of black sets was sufficiently low as to avoid excessive black set retirements. The staff proposes that this charge be eliminated over the next several years by reducing the color charge by $1 a year until it becomes zero. Even with the elimination of the charge for color sets, customers requesting changes of instruments from one color to another or from black to a colored set would still be required under Pacific's tariffs to pay for the change. It thus does not appear likely that the complete removal of the color charge at this time would result in an excessive amount of black set retirements. The order herein removes the charge for color sets.

Other Miscellaneous Charges

The staff concurs in Pacific's rate proposals in the remainder of the group of miscellaneous items. The rate changes generally give recognition to rising costs of the offerings, appropriate interrelationship of rates and rate history. Most of these rate increases are limited to a maximum of about 25 percent. Pacific's proposals are adopted.

Private Line Service

Pacific did not request any increase in rates for private line service. Pacific's witness pointed out that, even at present rates, the intrastate rates are not competitive with interstate rates. The staff contends that intrastate toll private line earnings are low compared with total intrastate earnings and recommends that private line service rates be increased. In order not to increase the disparity between interstate and intrastate rates for this type of service, no increase will be authorized at this time.

Other Changes

In Chapters 6 and 7 of Exhibit No. 69, the staff presented a number of other recommendations. These, however, do not have a direct revenue requirement effect and were not recognized in the staff's recommendations for rate increase, for one or more of the following reasons:

(1) The recommendation will take several years to implement.

(2) The costs are uncertain.

(3) The change has little or no cost associated with it.

Several of the staff recommendations appear to have merit and all of them warrant further investigation. The order herein requires Pacific to prepare feasibility studies on each of the recommendations made by the staff in Chapters 6 and 7.

Conversion to Toll Routes

The staff recommends conversion of the present 7 and 8 message unit routes to toll. Similar conversions of then-existing 9, 10 and 11 message unit routes to toll routes were ordered in 1968 by Decision No. 74917. We find that the staff recommendation is reasonable and should be adopted.

Message Toll Rates

Message toll charges constitute over half of the average residential telephone bill. Pacific and the staff each recommended several changes from the present rates.

One of the changes proposed by Pacific for its message toll rates is to establish a uniform initial-period rate for person-to-person calls. The present initial-period rate is lower in the evening than it is during the day despite the fact that the operators who handle such calls in the evening are paid at a higher rate than the operators who handle daytime calls.

Another change proposed by Pacific is to establish a separate schedule of rates for calls which require the assistance of an operator, include a third-number call, credit card call, collect call, and requests for time-and-charges. Those types of calls are more expensive to furnish than calls which the customer dials himself. Calls which are sent paid and are dialed direct by the customer are the least expensive to furnish. Accordingly, Pacific's proposed rates for such service are at a lower level.

In addition, Pacific proposes a new reduced night rate DDD (direct distance dialing) schedule applicable during the hours of 11 p.m. to 8 a.m. daily plus all day Sundays and holidays. This schedule would reduce the present lowest rated maximum distance call within California from 85¢ to 49¢. Under this plan, there would be three levels of rates for DDD calls: Day rates, evening rates and night rates. Day rate time periods would be from 8 a.m. to 6 p.m. (in lieu of the present period of 6 a.m. to 6 p.m.) on Monday through Friday. The intermediate evening rate time period would be from 6 p.m. to 11 p.m. on Monday through Friday and from 8 a.m. to 11 p.m. on Saturdays.

For operator-handled calls, Pacific proposes two levels of rates: Day rates and combined evening and night rates. As in the present rate schedules, there would be a higher level of rates for person-to-person calls than for station-to-station calls. Surcharges would be added for collect and third-number calls, as in the present rates.

The staff agrees in general with Pacific's proposed revisions in format. In the night rate for DDD calls, the staff proposes an initial one-minute period instead of retaining the three-minute initial period, as proposed by Pacific. In addition, the staff would charge evening rates on Sundays and holidays between 6 p.m. and 11 p.m. instead of night rates as proposed by Pacific.

The staff also proposes slightly higher charges than did Pacific for operator-handled calls, together with the elimination of surcharges for collect and third-number calls. We concur with most of the staff's suggestions, but there do not appear to be sufficient advantages to a one-minute initial period for night rate DDD calls to warrant deviation from the three-minute initial period.

The toll rates authorized herein are essentially the staff's proposed day and evening rates, with minor modification of some of the charges, and Pacific's proposed night rates. These rates involve increases from the present rate levels primarily only where operator handling is involved.

Higher rates for operator-handled messages will give an incentive for customers to use DDD. In view of the rapid growth in toll usage and the difficulties which telephone utilities have in hiring and retaining operators, any reduction in operator handling is desirable.

The incremental costs of operator-handled toll messages over the cost of DDD messages should be reflected in rates. A study prepared by Pacific at the staff's request indicates that as much as 47¢ additional cost is incurred on an operator-handled message in comparison with a customer-dialed call. Obviously, many operator-handled calls now produce less revenue than they cost.

Reduction in the amount of operator-handled calls will result in sizeable savings in expense, which savings will flow through to the benefit of all telephone subscribers in the state. Pacific made an estimate at the request of the staff which indicates a saving of almost four million dollars per year will accrue from decreased traffic expense after application of the new toll rate format. We have reflected this saving as a credit to the rate spread.

The pattern of having an extra charge for operator-handled messages is consistent with the interstate rate schedule and the toll rates recently introduced in several states. Also, operator-handling is an optional service and individual customers, therefore, have an opportunity to avoid or minimize any increased charges.

The provision of a reduced off-peak rate is designed to encourage customer use during off-peak periods on the toll network and thereby either generating additional revenues or diverting usage from peak periods for which facilities must be provided on the toll network. The provision of an off-peak rate is also consistent with the general structure of the interstate rate schedule.

Because of congestion on the toll network on Sunday evenings, a reduced rate is not appropriate for that period. Experience with the interstate toll network reveals that there have been Sunday evening overloads to the extent that additional circuits have been required over the normal average business day, busy-hour requirement.

The staff's proposed conversion of 7 and 8 message unit routes to message toll involves those routes in the Los Angeles and San Francisco-East Bay extended areas of 26-30 and 31-40 toll rate miles, respectively. This recommendation was made to avoid conflict with the staff's toll rate proposal and to give flexibility in making further toll revisions. Without this revision, 7 and 8 message unit calls would be charged more than certain toll calls over routes of the same distance. Even at present toll rates, this revision would result in a net increase of almost four million dollars in annual revenues to Pacific after settlements.

Data Exchange Service

The telephone message toll and exchange network has experienced increased use in recent years by customers using the system for data communications and other non-voice uses. The term "data" includes both digital and analog communications. Examples of digital communications include teletypewriter, business machine and computer communications. Examples of analog transmission include facsimile, slow-scan television, telemetering and other signals which vary continuously rather than being transmitted in discrete pulses. Other unusual services include remote control of radio telephone systems and transmission of music.

In Exhibit No. 69, the staff recommended a schedule of rates which ultimately might be made applicable to data exchange service. This portion of the proceeding has been deferred to allow other parties to prepare evidence. Prehearing conference on that deferred phase of the proceeding will be set soon.

Full Bilingual Service

Complainants in Case No. 9042 ask that Pacific be required to provide "full bilingual service" so that a subscriber in the portions of the state with significant numbers of Spanish-speaking residents could obtain essentially the same service in Spanish as in English.

Numerous witnesses were presented by complainants to testify regarding the telephone problems encountered by persons who do not speak English. Some of these witnesses were employees of Pacific. Ironically, several of those employees who speak Spanish consider

Pacific callous in not providing full bilingual service at no extra charge but testified that they themselves would not assist Spanish-speaking subscribers unless Pacific pays a premium for their linguistic talents.

Historically, Pacific at one time would not permit operators to speak to subscribers in other than English. In more recent years, however, operators have been encouraged to assist subscribers in whatever tongue the operator and subscriber could communicate. Apparently, however, this has given rise to a labor dispute. As an alternative, Pacific has arranged to transfer Spanish-speaking subscribers to a private translation service which assists the subscriber.

There is no doubt that subscribers who cannot speak English may find it difficult to make operator-assisted calls or transact business with Pacific. Unfortunately, our society apparently has not yet provided facilities to teach and sufficient incentive for all to learn English. We cannot conclude, however, that it is the responsibility of Pacific to overcome fully this deficiency. The steps already taken by Pacific appear reasonable and no further requirements will be made at this time.

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 rule specifically 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.

Findings and Conclusions

The Commission finds that:

1. After due notice, public hearings have been held on a record consolidating Application No. 51774 and Cases Nos. 9036, 9042, 9043, 9044 and 9045; evidence has been adduced; the Commission has been fully informed and, except for the "data exchange service" phase of Cases Nos. 9044 and 9045, the matters stand submitted.

2. This Commission last exhaustively analyzed the operations of Pacific in Application No. 49142. Decision No. 74917 was issued therein on November 6, 1968, and the rates therein prescribed (those presently in effect, with minor exceptions) became effective in December 1968.

3. Plant additions of at least $750,000,000 per year by Pacific for the next three years will decrease the likelihood of service problems.

4. Under existing rates and charges for its utility services, Pacific's earnings for the test year 1970 produce a rate of return of 5.80 percent on an intrastate rate base of $3,540,600,000.

5. The adopted estimates in Table II of the foregoing opinion, as discussed in that opinion, of operating revenues, operating expenses and rate base for the test year 1970 reasonably indicate the probable results of Pacific's operations for the near future at the present wage levels of Pacific's employees.

6. Western Electric Company, Inc. (Western) in the performance of its manufacturing functions and service and supply functions, has charged prices to Pacific and obtained earnings on sales and services to Pacific which have been fair and reasonable when compared to the earnings of manufacturing companies. The prices paid by Pacific to Western for manufactured products and for services and supplies have been fair and reasonable, but we shall continue to review prices paid in the future, to be sure they continue to be fair and reasonable.

7. No showing has been made that Western is a public utility under the jurisdiction of this Commission.

8. A rate of return of 7.85 percent on a test year intrastate rate base of $3,540,600,000 and a corresponding return of 9.5 percent on common equity are reasonable.

9. Pacific is in need of additional revenues, but the increases it requests would be excessive.

10. Pacific is entitled to increases of 73 million dollars in net intrastate annual revenues to raise its test year rate of return from the present 5.80 percent to the 7.85 percent hereinabove found to be reasonable.

11. An increase of 143 million dollars in gross annual revenues, after settlements with independent telephone companies and based upon the test year 1970, is justified.

12. Based upon the record herein, the increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

13. If, as a result of the pending review of Interim Decision No. 77984 by the California Supreme Court, these proceedings are reopened and lower revised rates are authorized, it will be reasonable for Pacific to refund to its customers any difference between the amounts charged in the interim and the amounts that would have been charged at the rates authorized in the reopened proceedings.

14. The staff recommendations in Chapters 6 and 7 of Exhibit No. 69 warrant further investigation and feasibility studies.

15. Steps taken by Pacific to assist subscribers who do not speak English have been reasonable.

The Commission concludes that:

1. Pacific should be required to install at least $750,000,000 of plant addition per year for the next three years.

2. Pacific's application for rate increases should be denied in part and granted in part.

3. Pacific should be required to prepare feasibility studies on the staff suggestions in Chapters 6 and 7 of Exhibit No. 69.

O R D E R

IT IS ORDERED that:

1. During each of the years 1971, 1972 and 1973, The Pacific Telephone and Telegraph Company (Pacific) shall install at least $750,000,000 of plant additions.

2. After the effective date of this order, Pacific is authorized to file the revised rate schedules attached to this order as Appendix B and, concurrently, to cancel or modify its present tariffs to make them consistent therewith. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be ten days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

3. The filing by Pacific of the revised rate schedules authorized herein shall constitute acceptance by Pacific of the requirement that if, as a result of the pending review of Interim Decision No. 77984 by the California Supreme Court, these proceedings are reopened and lower revised rates are authorized, Pacific must refund to its customers, under a plan acceptable to this Commission, any difference between the amounts charged in the interim and the amounts that would have been charged at the rates authorized in the reopened proceedings. In order promptly to effect the refunds which would be

required under those circumstances, Pacific shall maintain records of intrastate charges to each of its customers (excluding coin box collections) beginning with the effective date of the rates authorized herein and continuing until further order of this Commission.

4. After the effective date of this order, each respondent in Case No. 9045 is authorized to file foreign exchange service tariffs consistent with the revised basic exchange rates of Pacific, as set forth in Appendix B of this order and, concurrently, to cancel or modify its present tariffs to make them consistent therewith. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be ten days after the date of filing.

5. Within six months after the effective date of this order, Pacific shall file in these proceedings detailed feasibility studies showing advantages, disadvantages, effects, costs and plant investment required to effect each of the staff recommendations set forth in Chapters 6 and 7 of Exhibit No. 69 not disposed of by this decision.

6. Except to the extent that relief has been granted by this order, Cases Nos. 9036, 9042 and 9043 are dismissed.

7. Except for the "Data Exchange Service" phase of Cases Nos. 9044 and 9045, those investigations are discontinued.

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

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

Dated at San Francisco, California, this 22nd day of JUNE, 1971.

J. P. Vukasin, Jr.
Chairman

William Symons Jr.

Vernon L. Sturgeon

[illegible]
Commissioners

I concur in part and dissent in part.
Thomas Moran
(see attached)

List of Appearances

PARTY	APPEARANCES	POSITION* A.51774	C.9036	C.9042	C.9043	C.9044	C9045
UTILITIES							
California-Pacific Utilities Company	Ross Workman	I	-	-	-	-	R
Continental Telephone Company of California	Robert C. Abrams and Stephen C. Jones	I	-	-	-	I	R
General Telephone Company of California	A. M. Hart, John Robert Jones, Walter Rook and H. Ralph Snyder, Jr.	I	-	-	-	I	R
Golden West Telephone Company	(See Continental Telephone Co. of Calif.)	I	-	-	-	I	R
The Pacific Telephone and Telegraph Company	George H. Eckhardt and Richard W. Odgers	A	D	D	D	R	I
The Western Union Telegraph Company	J. A. Moore	I	-	-	-	-	I
FEDERAL GOVERNMENT							
General Services Administration	Robert W. Spangler, Maurice J. Street, Hart T. Mankin, Marvin H. Morse and Max H. Misenar	I	I	I	I	I	I
STATE GOVERNMENT							
California Public Utilities Commission staff	Richard D. Gravelle, Janice Kerr & Leonard L. Snaider, staff counsel, John J. Gibbons and James G. Shields	-	-	-	-	-	-
State of California	Thomas C. Lynch by Charles A. O'Brien and Donald B. Day	I	I	I	I	I	I
COUNTIES							
Alameda	Richard J. Moore by Jacob Levitan	I	I	I	I	I	I
Marin	Douglas J. Maloney by Thomas G. Hendricks	I	I	I	I	I	I
Placer	Richard E. Saladana and Douglas A. Lewis	I	I	I	I	I	I
San Francisco	Thomas M. O'Connor, Hilton Mares and Robert R. Laughead	I	I	I	I	I	I
CITIES							
Anaheim	Joseph B. Geisler and Alan R. Watts	I	I	I	I	I	I
Bellflower	Alexander Googooian	P&I	I	I	I	I	I
Benicia	L. S. Brady	I	I	I	I	I	I
Beverly Hills	George Slaff and Allen Grimes	P	I	I	I	I	I
Eureka	Chesley Norton Gaylord & C. Walter Birkelo	P	I	I	I	I	I
Los Angeles	Roger Arnebergh by Charles E. Mattson, Robert W. Russell and Manuel Kroman	I	I	I	I	I	I
Long Beach	Louis Possner	I	I	I	I	I	I

* A = Applicant C = Complainant D = Defendant I = Interested Party P = Protestant R = Respondent

List of Appearances

PARTY	APPEARANCES	POSITION* A.51774	C.9036	C.9042	C.9043	C.9044	C.9045
Pittsburg	Roger Golla	I	I	I	I	I	I
Sacramento	James P. Jackson	I	I	I	I	I	I
San Diego	John W. Witt by C. M. Fitzpatrick and William Kronberger	I	I	I	I	I	I
San Francisco	(See County of San Francisco)	I	I	I	I	I	I
Seaside	Saul M. Weingarten	P	I	I	I	I	I
Thousand Oaks	Raymond C. Clayton	I	I	I	I	I	I
ORGANIZATIONS and CORPORATIONS							
Allied Telephone Companies Association	Ernest W. Watson	I	-	-	-	-	-
American Taxpayers Union of California, Inc. (Unit 3)	Diamantes D. Katsikaris	P	-	-	-	-	-
Apex Janitor Supply	Nat Yanish	P	-	-	-	-	-
Association of California Consumers	Mrs. Sylvia Siegel	P	-	-	-	-	-
Association of Data Processing Service Organizations	O'Melveny & Myers, by William J. Bogaard	I	-	-	-	I	I
Business Communications	Lyle C. Brackney	I	-	-	-	-	-
California Farm Bureau Federation	W. L. Knecht and Ralph Hubbard	I	-	-	-	-	-
California Farmer-Consumer Information Committee	Mrs. Borghild Haugen	I	-	-	-	-	-
California Hospital Association	Ronald G. Trayner	I	-	-	-	-	-
California Independent Telephone Association	Neal C. Hasbrook	I	-	-	-	I	I
California Labor Federation, AFL-CIO	Dennis T. Peacocke	P	-	-	-	-	-
California Retailers Association	Robert M. Shillito	I	-	-	-	-	-
California Rural Legal Assistance	Fred H. Altshuler, David H. Fielding, Robert Gnaizda and Lupe Quintero	P	-	I	-	-	-
Chicano Law Students (Hastings)	Steven J. Ybarra	P	-	I	-	-	-
Communication Workers of America	Stephen H. Confer and Edward Long	I	-	-	-	-	-
Consumers Arise Now	William M. Bennett, John A. Breffeilh, Kenneth R. Clegg, Lew Geiser, Garret P. Shean, Harold Sherwin Small, Edward Torrico and Charles Walsh	P	C	-	C	-	-
Contra Costa Legal Service Foundation	Jim Lipary	P	-	-	-	-	-
Consumers Cooperative of Berkeley	Don Rothenberg	P	-	-	-	-	-
The Diners' Club	Nicholas Carifio	I	-	-	-	I	I
Echo Answering Service	Clarence Ricks	I	-	-	-	-	-
General Electric Corporation	O'Melveny & Myers by William J. Bogaard, and Squire, Sangers & Dempsey by John Lansdale	I	-	-	-	I	I

A.51774 et al. nb

List of Appearances

PARTY	APPEARANCES	POSITION* A.51774	C.9036	C.9042	C.9043	C.9044	C.9045
Hornblower & Weeks - Hemphill, Noyes	William G. Irving	P	-	-	-	-	-
I.B.E.W. Local Union No. 1011	H. W. McWhorter	I	-	-	-	-	-
International Communications Corporation	Jackson & Jones by Stanley R. Jones	I	-	-	-	I	I
Interracial House, Inc.	Marcus Garvey Wilcher	P	-	I	-	-	-
League of United Latin-American Citizens	David H. Fielding	P	-	-	-	-	-
Mexican-American Legal Defense Fund	Robert Gnaizda, Blaine Climpson and Mario Obledo	P	-	I	-	-	-
Mexican-American Political Association	(See Mexican-American Legal Defense Fund)	P	-	C	-	-	-
NAACP Legal Defense	(See Mexican-American Legal Defense Fund)	P	-	I	-	-	-
National Businessman's Association	L. David Fox	P	-	-	-	-	-
Responsible Merchants,Property Owners & Tenants,Inc.	Jack Bartolini	I	-	-	-	-	-
Retired Employees Group of T.P.T & T.	William J. Wider	I	-	-	-	-	-
San Francisco Neighborhood Legal Assistance Foundation	Gilbert T. Graham	P	-	-	-	-	-
San Pablo Community Change Foundation	(See Contra Costa Legal Service Foundation)	P	-	-	-	-	-
San Pablo Parchester Community Organization	(See Contra Costa Legal Service Foundation)	P	-	-	-	-	-
San Pablo Housing Tenant Council	(See Contra Costa Legal Service Foundation)	P	-	-	-	-	-
Sears Roebuck and Company	Hope H. Camp, Jr.	I	-	-	-	-	-
Senior Citizens Movement	Royal C. Younger and Mrs Joan Martin ..	P	-	-	-	-	-
Spanish Speaking Subscribers (144)	(See Mexican-American Legal Defense Fund)	P	-	C	-	-	-
Spanish-Speaking/Sirnamed Political Association ..	Ricardo A. Callejo (and see Mexican-American Legal Defense Fund)	P	-	C	-	-	-
Telephone Answering Services of California, Inc.	Bacigalupi, Elkus, Salinger & Rosenberg by Lucius P. Bernard	I	-	-	-	-	-
United Auto Workers, Northern California	Salvador L. Tavares	P	-	I	-	-	-
Welfare Rights Organization	(See Contra Costa Legal Service Foundation)	P	-	-	-	-	-
Windsor and Healdsburg Local Action Council	(See Mexican-American Legal Defense Fund)	P	-	C	-	-	-

APPENDIX A

List of Appearances

PARTY	APPEARANCES	POSITION* A.51774	C.9036	C.9042	C.9043	C.9044	C.9045
INDIVIDUALS							
Bennett, William H.	Self (See Consumers Arise Now)	P	C	-	C	-	-
Bone, Donald L.	Donald L. Bone	P	-	-	-	-	-
Brierly, Philip G.	Philip G. Brierly	P	-	-	-	-	-
Ciesielski, Wladyslaw	Wladyslaw Ciesielski	P	-	-	-	-	-
Cross, Dr. Nancy Jewell	Dr. Nancy Jewell Cross	P	-	-	-	-	-
De Mattia, Douglas	Douglas De Mattia	P	-	-	-	-	-
Elder, Randy N.	Randy N. Elder	I	-	-	-	-	-
Ervin, Rebecca	Rebecca Ervin	P	-	-	-	-	-
Geiser, Lew	Self (See Consumers Arise Now)	P	-	-	-	-	-
Glass, Michael K.	Michael K. Glass	P	-	-	-	-	-
Heidrick, Harold H.	Harold H. Heidrick	I	-	-	-	-	-
Hunter, Kenneth R.	Kenneth R. Hunter	I	-	-	-	-	-
Jameson, Donald C.	Donald C. Jameson	P	-	-	-	-	-
Kirschner, Kim	Kim Kirschner	P	-	-	-	-	-
Kogel, Nancy	Nancy Kogel	P	-	-	-	-	-
Lipary, Jim	Jim Lipary	P	-	-	-	-	-
* Mercier, Cecile	Cecile Mercier	P	-	-	-	-	-
Nolan, Otis	Otis Nolan	P	-	-	-	-	-
Pugh, David	David Pugh	P	-	-	-	-	-
Shean, Garret P.	Self (See Consumers Arise Now)	P	I	-	I	-	-
Small, Harold Sherwin	Self (See Consumers Arise Now)	P	-	-	-	-	-
Small, Mr. and Mrs. James M.	Harold Sherwin Small (See Consumers Arise Now)	P	-	-	-	-	-
Stone, Janet	Janet Stone	P	-	-	-	-	-
Torrico, Edward	Self (See Consumers Arise Now)	P	-	-	-	-	-
Viviano, Victor	Victor Viviano	I	-	-	-	-	-
Winsor, Richard	Richard Winsor	P	-	-	-	-	-
Wright, Orville I.	Orville I. Wright	I	-	-	-	-	-
*Markel, Leon	Leon Markel	P	-	-	-	-	-
Mercier, Andre	Andre Mercier	P	-	-	-	-	-

APPENDIX B
Page 1
Rates - The Pacific Telephone and Telegraph Company
Respondent's rates, charges and conditions are changed as set forth in this appendix.

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

EACH PRIMARY STATION:	Individual and Party Line Service Rate per Month					Suburban Service Rate Per Month		Semi-Pub Service Individual Line Rate Per Month
	Business		Residence					
	Individual Line	2-Party Line	Individual Line	2-Party Line	4-Party Line	Business 8-Party Line	Residence 8-Party Line	
Exchanges with Local Service Only	$12.50	$9.50	$5.65	$4.95	$4.05	$8.55 9.80*	$4.55 5.10*	$6.25

Alta
Annapolis
Arvin
Avalon
Avenal
Baker
Bakersfield
Bangor
Big Sur
Boonville
Borrego
Bradley
Bridgeville
Burrel
Cambria
Campo
Carrisa Plains
Challenge
Chico
Clearlake Oaks
Cloverdale
Coalinga
Corona
Coulterville
Death Valley
Dunnigan
Edwards
Elk
Elk Creek
Emigrant Gap
Emmet@
Esparto
Fallbrook
Feather Falls
Firebaugh
Gazelle
Georgetown
Greenfield
Gualala
Hopland
Huron
Jacumba
Julian
Keystone
Knights Ferry
Lake Berryessa
Lebec
Los Banos
Lower Lake
Loyalton
Madera
Marysville
Mendota
Michigan Bar
Miranda
Mojave
Mount Shasta
Newhall
North Yuba
Ocotillo
Orland
Oroville
Panoche@
Palmdale
Paradise
Paskenta
Paso Robles
Pauma Valley
Pescadero
Petaluma (Main D.A.)
Pinecrest
Pine Valley
Placerville
Point Arena
Potter Valley
Ramona
Red Bluff
Rosamond
Shingle Springs
Shoshone
Sierraville
Smartsville
Soda Springs
Soledad
Sonoma
Stockton
Stonyford
Tehachapi
Tracy
Tulare
Ukiah
Walker Basin
Warner Springs
Weed
Weott
Wheatland
Willits
Willows
Winters
Woodland
Yosemite

* 4-Party Service Where Offered.
@ Consolidation with Tres Pinos effective July 31, 1971 authorized by D-78183.

APPENDIX B - Continued
Page 2
Rates - The Pacific Telephone and Telegraph Company

EACH PRIMARY STATION:	Individual and Party Line Service Rate per Month					Suburban Service Rate per Month		Semipub. Service Individual Line Rate per Month
	Business		Residence					
	Individual Line	2-Party Line	Individual Line	2-Party Line	4-Party Line	Business 8-Party Line	Residence 8-Party Line	
Exchanges outside of metropolitan areas with extended service to exchanges within eight miles	$12.50	$9.50	$5.65	$4.95 4.05-60¢#	$4.05	$8.55 9.80*	$4.55 5.10*	$6.25

Alleghany
Angels Camp**
Arroyo Grande
Atascadero
Atwater
Benicia
Biggs
Blairsden
Bodega Bay**
Butte City
Camptonville
Cayucos
Chowchilla
Chualar
Cobb Mountain
Colton
Corning
Crockett
Crows Landing
Davis
Delano
Del Mar
Dinuba
Dixon
Downieville
Dunsmuir
Earlimart
Escalon
Fairfield-Suisun
Felton
Fillmore
Fontana**
Gerber
Geyserville
Gonzales

Grass Valley
Grenada**
Gridley
Groveland
Guerneville**
Gustine
Half Moon Bay
Hanford
Herald
Highland
Hilt
Hollister
Homewood
Hornbrook
Hughson
Ignacio
Inverness
Ione
Jackson
Jamestown
Kelseyville**
Kingsburg
La Honda
Lakeport**
Laton
Lemoore
Lewiston
Lincoln
Live Oak
Lockeford
Los Molinos
Meridian
Middletown
Milton**
Moccasin

Modesto
Mokelumne Hill
Montague**
Monte Rio**
Moorpark (Moorpark D.A.)
Morro Bay
Moss Beach
Nevada City
Newman
Nicasio**
Nice**
Nicolaus**
Nipomo
North San Juan
Oakdale
Occidental**
Orange Cove
Parlier
Pepperwood**
Piru
Pismo Beach
Pittsburg (Main D.A.)
Pittsburg (Gladstone D.A.)**
Pixley
Pleasant Grove**
Pleasanton
Plymouth
Point Reyes
Portola
Quincy
Rancho Santa Fe
Rialto
Richvale
Riverbank
Riverdale
Riverside
Rodeo

San Andreas
San Clemente
San Juan
San Luis Obispo
San Martin
Santa Margarita
Sebastopol
Selma
Sequoia
Shafter
Simi**
Sonora
South Tahoe
Stinson Beach-Bolinas**
Stratford
Sutter Creek
Terra Bella
Three Rivers
Tipton
Tomales**
Tres Pinos
Turlock
Upper Lake**
Vacaville
Vallejo
Valley Ford**
Valley Springs
Vina
Vista (Vista D.A.)
Wallace
Wasco
Waterford
Woodlake
Yreka**

* 4-Party Service where offered.
\# Offered in San Clemente only.
** Extended Area Service to be introduced by 12-31-71.

APPENDIX B - Continued
Page 3
Rates - The Pacific Telephone and Telegraph Company

EACH PRIMARY STATION:	Individual and Party Line Service Rate per Month					Suburban Service Rate per Month		Semipub. Service Individual Line Rate per Month
	Business		Residence					
	Individual Line	2-Party Line	Individual Line	2-Party Line	4-Party Line	Business 8-Party Line	Residence 8-Party Line	
(Exchanges outside of metropolitan areas with extended service beyond eight miles)								
Anderson/-----------	$12.50	$ 9.50	$5.65	$4.95	$4.05	$ 8.55	$4.55	$6.25
	(14.30)	(11.30)	(6.50)	(5.80)	(4.90)	(10.35)	(5.40)	(7.25)
Antioch-------------	13.10	10.10	5.85	5.15	4.25	9.15	4.75	6.75
Aptos---------------	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Arcata--------------	12.85	9.85	5.65	4.95	4.05	8.90	4.55	6.50
Auburn--------------	13.10	10.10	5.85	5.15	4.25	9.15	4.75	6.75
Ben Lomond----------	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.25
Blue Lake-----------	15.60	12.60	6.70	6.00	5.10	11.65	5.60	8.00
						12.90*	6.15*	
Boulder Creek-------	15.00	12.00	6.50	5.80	4.90	11.05	5.40	7.50
Brawley-------------	15.35	12.35	6.60	5.90	5.00	11.40	5.50	7.75
Calexico------------	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Calipatria----------	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Calistoga-----------	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Capistrano Valley---	12.75	9.75	5.65	4.95	--	8.80	4.55	6.50
				4.05-60		10.05*	5.10*	
Carmel--------------	13.25	10.25	5.90	5.20	4.30	9.30	4.80	6.50
Carmel Valley-------	16.80	13.80	7.10	6.40	5.50	12.85	5.95	8.50
Caruthers-----------	15.00	12.00	6.50	5.80	4.90	11.05	5.40	7.50
Castroville---------	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.25
						11.55*	5.70*	
Clovis--------------	14.75	10.75	6.05	5.20	4.35	9.20	4.85	7.50
Cottonwood/---------	12.50	9.50	5.65	4.95	4.05	8.55	4.55	6.25
	(15.00)	(12.00)	(6.50)	(5.80)	(4.90)	(11.05)	(5.40)	(7.50)
Del Rey-------------	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.00
East Contra Costa---	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
El Centro-----------	14.60	11.60	6.35	5.65	4.75	10.65	5.25	7.50
Encinitas-----------	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Escondido								
Escondido D.A.-----	13.10	10.10	5.85	5.15	4.25	9.15	4.75	6.75
San Marcos D.A.----	13.85	10.85	6.10	5.40	4.50	9.90	5.00	7.00
Eureka--------------	15.20	12.20	5.90	5.20	4.30	11.25	4.80	7.75
Forestville---------	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.00
Fort Bragg----------	13.10	10.10	5.85	5.15	4.25	9.15	4.75	6.75
Fortuna-------------	14.30	11.30	6.25	5.55	4.65	10.35	5.15	7.25
French Gulch--------	12.50	9.50	5.65	4.95	4.05	8.55	4.55	6.25
	(15.00)	(12.00)	(6.50)	(5.80)	(4.90)	(11.05)	(5.40)	(7.50)

/ Rates shall be increased to those shown in parenthesis upon introduction of extended area service effective August 1, 1971 authorized by D-76998.
* 4-Party Suburban Service

APPENDIX B - Continued
Page 4
Rates - The Pacific Telephone and Telegraph Company

EACH PRIMARY STATION:	Individual and Party Line Service Rate per Month					Suburban Service Rate per Month		Semipub. Service Individual Line Rate per Month
	Business		Residence					
	Individual Line	2-Party Line	Individual Line	2-Party Line	4-Party Line	Business 8-Party Line	Residence 8-Party Line	
(Exchanges outside of metropolitan areas with extended service beyond eight miles) - continued								
Fresno	$13.35	$10.35	$5.65	$4.95	$4.05	$ 9.40	$4.55	$6.75
Galt	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.25
Healdsburg	15.00	12.00	6.50	5.80	4.90	11.05	5.40	7.50
Holtville	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Hydesville	17.40	14.40	7.30	6.60	5.55	13.45	6.05	8.75
Imperial	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
						11.00*	5.50*	
King City	13.20	10.20	5.65	4.95	4.05	9.25	4.55	6.75
Le Grand	15.00	12.00	6.50	5.80	4.90	11.05	5.40	7.50
Livermore	13.35	10.35	5.85	5.15	4.25	9.40	4.75	6.75
Lodi	13.00	10.00	5.65	4.95	4.05	9.05	4.55	6.50
Loleta	16.40	13.40	6.95	6.25	5.35	12.45	5.85	8.25
Martinez	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Mendocino	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Merced	13.10	10.10	5.65	4.95	4.05	9.15	4.55	6.75
Monterey	12.85	9.85	5.65	4.95	4.05	8.90	4.55	6.50
Moorpark-Sunset Hills D.A.	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.25
Napa	12.75	9.75	5.65	4.95	4.05	8.80	4.55	6.50
North Tahoe	13.10	10.10	5.85	5.15	4.25	9.15	4.75	6.75
Oceanside	13.10	10.10	5.85	5.15	4.25	9.15	4.75	6.75
Ojai	14.30	11.30	6.25	5.55	4.65	10.35	5.15	7.25
Petaluma-Swift D.A.	15.00	12.00	6.50	5.80	4.90	11.05	5.40	7.50
Pinole	7.55-80	--	5.65	4.95	4.05	8.55	4.55	7.55
Planada	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.25
						11.55*	5.70*	
Porterville	12.75	9.75	5.65	4.95	4.05	8.80	4.55	6.50
Poway	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Redding/	12.50	9.50	5.65	4.95	4.05	8.55	4.55	6.25
	(14.85)	(11.85)	(5.85)	(5.15)	(4.25)	(10.90)	(4.75)	(7.50)
Rio Dell	19.10	16.10	7.85	6.75	5.55	15.15	6.05	9.75
						16.40*	6.60*	
Saint Helena	13.35	10.35	5.85	5.15	4.25	9.40	4.75	6.75
Salinas	12.75	9.75	5.65	4.95	4.05	8.80	4.55	6.50
San Ardo	17.10	14.10	7.20	6.50	5.55	13.15	6.05	8.75
San Lucas	15.45	12.45	6.65	5.95	5.05	11.50	5.55	7.75
Santa Cruz	13.10	10.10	5.65	4.95	4.05	9.15	4.55	6.75
Santa Rosa	13.70	10.70	5.65	4.95	4.05	9.75	4.55	7.00

/ Rates shall be increased to those shown in parenthesis upon introduction of extended area service effective August 1, 1971 authorized by D-76998.

* 4-Party Suburban Service

APPENDIX B - Continued
Page 5
Rates - The Pacific Telephone and Telegraph Company

EACH PRIMARY STATION:	Individual and Party Line Service Rate per Month					Suburban Service Rate per Month		Semipub. Service Individual Line Rate per Month
	Business		Residence					
	Individual Line	2-Party Line	Individual Line	2-Party Line	4-Party Line	Business 8-Party Line	Residence 8-Party Line	
(Exchanges outside of metropolitan areas with extended service beyond eight miles) - continued								
Saticoy-------------	$13.70	$10.70	$6.05	$5.35	$4.45	$ 9.75	$4.95	$ 7.00
Shasta Lake/--------	12.50	9.50	5.65	4.95	4.05	8.55	4.55	6.25
	(18.50)	(15.50)	(7.65)	(6.75)	(5.55)	(14.55)	(6.05)	(9.25)
South Placer--------	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Springville---------	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.25
Sunol---------------	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.25
						11.55*	5.70*	
Thornton------------	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.25
Trinidad------------	20.20	17.20	8.25	6.75	5.55	16.25	6.05	10.25
Truckee-------------	13.70	10.70	6.05	5.35	4.45	9.75	4.95	7.00
Ventura-------------	13.85	10.85	6.10	5.40	4.50	9.90	5.00	7.00
Vista-San Marcos D.A.---------------	13.55	10.55	6.00	5.30	4.40	9.60	4.90	7.00
Visalia-------------	12.75	9.75	5.65	4.95	4.05	8.80	4.55	6.50
Watsonville---------	13.10	10.10	5.85	5.15	4.25	9.15	4.75	6.75
Windsor-------------	14.25	11.25	6.25	5.55	4.65	10.30	5.15	7.00
Yountville----------	16.00	13.00	6.85	6.15	5.25	12.05	5.75	8.00

/ Rates shall be increased to those shown in parenthesis upon introduction of extended area service effective August 1, 1971 authorized by D-76998.
* 4-Party Suburban Service

APPENDIX B - Continued
Page 6
Rates - The Pacific Telephone and Telegraph Company

EACH PRIMARY STATION:	Individual and Party Line Service Rate per Month					Suburban Service Rate per Month		Semipub. Service Individual Line Rate per Month
	Business		Residence					
	Individual Line	2-Party Line	Individual Line	2-Party Line	4-Party Line	Business 8-Party Line	Residence 8-Party Line	
Extended Areas - Los Angeles, San Francisco-East Bay, Orange County and San Diego - All Exchanges--------	$15.65* 7.55-80	--	$5.65 4.20-60 2.95-20	$4.95* 4.05-60* 2.95-20*	--	$8.55	$4.55	$7.55
Except: Mount Wilson---------	15.65		5.65	--	--	--	--	8.00
Chula Vista-Dulzura D.A.-------	15.65	$12.35	5.65 4.20-60 2.95-20	4.95* 4.05-60* 2.95-20*	--	8.55	4.55	8.00

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

Los Angeles Extended Area Exchanges:

Agoura	Compton	Inglewood	North Hollywood
Alhambra	Culver City	La Crescenta	Pasadena
Arcadia	El Monte	Lomita	Reseda
Beverly Hills	El Segundo	Los Angeles	San Pedro
Burbank	Glendale	Montebello	Torrance
Canoga Park	Hawthorne	Mount Wilson	Van Nuys

San Francisco-East Bay Extended Area Exchanges:

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

Orange County Extended Area Exchanges

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

San Diego Extended Area Exchanges:

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

APPENDIX B - Continued
Page 7
Rates - The Pacific Telephone and Telegraph Company

EACH PRIMARY STATION:	Individual and Party Line Service Rate per Month					Suburban Service Rate per Month		Semipub. Service Individual Line Rate per Month
	Business		Residence					
	Individual Line	2-Party Line	Individual Line	2-Party Line	4-Party Line	Business 8-Party Line	Residence 8-Party Line	
Sacramento Extended Area - All Exchanges----	$15.65* 7.55-80	--	$5.65	$4.95	$4.05	$8.55	$4.55	$7.55

* Flat rate business service shall be withdrawn by December 31, 1971.

Sacramento Extended Area Exchanges:

Fair Oaks
Folsom
Rio Linda
Sacramento

APPENDIX B - Continued
Page 8
Rates - The Pacific Telephone and Telegraph Company

Schedules Nos. 9-T and 10-T - Farmer Line Service
RATES - Each Station

	Rate per Month	
	Residence Service	Business Service
Exchanges where offered as listed under Exchanges with Local Service Only in Schedules Nos. 4-T and 5-T of this appendix	$2.00	$4.00
Exchanges where offered as listed under Exchanges outside metropolitan areas with extended service to exchanges within eight miles	2.00	4.00
Exchange - Extended Outside Metropolitan Areas beyond eight miles		
Anderson/	2.00 (2.85)	4.00 (5.80)
Auburn	2.20	4.60
Calistoga	2.40	5.20
Carmel	2.25	4.75
Caruthers	2.85	6.50
Clovis	2.15	4.50
Del Rey	2.60	5.75
East Contra Costa	2.40	5.20
Escondido-Escondido D.A.	2.20	4.60
Escondido-San Marcos D.A.	2.45	5.35
Eureka	2.25	6.70
Fort Bragg	2.20	4.60
Fortuna	2.60	5.80
Fresno	2.00	4.85
Healdsburg	2.85	6.50
Hydesville	3.65	8.90
King City	2.00	4.70
Le Grand	2.85	6.50
Livermore	2.20	4.85
Lodi	2.00	4.50

	Rate per Month	
	Residence Service	Business Service
Loleta	$3.30	$7.90
Martinez	2.40	5.20
Mendocino	2.40	5.20
Merced	2.00	4.60
Napa	2.00	4.25
North Tahoe	2.20	4.60
Planada	2.60	5.75
Porterville	2.00	4.25
Redding/	2.00 (2.20)	4.00 (6.35)
Saint Helena	2.20	4.85
Salinas	2.00	4.25
San Ardo	3.55	8.60
San Lucas	3.00	6.95
South Placer	2.40	5.20
Springville	2.60	5.75
Ventura	2.45	5.35
Visalia	2.00	4.25
Windsor	2.60	5.75
Exchange - San Francisco-East Bay Extended Area		
Concord	2.00	4.00
Danville	2.00	4.00
Fremont-Newark	2.00	4.00
Hayward	2.00	4.00
Exchange - Sacramento Extended Area		
Fair Oaks	2.00	4.00
Folsom	2.00	4.00
Sacramento	2.00	4.00
Exchange - Los Angeles Extended Area		
Pasadena	2.00	4.00
Exchange - San Diego Extended Area		
El Cajon	2.00	4.00

/ Rates shall be increased to those shown in parenthesis upon the introduction of extended area service effective August 1, 1971 authorized by D-76998.

APPENDIX B
Page 9

RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

II Schedules Nos. 4-T, 5-T, 6-T, 7-T, 13-T, 14-T, 18-T and 121-T
Message Unit Service in San Francisco-East Bay Extended Area and Los Angeles Extended Area and Message Rate Exchange Service in Other Exchanges Where Offered

	Each Message Unit
Message Unit Rate	
Semipublic coin-box, public telephone, and foreign exchange service.	5¢
Other services	4.7¢

Increase the MU rate for residence flat rate foreign exchange service in the San Francisco-East Bay Extended Area from 4.05¢ to 5¢.

	Rate per Message
Exchange Message Rate	
Each exchange message over the allowance (if any) for message rate services, excepting foreign exchange services.	4.7¢

Schedules shall be so modified as to convert 7 and 8 message unit routes to message toll routes.

III Schedules from Section 3 of Exhibit No. 11

Schedule No. 12-T
Private Branch Exchange Service

Schedule No. 17-T
Directory Listings

Schedule No. 22-T
Key Equipment Service

Schedule No. 24-T
Dispatching Telephone System Service

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

Schedule No. 32-T
Supplemental Equipment

Schedule No. 41-T
Mobile Telephone Service

Schedule No. 50-T
Private Line Services and Channels Supplemental Equipment

RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

III (Continued)

<u>Schedule No. 83-T</u>
<u>Special Assemblies of Equipment</u>

<u>Schedule No. 100-T</u>
<u>Telephone Answering Service</u>

<u>Schedule No. 117-T</u>
<u>Airport Intercommunicating Service</u>

<u>Schedule No. 121-T</u>
<u>Centrex Service</u>

<u>Schedule No. 128-T</u>
<u>Wide Area Telephone Service</u>

Schedules shall be modified as proposed in Exhibit No. 11, pages 86 through 133, except as follows:

1. The footnote on Schedule Cal. P.U.C. No. 12-T, 13th Revised Sheet 12, which reads "For 800A and 757A cabinet type systems in service as of July 6, 1970, rates for Series 100 740E or 701 type systems will apply" is deleted.

2. In Schedule Cal. P.U.C. No. 32-T, Supplemental Equipment, 7th Revised Sheet 12, the $5.00 "Non-recurring Charge for Providing Set in Color" applicable to "Hand-telephone Sets - Standard Types and Colors" is eliminated.

3. The footnote on Schedule Cal. P.U.C. No. 121-T, 3rd Revised Sheet 4-A, which reads "For customer location - cabinet type systems (101ESS) in service and applications taken on or before October 22, 1970, rates for customer location - non-cabinet type systems (701) will apply" is deleted.

IV <u>Schedules Nos. 13-T and 14-T</u>
<u>Private Branch Exchange Trunk Line Service</u>

Commercial and Hotel Manual and Dial PBX, Business Key Station Dial PBX and Order Receiving Equipment Services:

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 25 cent multiple. The trunk rate for message rate services for each trunk line shall be one half the individual line primary station message rate with no message allowance rounded to the lower 5 cent multiple.

RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

V <u>Schedules Nos. 34-T and 35-T</u>
<u>Foreign Exchange Service</u>

Foreign exchange service will be offered between district areas of exchanges wherever subscribers request that such service be provided.

Business	Monthly Rate
Individual Line Message Rate (200)	$16.40
PBX Trunk, First, Message Rate (300)	24.50
PBX Trunk, Each Add'l, Message Rate (300)	23.75

Residence

Residence primary service rates for foreign exchange services are adjusted to the extent required by any changes in the basic exchange rates, and by changes in the residence additional listing rate.

Foreign exchange service from exchanges having special rate areas will be priced at rates shown for the base rate area or the special rate area, as appropriate.

In addition to the rates shown above the appropriate mileage increment will apply. The increment for rate areas A, B or C will apply in addition to the proposed rate for Los Angeles service in contiguous exchanges.

VI <u>Schedules Nos. 2-T and 3-T, Local Service Areas; 4-T and 5-T, Individual and Party Line Service; 6-T and 7-T, Message Unit Service; 9-T and 10-T, Farmer Line Service; 13-T and 14-T, Private Branch Exchange Trunk Line Service; 20-T and 21-T, Joint User Service; 34-T and 35-T, Foreign Exchange Service; 39-T and 40-T, Classified Directory Advertising Service</u>

Schedules shall be consolidated as proposed in Exhibit No. 69, pages 6-4 and 5, paragraph 12.

RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

VII Schedule No. 53-T
Message Toll Telephone Service

Schedule shall be modified as follows:

Two-Point Service:

Rate Mileage	Dial Station Service (Paid Only)					
	Day 8 A.M. to 6 P.M. Monday thru Friday		Evening 6 P.M. to 11 P.M. Sunday thru Friday and All Day Saturday		Night 11 P.M. to 8 A.M. Daily and 8 A.M. to 6 P.M. Sunday and Holidays	
	First Three Minutes	Each Addl. Minute	First Three Minutes	Each Addl. Minute	First Three Minutes	Each Addl. Minute
0 - 8	$0.10	$0.05*	$0.10	$0.05*	$0.10	$0.05*
9 - 12	.15	.05	.15	.05	.15	.05
13 - 16	.20	.05	.20	.05	.20	.05
17 - 20	.25	.05	.25	.05	.25	.05
21 - 25	.30	.10	.30	.10	.30	.10
26 - 30	.35	.10	.35	.10	.35	.10
31 - 40	.40	.10	.40	.10	.40	.10
41 - 50	.45	.15	.40	.10	.40	.10
51 - 70	.50	.15	.45	.15	.40	.10
71 - 90	.55	.15	.50	.15	.40	.10
91 - 110	.65	.20	.60	.20	.40	.10
111 - 130	.70	.20	.60	.20	.45	.15
131 - 150	.75	.25	.65	.20	.45	.15
151 - 170	.80	.25	.65	.20	.45	.15
171 - 195	.85	.25	.70	.20	.45	.15
196 - 220	.90	.30	.70	.20	.45	.15
221 - 245	.95	.30	.70	.20	.45	.15
246 - 270	1.00	.30	.70	.20	.45	.15
271 - 300	1.05	.35	.75	.25	.45	.15
301 - 330	1.10	.35	.75	.25	.49	.15
331 - 360	1.15	.35	.75	.25	.49	.15
361 - 430	1.20	.40	.80	.25	.49	.15
431 - 510	1.30	.40	.80	.25	.49	.15
511 - 590	1.35	.45	.80	.25	.49	.15
591 - 685	1.40	.45	.85	.25	.49	.15
686 - 795	1.45	.45	.85	.25	.49	.15
796 - 905	1.50	.50	.85	.25	.49	.15

* $0.05 for each additional two minutes.

RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Rate Milcage	Operator Station Service (Paid and Collect)				Person Service			
	Day 8 A.M. to 6 P.M. Mon. thru Fri.		Evening 6 P.M. to 8 A.M. Mon. thru Fri. All Day Saturday, Sunday and Holidays		Day 8 A.M. to 6 P.M. Mon. thru Fri.		Evening 6 P.M. to 8 A.M. Mon. thru Fri. All Day Saturday, Sunday and Holidays	
	First Three Minutes	Each Addl. Minute	First Three Minutes	Each Addl. Minute	First Three Minutes	Each Addl. Minute	First Three Minutes	Each Addl. Minute
0 - 8	$0.35	$0.05	$0.35	$0.05	$0.65	$0.05	$0.65	$0.05
9 - 12	.35	.05	.35	.05	.65	.05	.65	.05
13 - 16	.35	.05	.35	.05	.65	.05	.65	.05
17 - 20	.40	.05	.40	.05	.70	.05	.70	.05
21 - 25	.45	.10	.45	.10	.80	.10	.80	.10
26 - 30	.50	.10	.50	.10	.90	.10	.90	.10
31 - 40	.60	.10	.60	.10	1.05	.10	1.05	.10
41 - 50	.70	.15	.65	.10	1.25	.15	1.25	.10
51 - 70	.75	.15	.65	.15	1.35	.15	1.35	.15
71 - 90	.80	.15	.70	.15	1.45	.15	1.45	.15
91 - 110	.85	.20	.75	.20	1.50	.20	1.50	.20
111 - 130	.95	.20	.85	.20	1.55	.20	1.55	.20
131 - 150	1.00	.25	.85	.20	1.60	.25	1.60	.20
151 - 170	1.05	.25	.85	.20	1.70	.25	1.70	.20
171 - 195	1.10	.25	.90	.20	1.75	.25	1.75	.20
196 - 220	1.15	.30	.90	.20	1.85	.30	1.85	.20
221 - 245	1.20	.30	.90	.20	1.90	.30	1.90	.20
246 - 270	1.30	.30	1.00	.20	1.95	.30	1.95	.20
271 - 300	1.35	.35	1.00	.25	2.05	.35	2.05	.25
301 - 330	1.40	.35	1.00	.25	2.10	.35	2.10	.25
331 - 360	1.45	.35	1.00	.25	2.15	.35	2.15	.25
361 - 430	1.50	.40	1.05	.25	2.25	.40	2.25	.25
431 - 510	1.55	.40	1.05	.25	2.35	.40	2.35	.25
511 - 590	1.60	.45	1.05	.25	2.45	.45	2.45	.25
591 - 685	1.65	.45	1.10	.25	2.50	.45	2.50	.25
686 - 795	1.70	.45	1.10	.25	2.55	.45	2.55	.25
796 - 905	1.75	.50	1.10	.25	2.60	.50	2.60	.25

RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

Method of Applying Rates

1. Classes of Service

(A) Dial Station Service

Dial station rates apply to:

(1) Sent-Paid messages dialed and completed by the customer from a residence or business telephone without the assistance of a telephone company operator.

(2) Sent-Paid messages placed from a public or semi-public coin telephone at a rate mileage distance of 40 miles or less.

(3) Sent-Paid messages placed with the assistance of an operator where:

(a) dial completion facilities are not available.
(b) equipment or circuit conditions cause unsuccessful dial attempts.
(c) the customer identifies himself as being handicapped and unable to dial.
(d) the operator must identify the calling number where automatic recording equipment is not available.

(4) Sent-Paid messages reestablished after a service failure on a customer dialed call.

(B) Operator Station Service

Operator station rates apply to:

(1) Messages requiring the assistance of a telephone company operator for completion of the call or a request for any information or assistance relating to billing or charges for such a call except for operator services used in connection with Dial Station Services noted above.

(2) Station messages placed from a public or semi-public coin telephone at a rate mileage distance over 40 miles.

(3) Station messages billed to the called number, a third telephone number or a telephone company credit card.

(4) Station messages where the customer requests time and charges quoted.

(5) Interexchange Receiving Service messages (Enterprise or Zenith).

RATES - THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

1. Classes of Service - continued

(B) Operator Station Service - continued

Operator Station Rates apply to - continued

(6) Messages billed to special toll billing numbers, Q and Z, included.

(7) Messages to or from a Mobile telephone or a VHF Maritime telephone where dial facilities are not available.

Conference Service

Rates and conditions applicable to conference service are revised to the extent necessary by the changes ordered herein in two-point service.

COMMISSIONER MORAN, Concurring in Part and Dissenting in Part.

I concur with the majority in the finding that an increase in Pacific's rate of return from its presently authorized 6.9% to 7.85% is fair and reasonable. It must be noted however that rate of return is only half of the question. The other half is the determination of the amount of operating expenses, and the determination of the amount of the rate base to which the rate of return shall be applied to arrive at the actual charges to be imposed upon the California consumers.

I dissent from most of the other economic, legal and financial findings and conclusions in the decision of the Commission majority.

The most objectionable aspects of the majority opinion (which alone I shall discuss herein) are three in number. Two relate to annual operating expenses and one relates to rate base. In my judgment the majority's decision in respect to these three matters is clearly bad regulation, bad law and constitutes inequitable treatment of the California consumer, and will most likely haunt this Commission for years to come.

The first major objectionable ruling is the decision herein to permit Pacific to "normalize", or in plain English <u>retain</u> for its own purposes the Federal income tax savings which will be realized by Pacific by reason of the "accelerated depreciation" provisions of the U.S. Internal Revenue Code. Pacific's own witness admitted in this hearing that such savings will amount to $700,000,000 over the next ten years. A more realistic estimate is $1,000,000,000.

<u>Actual</u> depreciation of capital assets is charged annually to the cost of doing business. The "accelerated depreciation" made available to American industry by the 1954 Amendment of the U.S. Internal Revenue Code is simply a tax reduction and was intended

by Congress to be a tax reduction when enacted in 1954. It is true that some companies which benefit from this provision may in later years find it necessary to make up part or all of the original tax reduction, depending upon the nature and success of the particular company's operations. In such a case, such a company could with some logic look upon the tax reduction as a tax deferral. However a company (such as a major California utility) which is assured of continuous growth, will never in the foreseeable future have to pay extra taxes by reason of the taxes currently saved through the "accelerated depreciation" provisions. Consistent with this obvious fact, and consistent with the basic regulatory principle that a utility's operating expenses shall be accounted for on an annual basis, this Commission has until today required every major California utility without exception to "flow through" the tax savings to the consumer.

To permit Pacific to collect from the consumers more monies each year under the guise of reimbursement of taxes than the company in fact pays as taxes, constitutes an abandonment of the basic principle which justifies private ownership of public utilities, i.e. that private investors shall provide voluntarily all capital needed by the utility and the consumers shall provide the utility solely with reimbursement of expenses plus a reasonable profit. Not only will this Decision in this respect require California consumers to pay a billion dollars extra to Pacific during the next ten years, but this Commission, as a matter of elementary fair play if not of law, will be compelled to reverse itself also in respect to all the other California utilities which have since 1954 and still are "flowing through" these tax savings to their consumers.

The second major objectionable ruling in this Decision is that which reverses previous Commission Decisions by retroactively revising the rate base of Pacific as of December 31, 1967. The major component of Pacific's rate base consists of amounts paid by Pacific to its affiliate, Western Electric. In its last Decision, this Commission fixed the precise dollar amount of Pacific Telephone's rate base as of December 31, 1967. The majority today have reached back more than three years and added $27,300,000 to Pacific's rate base as of December 31, 1967. The effect of this adjustment upward of the company's December 31, 1967 rate base will be to permit Pacific to collect from the California consumers the extra sum of approximately $6,847,000 annually in each of the next twenty to twenty-five years. Of this additional amount, approximately $4,663,000 annually will be in the form of return upon the increase in the 1967 year-end rate base and the balance will be in the form of additional depreciation thereon each year.

The third major objectionable ruling in this Decision is the treatment of the affiliated interest adjustment sometimes called the "Western Electric Adjustment". This Commission in its Opinion in Case No. 8858, dated 27 January 1970, stated:

> "In each case of this kind, the question of whether or not an 'affiliated interest adjustment' should be made, and if so the nature and extent thereof, is a complex problem not susceptible to any simple arithmetic computation nor application of any mechanical formula."

The Commission majority criticizes its predecessors for having arbitrarily in two previous cases (Decision No. 43145, July 26, 1949, and Decision No. 50258, July 6, 1954) disallowed prices paid by Pacific to Western Electric for its manufactured articles to the extent that such prices would have permitted Western Electric to earn more than a utility rate of return. I join in that criticism. However in this Decision today the majority does a complete flip-flop and has arbitrarily ruled that the full amount of the charges passed on by Western Electric to its affiliate, Pacific Telephone, shall be allowed whether for manufactured articles, purchases, warehousing, installing and salvaging.

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C. 9036, et al.
D-78851

One arbitrary extreme in my judgment is just as bad regulation as the other arbitrary extreme. In this Decision the effect of the Commission majority's ruling will be to permit Western Electric to earn something more than eleven percent on equity, despite the fact that with its captive market Western Electric faces minimum risks as compared to any other manufacturers in this country. The Commission majority today in so ruling does also reject results of our own staff's analysis and our own staff's recommendation that Western Electric be permitted a return of nine percent on equity.

It should be noted that the Commission majority has issued this Decision despite the unanimous disapproval of it by this Commission's own staff.

Thomas Moran
Commissioner

June 22, 1971
San Francisco, California