

ORIGINAL

Decision No. 79873

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 in an amount necessary  
to offset increases in wage and  
salary rates.

Application No. 52794  
(Filed August 6, 1971)

(See Appendix A for Appearances)

O P I N I O N

Introduction

In the application as filed, The Pacific Telephone and Telegraph Company (Pacific) sought 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, before offsetting uncollectibles and Los Angeles Extended Area settlements but after toll and other exchange settlements with independent telephone companies, by approximately \$84,800,000. The request was reduced to approximately \$77,400,000 at the first day of hearing to reflect (1) changes by Federal Tax authorities in the permissible range of estimated lives of depreciable assets and (2) more recent data on settlements with independent telephone companies for interchanged telephone traffic.<sup>1/</sup> The rate increases are requested in this

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<sup>1/</sup> The question was raised (Tr. 141-143, 433-434) as to whether or not the rate request would have been reduced had the later information not have been furnished in response to Commission staff data requests. Pacific contends that the later information would have been developed and the application amended even if the staff had not requested the information. Inasmuch as the later information was developed and the application was amended to reflect that later information, it matters little who receives credit for having initiated the reduction in revenue requirement.

proceeding to offset increases in wage levels of Pacific's employees above the levels assumed when the present rates were established by Decision No. 78851, dated June 22, 1971, in Application No. 51774.

Copies of the application were served, notice of filing of the application was published, and notices of hearing were published in accordance with this Commission's rules of procedure. Sixteen days of hearing were held before Commissioner Symons and/or Examiner Catey commencing October 4, 1971, and continuing until December 1, 1971, in San Francisco, Los Angeles and San Diego. The matter was submitted on December 1, 1971, subject to the receipt of certain late-filed exhibits and subject to the receipt of concurrent briefs on December 31, 1971.

Testimony and, in some instances, exhibits were presented by three witnesses for Pacific, a witness for General Telephone Company of California, a witness for the Cities of Los Angeles and San Diego, eight witnesses for Association of California Consumers, three individual customers, and three witnesses for the Commission's staff.

Pacific's service area, affiliated interests and service were discussed recently in Decision No. 78851. No significant changes have occurred warranting revision of the discussion in that decision. As in the earlier proceeding, the presiding examiner required Pacific to investigate and prepare written reports wherever witnesses in the current proceeding had specific service complaints. A copy of the appropriate report was mailed to each such witness, and copies of all of the reports, collectively, were received as late-filed Exhibit No. 18. The reports appear to have answered adequately the questions raised by the various subscribers.

#### Present and Proposed Rates

Pacific's present tariffs include numerous schedules for telephone and related services. The present rates and charges which Pacific proposes to change and the revised rates and charges which Pacific proposes in this proceeding are set forth in detail in the

61-page Exhibit No. 3-A presented by Pacific. The changes proposed in the first 57 pages of Exhibit No. 3-A are summarized in the following Table I. Specific items are discussed in more detail hereinafter under "Rate Spread".

TABLE I

Summary of Proposed Rate Changes

<u>Item</u>	<u>Revenue Increase 1970 Test Year</u>	
	<u>Amount (Millions)</u>	<u>Percent</u>
<u>Increase Basic Exchange Rates</u>		
Business	\$ 1.517	1.0%
Residence	5.704	1.8
<u>Increase Message Unit Rates</u>		
Within Exchange	3.041	2.1
Outside Exchange	3.672	8.5
Foreign Exchange	.716	8.0
Increase Message Toll Rates	28.831	6.7
<u>Increase Other Rates &amp; Charges</u>		
Airport Intercommunication Service	.040	7.0
Centrex Service	1.408	8.0
Key Equipment Service	9.248	8.0
PBX Service	.904	2.0
Service Connection, Move & Change	8.681	23.0
Various Supplemental Equipment	.273	1.0
Various Special Assembly Equipment	.051	3.0
<u>Initiate New Rates &amp; Charges</u>		
Non-published Service	6.176	New
Hunting Service	3.830	New
Customer-initiated Number Change	<u>3.339</u>	New
Total	\$77.431	4.5%

On pages 59 through 60 of Exhibit No. 3-A, Pacific sets forth three alternative proposals for increases which would produce the same total additional revenues as the changes in the foregoing Table I. Alternates 1 and 3 would incorporate some of the changes included in Pacific's primary proposal but would produce a greater

proportion of the additional revenue from basic business and residence rates. Alternate 2 would produce all of the additional revenue from basic business and residence rates.

#### Issues

During the course of the proceeding and in the briefs filed by various parties, the issues raised fall into the following general categories, which will be discussed in detail hereinafter:

1. Has due process been followed?
2. Would the requested increase be consistent with the Federal Economic Stabilization Program?
3. What test year should be adopted?
4. If 1970 is adopted as a test year, should the application be handled as an "offset" proceeding?
5. Should utility employees' wages and fringe benefit increases be recognized?
6. If increases in wages and benefits are to be reflected in a 1970 test year, should not other post-1970 changes be reflected also?
7. If increased revenues are authorized, which rates should be revised?

#### Due Process

Association of California Consumers (ACC) contends that Pacific did not provide adequate public notice of this proceeding. Affidavits of publication of notice of filing of the application, received collectively as Item "A" (Tr. 6), show that Pacific published the notice of filing in newspapers throughout the service area, pursuant to Rule 24 of the Commission's Rules of Procedure. ACC contends that, inasmuch as the date of filing fell within the peak vacation period, Pacific should have been required to notify customers of the hearings by means of individual bill inserts. Item "B" (Tr. 6) shows that in September, 1971, Pacific also published notice of hearing in essentially the same newspapers that were utilized for the filing notice. September is not generally considered the height of the vacation season. The publication of hearing notice complies with the requirements of Rule 52 of the Commission's Rules of Procedure.

ACC contends that Rule 49 of the Commission's Rules of Procedure "calls for" (Tr. 7) a prehearing conference and that failure to hold one deprived parties, in some manner, of their rights. Under Rule 49 a prehearing conference is not required but may be held at the discretion of the presiding hearing officer if he deems it useful to expedite orderly conduct and disposition of the proceeding. One of the principal advantages of a prehearing conference is to determine in advance the approximate scope and magnitude of the presentation planned by the various parties so that hearing time can be scheduled. In the case of ACC, this basic information was not furnished, even after repeated requests, until many weeks after a prehearing conference would have been held (Tr. 181, 1274-1276). Under these circumstances, a prehearing conference was not warranted.

ACC also contends that the lack of night hearings denied due process. There are no provisions in the statutes nor in the Commission's Rules of Procedure requiring night hearings. Indeed, night hearings have been extremely rare. As the presiding examiner pointed out (Tr. 43), in the recent rate proceeding involving Pacific, the evidence presented by witnesses at night hearings in San Francisco was essentially the same as the evidence received in the day hearings.

Most of the parties, except Pacific, contend that this application should have been dismissed or at least that hearings thereon should have been suspended because of the California Supreme Court's annulment of interim Decision No. 77984, and pending review of Decision No. 78851 in Application No. 51774, Pacific's recent full-scale rate proceeding. Pacific points out that the evidence in the current proceeding relates to significant changes which took place subsequent to submission of Application No. 51774. Since these changes were not, and could not have been, reflected in the rates established in the earlier proceeding, it was entirely proper to determine the extent, if any, that the changed conditions should modify whatever revenue requirement is determined on the basis of

the record in Application No. 51774. There is a possibility, of course, that the revenue requirement exclusive of the changed conditions covered in the current proceeding could be modified because of further hearings being scheduled in Application No. 51774 as a result of the Supreme Court action. To protect the customers' interests, the order herein provides for refund, with interest, of any difference between the amounts charged under the rates authorized herein and the amounts which would have been charged at any lower rates established after submission of reopened Application No. 51774.

Several of the parties contend that the staff investigation in this proceeding was inadequate. ACC even went so far (Tr. 953) as to characterize the staff's efforts as "a very shoddy piece of business". A representative of Consumers Arise Now (CAN) softened his own criticism of the staff somewhat, however, by explaining (Tr. 30) that he did not mean his remarks to be disparaging against a particular staff member but, rather, that he hoped his remarks were disparaging against the presiding examiner.

Evaluation of the thoroughness of the staff's investigation hinges upon the reasonableness of a 1970 test year. Assuming as discussed hereinafter that a 1970 test year is reasonable, the record shows a thorough staff investigation of significant changes which took place since submission of Application No. 51774. Admittedly, the staff did not duplicate the detailed studies which formed the basis for its presentation in Application No. 51774. In view of the short interval of elapsed time since the Commission's adoption of results for a 1970 test year in that previous proceeding, the staff members properly concentrated their considerable talents and efforts in evaluating changed conditions which might modify the previously adopted results. Many man-hours (Tr. 691, 726, 801) of investigation over a period of several months (Tr. 957) and the review of voluminous work papers (Tr. 98-99, 968-969) were involved.

#### Federal Economic Stabilization Program

Phase I, the wage-price freeze phase of the Federal Economic Stabilization Program, was in effect from August 15 to November 15,

1971. Phase II, the wage-price controlled phase of the program, then went into effect, with regulations and amendments and modifications thereto being announced from time to time. Those currently in effect for regulated public utilities such as Pacific are set forth in Part 300, Title 6 of the Code of Federal Regulations, as amended effective March 20, 1972. We take official notice of those regulations.

Section 300.16, paragraph (e), of the current regulations provides, where regulatory approval is granted prior to May 25, 1972:

- "(c) Regulatory agency certification. With respect to each price increase it approves, each regulatory agency shall certify in the order granting the increase or in a separate document the following:
- (1) The former price, the new price and the percentage increase;
  - (2) The dollar amount of increased revenue which the increase is expected to provide;
  - (3) The amount by which the increase will increase the utility's profits as a percentage of its total sales;
  - (4) The amount by which the increase will increase the utility's overall rate of return on capital;
  - (5) That sufficient evidence was taken in the course of its proceedings to determine whether the criteria set forth in paragraph (d), (1) through (4) of this section, as in effect on January 17, 1972, are or are not met by the price increase; and
  - (6) That the price increase does or does not meet those criteria or meets them only to a particular extent, with a statement of reasons why the price increase does or does not meet the criteria or meets them only to a particular extent."

The criteria referred to in the foregoing subparagraphs (5) and (6) of paragraph (e) were set forth in paragraph (d) of the regulations in effect on January 17, 1972, which provide:

- "(d) General. A public utility may charge a price in excess of a final price (a price which is not subject to accounting and refund) in effect on January 16, 1972, only if, within the appropriate period specified in this section for review by the Price Commission, the Commission does not make a negative finding on any of the following:
- (1) The increase is cost-based and does not, unless specifically provided otherwise by the Price Commission, reflect future inflationary expectations;
  - (2) The increase is the minimum required to assure continued, adequate, and safe service or to provide for necessary expansion to meet future requirements;
  - (3) The increase will achieve the minimum rate of return or profit margin needed to attract capital at reasonable costs and not to impair the credit of the public utility;
  - (4) The public utility has obtained a certificate in accordance with paragraph (e) of this section,...; and
  - (5) In the opinion of the Price Commission, the increase is consistent with the Commission's overall goal of holding average price increases across the economy to a rate of not more than 2-1/2 percent a year."

In compliance with the foregoing regulations, Appendix C to the order herein includes the requisite items which constitute the certification referred to in the regulations.

Portions of the increases in wage and fringe benefits had been scheduled to go into effect for Pacific's employees during the Phase I period but were postponed temporarily because of the wage freeze (Tr. 245) and did not go into effect until Phase II.

Test Year

Pacific's present rates were established by Decision No. 78851 in Application No. 51774. Based upon the comprehensive record in that proceeding, the Commission found, among other things, that the adopted estimates 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 then existing wage levels of Pacific's employees.

Although 1970 had been found to be a valid test year for setting rates which became effective July 23, 1971, some of the parties contend that a 1970 test year no longer was valid two weeks later when Application No. 52794 was filed, or at least was not valid about four months later when the matter was submitted. We do not agree. The basic concept of a test year is to establish the relationships between revenues, expenses and rate base that are indicative of the operations to be expected when the new rates are in effect. The passage of a few weeks or months does not invalidate a test year, provided known significant changes during that short interval are given recognition by means of suitable modifications to the test year results.

In the preliminary staff evaluation of the reasonableness of the continued use of a 1970 test year in the current proceeding, there was no serious disagreement among the staff members (Tr. 981). Subsequent review of 1971 data by one of the staff witnesses (Tr. 995-998) appears again to confirm the reasonableness of the staff's having used a 1970 test year basis.

Naturally, reasonable results also could have been achieved by appropriate detailed projections into a 1971 or 1972 test year, but this would have required considerable duplication in analyzing and adjusting 1971 data or estimating 1972 data. The mere arithmetic projection into 1972 of recorded data for prior years as presented in Exhibit No. 13 by the Cities of Los Angeles and San Diego could inadvertently distort the end result. For example, the projected growth of revenue through 1971 exceeded the actual growth (Tr. 1423), the average net plant and working capital projected through 1971 fell short of the actual construction (Tr. 1446), and the projected increase in operating expenses exclusive of wages appears abnormally low (Tr. 1449). The combination of these distortions is cumulative; they all tend to understate the future revenue requirements.

The cities' witness who advocated the use of a 1972 test year also recommended that a decision be postponed until more actual 1972 data are available (Tr. 1454-1455). It is quite conceivable, however, that the same argument as to the alleged infirmity of a 1970 test year would then apply to the use of a 1972 test year for setting rates out beyond 1972. This logically would lead to the recommendation for a 1973 test year with a concurrent recommendation, however, for further delay to see what actually happens in 1973. A decision would be postponed indefinitely on that basis.

One of the bases for objection to a 1970 test year by the cities' witness was the witness' opinion that 1970 was a recession year. A measure of the business slump was the approximately 14 percent that the Forbes Index of Economic Conditions for 1970 fell below a trend line drawn across the tops of the plotted index figures for 1963 through part of 1971. One flaw in this comparison is the use of the trend of peaks, rather than some trend between peaks and valleys in the plotted data. Another basic flaw is that the witness ignored his own testimony (Exhibit No. 13, Page 10, Q. & A. 25) that there apparently is a lag between the time that the Forbes Index shows a down trend and the time it shows in Pacific's revenues. If an average trend line is drawn through the fluctuating index graph, and if the testimony regarding lag in revenue effects on Pacific is considered, it can be seen that 1970 revenues probably fell quite close to a normal trend line. This is certainly not a rigidly proven conclusion, but it does confirm to some extent the finding in Decision No. 78851 that Pacific's revenues were not abnormally low or high in the last half of 1970, the period when the Forbes Index reached a low point in its cyclic fluctuation.

Most of the arguments presented against the use of a 1970 test year were based upon the elapsed time from the test year to the date any revised rates would become effective, but at one point (Tr. 1592) the Cities of Los Angeles and San Diego advocated going back still farther to a 1967 test year. Although we consider 1970 to be recent enough, it is not appropriate to go back another three years.

Offset Proceeding

In Decision No. 78351, the Commission found that "The adopted estimates...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." (Emphasis added.) At that time there was no way of predicting accurately what wage and fringe benefit increases would result from a pending labor dispute.

As soon as the effect of the negotiated settlement to the labor dispute was evaluated, Pacific filed the current Application No. 52794. In it, Pacific asks that additional increases in telephone rates be authorized to offset higher operating expenses under the new levels of wages and fringe benefits. Most of the parties disagree with the "offset" concept proposed by Pacific and contend that another full-scale rate proceeding is now required.

The objections to the "offset" approach to a large extent stem from an apparent lack of understanding of the concept of utilizing the magnitude of operations during a test year, as indicated by numbers of customers, number of man-hours labor required to operate and maintain the system to serve that number of customers, and other such statistics consistent with the size of the operation which existed during the test year. For a large utility such as Pacific, it can reasonably be assumed that, if wage rate levels, price levels, tax rate levels, and all other unit costs and prices remain constant, the higher rate base and expenses resulting from increases in number of customers in the near future will be approximately offset by the additional revenues from the new customers. The rate of return actually realized by the utility under the authorized telephone rates would, in such situation, be very close to the rate of return indicated by the test year. If, however, postage rates were increased to a higher level than existed during the test year, and if postage represented a significant portion of operating expense, the utility would

not realize the rate of return found reasonable. In general, changes in revenues, expenses and rate base which are directly related to growth in customers beyond a fairly recent test year can therefore be ignored, whereas known changes in price levels and non-revenue producing changes should be reflected back into the test year to make it indicative of probable near future operations. The 16-percent increase which took place in Pacific's wage and fringe benefit rates subsequent to the recent establishment of present telephone rates is of sufficient magnitude to consider modification of 1970 test year results to offset the increased expenses which would have been incurred during 1970 under the higher unit costs of labor.

Another argument presented by several of the parties against an "offset" proceeding is the decision by the California Supreme Court, which could result in modification of the 1970 test year revenue requirement established by Decision No. 78851. This argument is not valid, as previously discussed herein under "Due Process".

Reasonableness of Wage and Fringe Benefit Increases

About 64,000 of Pacific's over 75,000 nonmanagement employees are represented by unions (Exhibit No. 1, Page 2). Contracts with the unions had been entered into in 1968 after a nationwide strike which lasted several weeks (Exhibit No. 1, Page 3), but those contracts expired in 1971. Pacific considered the 1968 contracts to be satisfactory initially but conceded that before their expiration, the wages and fringe benefits established thereby were not competitive with other California employers (Exhibit No. 1, Page 4).

After negotiations for new contracts had been in progress for some time, no agreement had been reached and a strike ensued. Negotiations continued, however, and tentative agreements were reached late in July, 1971 (Exhibit No. 1, Page 6). The various unions involved ratified the final contracts on or before August 14, 1971 (Tr. 91-92). Employees not covered by union contracts were granted wage and fringe benefit increases comparable to, but no greater than, those prescribed by the union contracts (Tr. 360).

Although the 16-percent increase in wage and fringe benefits for the first year under the new union contracts is greater than prevailed in prior years, the record does not indicate that the resultant levels are out of line with current compensation in comparable fields. In fact, the staff included the increases for all nonmanagement employees, union and nonunion, in its expense estimates incorporated in Exhibit No. 4-A and carried forward into Exhibit No. 5-A. Nevertheless, in the staff brief the argument is presented that increased wage and fringe benefits which result from nationwide rather than local bargaining should be disallowed as an operating expense. We do not agree. We do not consider that employees whose union chooses to bargain nationally are less entitled to wage adjustments than are employees whose union bargains locally. It follows, then, that no distinction should be made in the resulting effects on utility expenses.

The City of San Diego, in its brief, holds that "Ratepayers should not have to bear the burden of wage increases not required by direct Union negotiations." Under this hypothesis, two utilities with identical wage rates for their employees would be given different rate-making treatment if the employees of one utility had a union contract and the employees of the other did not. This is not equitable. Similarly, it would not be equitable to recognize only the expense increases resulting from wage increases granted under union contracts and to disallow similar percentage increases paid to employees not covered by a contract.

The staff witnesses did not go so far as to recommend exclusion of increases to all employees not covered by a union contract but did recommend exclusion of increases payable to management employees. The rationale for this exclusion was that the wages of management personnel are within Pacific's control because there is little likelihood of a strike of management personnel (Exhibit No. 4, Page 5, Q. & A. 19). As one of Pacific's witnesses points out, however, Pacific does not base its managers' pay on the amount

required to keep them from quitting (Tr. 275). There should be some reasonable relationship maintained between pay scales for different levels of employment within a company, just as there should be some reasonable correlation between pay for equal work in separate but equivalent companies. We see no valid reason to give different treatment to any one portion of the relatively uniform percentage increase being paid to most of Pacific's employees. Approximately 400 of Pacific's management employees at and above the Division Manager level were not covered by wage increases granted prior to the institution of wage controls (Tr. 918). The record does not indicate whether those employees will be covered by additional wage adjustments but, inasmuch as Pacific has not requested any revenues to offset wage increases above the District Manager level, the question need not be resolved.

Staff witnesses included in their estimates the additional accruals required by the more liberal pension plan which resulted from the union contract negotiations (Exhibit No. 4, Page 5, Q. & A. 18). The staff brief, however, argues that Pacific should have resisted payment of higher pension costs, even though the pension improvements had been negotiated in good faith. We do not agree that it was incumbent upon Pacific to seek loopholes in the wage-price regulations which would circumvent its negotiated contracts.

A staff witness adjusted his estimates of Pacific's settlements with General Telephone Company of California (General) because, at the time the estimates were being prepared, the wages of General's employees were frozen. The staff brief concedes that it has been clearly established that General's wages have been unfrozen, but argues that General was imprudent in not resisting the unfreezing of its wages. As in the case of Pacific's pension improvements, we do not agree that it was incumbent upon General to seek loopholes in the wage-price regulations which would circumvent contracts negotiated in good faith with its employees.

A witness for ACC was critical of the fact that the Bell System has employees in the management category who, in the witness' terms, constitute a "built-in strike-breaking force" (Tr. 1709). The appearance for ACC suggested the appellation "scabs" for Pacific's management employees who kept essential services operating during the recent strike (Tr. 1709). This line of testimony appears to be relevant to the rate proceeding only to the extent that it suggests that Pacific was not an easy mark at the bargaining table and hence did not give in to excessive demands.

Asset Depreciation Range

In evaluating a proposed telephone rate increase to offset a post-1970 wage increase, other potentially significant post-1970 changes unrelated to customer growth also should be considered. One of these changes is the Asset Depreciation Range (ADR), which permits more flexibility in estimating service lives of assets for computing the depreciation deduction allowable for Federal Income Tax. The ADR provisions were issued originally as an administrative order but were later incorporated, with some modifications, in the Revenue Act of 1971.

Pacific's use of ADR in its original form would have reduced the intrastate revenue requirement for the test year 1970 by about 1.2 million dollars, due to a higher deduction from rate base for deferred tax reserve. This was testified to by one of Pacific's witnesses (Tr. 126) and confirmed by a staff witness (Tr. 670). When ADR was incorporated into the Revenue Act of 1971, however, the "first-year convention", which determines the assumed date of installation of plant for depreciation purposes, was modified. This changed the previous 1.2 million reduction in revenue requirement to 0.3 million dollars for the test year 1970 (Tr. 438).

If, as a result of the reopening of Application No. 51774, normalized income taxes are not used, this could result in a greater reduction in revenue requirement attributable to ADR. For example, if full flow-through of the tax effects of ADR were assumed, the

estimated effect on intrastate revenue requirement would be a reduction of 7.1 million dollars (Tr. 438). The normalization treatment of ADR effects adopted herein is consistent with the basis used for establishing present telephone rates. Pacific will be required to make appropriate refunds if the basis for establishing the present rates is changed in reopened Application No. 51774, and the revised basis modifies the effect of ADR.

Investment Tax Credit

Another significant post-1970 change unrelated to customer growth is the Investment Tax Credit (ITC). The term ITC refers to a reduction in current tax liability allowed by Federal income tax authorities, pursuant to tax laws, based upon a stated percentage applied to the dollar amount of specified qualifying plant additions.

An ITC was introduced by the Revenue Act of 1962, suspended by the Suspension Act of 1966, restored by the Restoration Act of 1967 and repealed by the Tax Reform Act of 1969. A revised ITC was recently reinstated by the Revenue Act of 1971. We hereby take official notice of the aforementioned previous and recent tax laws.

The initial ITC originally resulted in a reduction in depreciable plant used in computing depreciation allowance for Federal income tax returns. Because of the higher future tax liability resulting from the lowered depreciation allowance, the original ITC was, in effect, a tax deferral. This provision was soon revised, however, so the ITC no longer reduced future depreciation allowances and thus constituted an actual tax saving. The Commission, in setting rates, flowed through the average tax saving on a current basis as a reduction in revenue requirement.

The present reinstated ITC also results in tax savings, rather than tax deferrals. Revised Internal Revenue Code Section 46(e), however, because of Pacific's former use of straight-line depreciation for tax purposes, disqualifies Pacific for ITC if rates are set on the basis of flowing through the ITC directly to revenue



requirements on a current basis. Pacific would not be disqualified for the ITC if the tax saving were accumulated as a deduction from rate base, provided each year's ITC were amortized over the life of the related plant additions. The benefits to customers in that treatment would be similar to the reduction in rate base resulting from the normalization of taxes under accelerated depreciation provisions. It would differ from the benefits of normalization related to accelerated depreciation, however, in that the amortization of the deferred tax account reduces future income tax allowances for rate-making purposes, whereas amortization of the accumulated ITC in future years would, in effect, go directly to the utility's surplus.

In lieu of amortizing the ITC "below the line" and deducting the cumulative ITC balances from rate base, as outlined above, Pacific also would not be disqualified for ITC if the ITC were amortized "above the line" over the life of the plant (ratable flow-through) and no deduction were made from rate base. The long-term effect on customers would be about the same under either method.

Pacific's use of ITC would reduce intrastate revenue requirement for the test year 1970 by about 1.2 million dollars (Tr. 438). If full flow-through of ITC were possible and appropriate, the estimated effect on intrastate revenue requirement would be a reduction of 29.3 million dollars (Tr. 438).

We are of the opinion that it will be of greater ultimate benefit to Pacific's customers to set rates on the basis of either (1) accumulating the ITC as a deduction from rate base or (2) ratable flow-through rather than to disqualify Pacific for ITC by assuming full flow-through on a current basis. We are aware that the California Supreme Court on November 26, 1971, in annulling Decision No. 77984 in Application No. S1774 et al., held that the Commission could, if warranted as a punitive measure, deliberately disqualify Pacific from use of accelerated depreciation by using flow-through in setting rates. We do not see how that punishment could reasonably be extended to

the disqualification of Pacific for ITC. Whatever punishment, if any, is warranted for Pacific's past adherence to straight-line depreciation for income tax purposes will be established in Application No. 51774 et al., reopened by Decision No. 79432, dated November 30, 1971. Pacific will be required to make appropriate refunds if the basis for establishing the present rates is changed in reopened Application No. 51774 and the revised basis modifies the effect of ITC.

Other Items

The staff brief again brings up the issue of applying the 1971 dollar effects of the Ozark Separation Plan to the 1970 test year, but no argument is presented to justify its adoption. In fact, the 1971 effect is not included in the exhibits presented by staff witnesses in the current proceeding. The increased effect of the Ozark Plan in 1971 over 1970 is related to growth in number of customers and the resulting increase in 1971 plant and expenses required to serve those customers. As we explained in Decision No. 78851, it is not appropriate to reflect the 1971 dollar level of Ozark Plan effects in a 1970 test year.

Another suggestion which appears in the staff brief, but is not included in the exhibits presented by staff witnesses, is that the 1972 reserve for deferred taxes be utilized in the 1970 test year. As a utility grows, its plant investment, depreciation reserve and reserve for deferred taxes (under normalization) all increase. As in Decision No. 78851, we do not consider it proper to use the 1972 reserve for deferred taxes in a 1970 test year.

In Decision No. 78851, the Commission "rolled back" 117.5 million dollars of post-1970 average plant installations into the test year 1970, on the basis that it was the amount to be installed in the then near future which represented nonrevenue-producing installations. It was estimated, based upon the evidence in Application No. 51774, the amount rolled back would reflect the installation of such plant only through the year 1971. Additional evidence presented

by the staff in the current proceeding (Exhibit No. 5-A) shows that the amount rolled back would represent more nearly the amount of intrastate nonrevenue-producing plant to be installed through May of 1972, assuming no increase over 1971 in the level of such expenditures. The additional five months is not unreasonable as applied to the former proceeding because it is more than offset by the higher actual level of wages which have been in effect and not compensated for in present telephone rates. In the current proceeding, however, we are giving direct recognition to the 1971 wage increase and concur with the staff's recommendation in Exhibit No. 5 that the rollback of nonrevenue-producing plant in the current proceeding be reduced by 27.6 million dollars. The remainder reflects the intrastate non-revenue-producing plant through approximately the end of 1971. Corresponding staff adjustments in depreciation and taxes related to the 27.6 million dollars in plant also are adopted.

The rollback of 117 million dollars of post-1970 nonrevenue-producing plant into the test year 1970 was one way of making an allowance for earnings attrition. There are many approaches which have been used to offset attrition or erosion of earnings as high-cost plant is installed to provide new services as well as to replace existing low-cost plant which has fully depreciated. The approach we used in Decision No. 78851 to offset attrition was not new in California. This Commission has made adjustments of this type for many years. For example, in water utility rate decisions, nonrevenue-producing plant designed primarily to improve service, such as some reservoirs, pumping stations and filter plants, scheduled for completion beyond the test year, has been rolled back into the test year.

A figure either larger or smaller than 117 million dollars could have been used to make the attrition allowance, depending upon how far into the future is considered a reasonable period for rolling back post-1970 nonrevenue-producing plant into a 1970 test year. It was our conclusion, however, that the 117 million dollars would allow

Pacific a sufficient attrition allowance so that Pacific's earnings could be maintained for the period closely following the Commission's order. In Application No. 52794, evidence was introduced (Tr. 1305-1307) which shows that, even after including the full annual effect on current earnings of the last rate decision and the pending request for an offset increase, the amount we allowed for attrition does not appear to have been sufficient to permit Pacific to earn the rate of return found reasonable in Decision No. 78851. We still consider that the 117 million dollar plant adjustment for an attrition allowance was a reasonable one under the assumed conditions in the prior proceeding.

On Page 4 of Exhibit No. 2-A, Pacific presented a graph showing intrastate rate of return for the period 1968 through 1971, adjusted to reflect current separation procedures, current telephone rates, current income tax rates and current levels of wages and salaries. Pacific contends that the leveling off of resultant rate of return for that period shows that there have been no significant changes in employee productivity that would tend to offset part of the effect of higher wages. Several of the other parties contend that more detailed productivity studies should have been prepared.

We agree that the graph presented in Exhibit No. 2-A is only circumstantial evidence of relatively fixed employee productivity. It is confirmed, however, by statistics presented in Pacific's annual reports to the Commission for the years 1967 through 1971, which were incorporated by reference in the record in this proceeding (Tr. 255-256). Data on expensed payroll in Schedule 70-A and number of telephones in Schedule 52 of those annual reports show that the payroll expense per main station or per telephone increased at almost exactly the 6.6 percent average annual rate of wage increases during that period. If there had been significant changes in employee productivity, the payroll per telephone statistics would have changed at a different rate than the changes in wage levels.

There were some specific payroll savings resulting from reduced operator-handled calls under the rates authorized in Decision No. 78851 (Tr. 1320). The four million dollar saving reflected in that decision was at the wage rates in effect at the end of 1970. At the present wage rates, an additional allowance of 0.6 million would be consistent with the wage increase reflected in operating expense, and is adopted as an adjustment to the expense estimates presented by Pacific. This is an addition to the savings of 1.4 million dollars estimated by Pacific in connection with the expense of number changes if the proposed charge for customer-initiated changes decreases the incidence of such changes (Tr. 1321). These adjustments are, in a sense, related to productivity.

The testimony of an engineer presented by ACC consisted primarily of a critique of Decision No. 78851. That witness had been a witness for the staff in the earlier proceeding. We gave careful consideration to his testimony in arriving at Decision No. 78851 but did not adopt some of his recommendations. No new evidence supporting his earlier recommendations has been presented.

ACC contends that the presentation of a professor of economics who testified for ACC shows that a telephone rate increase for Pacific would contribute to inflationary expectations. We agree that higher levels of wages or prices are, inherently, more inflationary than lower levels. The wage increases for Pacific's employees are now in effect, however, and have been since about May, 1971. Pacific's requested telephone rate increases, therefore, are cost-based and are not based upon the assumption of continued inflation in cost of labor and materials. They do not even reflect further wage increases which are scheduled to go into effect shortly under existing wage contracts.

Since submission of this application, the State Corporation Franchise Tax rate has been increased to 7.6 percent from the former 7.0 percent. There is insufficient evidence in the record to determine how much this will affect the lower effective rate which Pacific now pays due to the consolidated returns required by state tax authorities. For the purpose of this proceeding, we will assume that the increase in taxes will be negligible.

Results of Intrastate Operations

Witnesses for Pacific and the Commission staff have analyzed and estimated the effect of 1971 wage and fringe benefit increases on Pacific's intrastate operational results for a 1970 test year. Pacific's estimates were presented in Exhibit No. 2-A and the staff estimates were presented in Exhibit No. 5-A. Both exhibits show the results adopted in Decision No. 78851 at present telephone rates, the effect of certain changes in levels of wages and other items which took place since Decision No. 78851, and the resulting revised results at present telephone rates.

Summarized in Table II, from the exhibits of Pacific and the staff, are the 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  
Revised Summary of Earnings at Present Rates  
Test Year 1970  
(Dollars in Millions)

<u>Net Revenue</u>	<u>Item</u>	<u>Amount</u>		
		<u>Pacific</u>	<u>Staff</u>	<u>Adopted</u>
Based Upon Decision No. 78851		\$ 278.1	\$ 278.1	\$ 278.1
<u>Changes Since Decision No. 78851</u>				
	<u>Effect of 1971 Wage Increases</u>			
	Due to Higher Expenses	(86.2)	(72.0)	(85.6)
	Due to Higher S.S. Taxes	(1.7)	(1.7)	(1.7)
	Due to Higher Settlements	6.2	9.6	6.2
	Subtotal	(81.7)	(64.1)	(81.1)
	<u>Effect of Decrease in Rollback</u>			
	Due to Lower Ad Valorem Taxes	-	0.8	0.8
	Due to Lower Depr. Expense	-	1.4	1.4
	Subtotal	-	2.2	2.2
	<u>Effect of Income Taxes</u>			
	Due to Above Changes	42.1	31.8	40.3
	Due to ITC	-	-	0.7*
	Subtotal	42.1	31.8	41.0
	Total Changes in Net Revenue	(39.6)	(30.1)	(37.9)
	Revised Net Revenue	238.5	248.0	240.2
<u>Rate Base</u>				
Based Upon Decision No. 78851		3,540.6	3,540.6	3,540.6
<u>Changes Since Decision No. 78851</u>				
	Effect of Decrease in Rollback	-	(27.6)	(27.6)
	<u>Effect of Higher Reserves for Taxes</u>			
	Due to ADR	(6.7)	(6.7)	(1.8)
	Total Changes in Rate Base	(6.7)	(34.3)	(29.4)
	Revised Rate Base	3,533.9	3,506.3	3,511.2
	Revised Rate of Return	6.75%	7.07%	6.84%

(Red Figure)

\* Ratable flow-through of 14.9 million dollars ITC over an estimated 20-year life.

The lower staff estimate of the expense effect of the 1971 wage increases is due to the staff's inclusion of wage increases only for nonmanagement employees. As previously discussed herein, we have included the 1970 test year effect of all of the 1971 increases which were actually granted but have reduced them by 0.6 million dollars consistent with the productivity adjustment in Decision No. 78851.

The higher staff estimate of settlements effects is due to the fact that the wages of employees of General Telephone Company of California were frozen at the time the staff estimate was prepared. As previously discussed herein, those wages are no longer frozen and the higher settlement figure no longer is appropriate.

At the time the estimates were being prepared by Pacific and the staff, the effect of ADR was a reduction of 6.7 million dollars in 1970 rate base. With the change in "first-year convention" previously discussed herein, the effect was reduced to 1.8 million dollars.<sup>2/</sup> The corresponding effect of ITC on 1970 rate base would be a reduction of 7.5 million dollars.<sup>2/</sup>

#### Revenue Requirement

In order to produce the 7.85 percent rate of return on rate base for the test year 1970 found reasonable in Decision No. 78851, Pacific's gross revenues after settlements with the independent telephone companies must be increased by 70 million dollars. This is an increase of four percent over the corresponding gross revenues under present rates.

<sup>2/</sup>	<u>Item</u>	<u>Millions of \$</u>	
		<u>ADR</u>	<u>ITC</u>
	Gross revenue requirement effect under flow-through (Tr. 433)	7.1	29.3
	Divided by net-to-gross multiplier	1.967	1.967
	Gives year-end cumulated reduction	3.6	14.9
	Divided by	2	2
	Gives average deduction during year	1.8	7.5



In deriving the gross revenue requirement, we have used the same net-to-gross multiplier of 1.967 used in Decision No. 73851. We recognize that the increased State Corporation Franchise Tax rate will result in a higher multiplier but have assumed the difference is negligible.

### Rate Spread

After determining the revenue increase required to produce a reasonable return, there is the further problem of deciding the proportions of the increase to be derived from the various telephone and related services. Table III herein shows the distribution of increased revenue requirement proposed by Pacific and the distribution adopted herein.

TABLE III  
Annual Revenue Effects of Rate Increases - Test Year 1970  
(Dollars in Millions)

<u>Rate</u>	<u>Increase</u>	
	<u>Requested</u>	<u>Authorized</u>
<u>Basic Exchange Rates</u>		
Business	\$ 1.5	\$ 1.5
Residence	5.7	5.7
<u>Message Unit Rates</u>		
MMU	3.0	3.0
Exchange Messages	3.7	0.9
Exchange Messages - FEX	0.7	0.0
Airport Intercomm. & Centrex	1.5	1.5
Non-published Service (New)	6.2	3.1
Hunting Service (New)	3.8	3.8
Key Equipment Service	9.3	9.3
Message Toll	28.8	28.8
PBX	0.9	0.9
Service Conn. & Move & Change Charges	8.7	8.7
Customer-initiated Number Change (New)	3.3	1.7
Suppl. & Special Equipment	0.3	0.3
Private Line	-	2.1
Subtotal Increases	77.4	71.3
<u>Adjustments Due to Rate Changes</u>		
Salary Savings	1.4	1.4
Change in Uncollectibles	(0.8)	(0.7)
Change in IA-EA Settlements	(2.0)	(2.0)
Subtotal Adjustments	(1.4)	(1.3)
Adjusted Increase	76.0	70.0

(Red Figure)

The increased basic exchange service revenues requested by Pacific would come primarily from a flat 10-cent increase in monthly rate for basic business and residence service. At the level of overall revenue increase authorized herein, the staff concurs with Pacific in the amount to be produced from increases in basic exchange rates. With the exception of Pacific's requested change in "Lifeline" service, the requested changes in basic exchange service rates are authorized by the order which follows.

As part of Pacific's proposed changes in basic exchange service rates, the number of calls allowed on the present 2MQ(20) "Lifeline" rate without extra charge would be reduced to 15 calls per month. Of the present "Lifeline" subscribers, about 64 percent use less than their present 20-call allowance (Tr. 769) so the additional revenue from a reduction to 15 messages is relatively insignificant. Applicant's tariff witness points out, however, that the "Lifeline" rate does not cover the cost of service (Tr. 565-566), and he expressed concern that there would be a significant conversion of present flat-rate customers to "Lifeline" service, resulting in such revenue losses as would require further rate relief (Tr. 596). In support of his concern, he cited the roughly 100,000 present "Lifeline" subscribers (Tr. 1252) and significant numbers of recent transfers to that service (Tr. 1253).

It would appear that the proportion of "Lifeline" subscribers should soon reach the saturation point. It does not seem reasonable that more than a small percentage of Pacific's subscribers would be willing or able to reduce their outgoing calls to the low point required to make "Lifeline" any cheaper than other available telephone service. Further, "Lifeline" service is only available in areas where facilities for measured service have been installed.

Admittedly, there will indeed be a problem if large numbers of subscribers switch to "Lifeline" service and are able to limit their calls sufficiently to reduce Pacific's overall revenues by large amounts. In that event some adjustment to the "Lifeline" rates may

become mandatory to avoid undue subsidy by other classes of users. The order herein does not authorize the reduction to 15 messages per month but requires Pacific to submit periodic reports on numbers of "Lifeline" subscribers and other pertinent data.

In Decision No. 78851, the Commission commented on rates for message unit service and message rate service:

"The staff concedes that eventually the difference between message unit rates and unit charges (5¢) 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¢." (The Commission did authorize the full 5¢ for foreign exchange message units.)

In the current application, Pacific requests that the message unit rate be increased to 4.8 cents, the exchange message rates be increased to 5.1 cents and the FEX message rate be increased to 5.4 cents. At this time we do not see sufficient justification for having different rates for message units and exchange messages nor for increasing the disparity between normal exchange messages and FEX exchange messages. The order herein authorizes a one-mill increase to 4.8 cents for both the message unit rate and exchange message rate. The requested increase in FEX message rate is not authorized.

Pacific requests increases of seven to eight percent in rates for airport intercommunication service and Centrex service. The staff concurs in this source of revenue. It is authorized by the order herein.

Pacific does not now charge any additional amount where a subscriber has a nonpublished telephone number, sometimes referred to as an unlisted number. Pacific proposes to initiate a 50-cent monthly charge to be added to the charges for normal service when a subscriber requests nonpublished service and does not have another telephone with a published number. The staff, several of the other parties and many of the public witnesses do not concur in this request.

About 26 percent of Pacific's residential subscribers now have unpublished numbers (Tr. 514). The subscribers' motivation in requesting unpublished numbers presumably is quite varied. A witness for Pacific cited examples of those who wish to live the life of a recluse, those who are famous and would like to remain anonymous, those who receive harassing calls for a variety of reasons, those having domestic problems, those attempting to escape creditors, professional people and others (Tr. 511-512, 592). Pacific must maintain special traffic records for those subscribers, and special lists of persons authorized to receive the numbers in the day-to-day conduct of the internal operations of the utility must be used to assure proper security of this information (Exhibit No. 3, Page 6). Routine matters such as correlation of a payment made by check and the account to be credited become exceedingly complex in order to maintain the secrecy of the subscriber's number (Tr. 598-599).

It is difficult to evaluate all of the costs incurred by Pacific because of nonpublished numbers. For example, significant amounts of directory assistance operators' time must surely be required when one out of four residential subscribers cannot be found in the directories. Even the directly assignable costs are a significant 16 cents per month per unpublished number (Tr. 510).

Objections to the proposed charge for unpublished service are primarily on sociologic grounds. Rather strong feelings were expressed that a person is entitled to his or her privacy. When the free provision of nonpublished numbers incurs costs which are being borne by all subscribers, however, it is not unreasonable to change the rates so that those who cause the additional expense will pay more for telephone service than those subscribers whose numbers are listed. Instead of the requested 50-cent charge, we will authorize a 25-cent charge, which should cover a significant portion of Pacific's out-of-pocket costs for this special treatment. Pacific will be required to notify present subscribers of unpublished service that the new charge has been authorized, so they may change to published service if they so desire.

Hunting service is another service provided by Pacific without extra charge and for which a charge is now proposed. With this service, equipment will search the lines of a subscriber with multiple lines to find a vacant line for each incoming call until all of the subscriber's lines are in use. An example of the value of such service to a business subscriber was cited by Pacific's witness: ten lines arranged for hunting can carry eight times as many busy-hour calls as can ten lines not arranged for hunting (Exhibit No. 3, Page 7). Although, as the staff points out, the provision for hunting service also is of some benefit to Pacific, the monthly rate of 50 cents per line proposed by Pacific appears reasonable and avoids discrimination between subscribers with and those without the benefits of the service.

Pacific proposes increases of about eight percent in rates for key equipment services. The staff concurs in the reasonableness of this source of additional revenue. It is authorized by the order herein.

Pacific proposes several changes in message toll service, in which the staff generally concurs. The most significant of these is the elimination of the present system of rounding to the next lower five-cent multiple of rates for overtime increments. By changing to one-cent steps, as proposed by Pacific, a uniform relationship is achieved between the initial period charge and the overtime for all classes of message toll at all mileage steps. This appears reasonable and is authorized by the order herein.

Another proposed change in message toll rates is the requested increase to \$1 from the present minimum charge of 65 cents for person-to-person calls. The staff concurs that this is an appropriate source of additional revenue. It more nearly reflects actual cost, unrelated to distance, of providing this service (Tr. 598). Similarly, the proposed increase to 50 cents from the present 35-cent minimum charge for operator-completed calls is cost-related (Exhibit No. 3, Page 5). The staff suggests that the additional labor costs could be spread throughout the various rate blocks, but

most of the labor costs relate to the number of calls rather than the distance or time of call. Pacific's proposals in these categories are authorized by the order herein.

Pacific also proposes a uniform initial-period charge for operator-completed 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 or assist on such calls in the evening are paid at a higher rate than the operators who handle daytime calls (Exhibit No. 3, Page 6). The staff concurs in this charge. It is authorized by the order herein.

Pacific's request for increases of about two percent in PBX rates is concurred in by the staff. It is authorized by the order herein.

Pacific proposes increases averaging about 23 percent in charges for new and additional service connections, for moves of subscribers' sets, for certain changes of subscribers' sets and key telephone system services, and for in-place connection charges. These services all involve primarily labor costs. The present charges fall far short of being compensatory and thus the services are being subsidized by the ratepayers at large (Tr. 523-524). The staff concurs in this source of additional revenue. It is adopted by the order herein.

Pacific proposes to institute a charge of ten dollars for each residential customer-initiated number change, and fifteen dollars for comparable business customer number changes. These will still fall short of the average cost of \$16.67 incurred in making such changes (Tr. 516). The staff suggests that a charge of two dollars be made for the initial number change by any residential subscriber and that the ten dollars be charged for subsequent changes.

Pacific conducted a study of the reasons subscribers request number changes. That study showed that the largest category was subscribers who receive harassing or annoying calls (Tr. 521). If the subscriber cooperates in attempting to apprehend the culprit, however,

Pacific has found that well over 50 percent of those problems can be cleared up in a fairly short time (Tr. 591). In those cases where all of the fairly involved procedures fail over a more extended period of time, Pacific would initiate a number change. This, and any other utility-initiated number change, would not be charged to the subscriber (Tr. 591).

Considering all of the aspects of the number-change issue, including the fact that some customers may find it unbearable to put up with harassing calls for a long enough period to correct the problem, we will authorize a five dollar charge for customer-initiated residential number change and a ten dollar corresponding charge for business number changes. This should produce a little over half the additional revenue as would the requested charges, due to the preponderance of residential changes. This will probably be somewhat less of a deterrent to changes than would the higher requested charges, but we will assume that Pacific will still realize the 1.4 million dollar salary savings which they estimated would result from fewer number changes than under the present situation where no charge is made.

Pacific proposes changes in rates and charges for numerous items of supplemental equipment and special assemblies of equipment, which will increase revenue from these sources by from one to three percent. The staff concurred in these sources of additional revenue. They are authorized by the order herein.

The staff suggested that part of the total revenue increase be produced by a 10-percent increase in private line charges. This was opposed by Western Burglar and Fire Alarm Association and American District Telegraph Company primarily because those users of private lines have long-term contracts with their clients and cannot recoup the additional cost.

Pacific agrees that private line rates need revamping and had almost completed a detailed study which would form a basis for revisions. One of Pacific's witnesses expressed concern that rate changes at this time would invalidate the study (Tr. 533). Inasmuch

as the study was scheduled for completion in December, 1971, a rate change at this time should not affect the study. A 10-percent raise could, however, cause some subscribers to seek interstate private line service where available at a lower cost. A 5-percent increase in private line rate is more in keeping with the average overall increase granted and will narrow the gap a little between earnings from private line and those from other services. It is authorized by the order herein.

#### Rulings and Motions

In a proceeding where so many minor issues have been raised, 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 in Application No. 52794, evidence has been adduced, the Commission has been fully informed and the matter stands submitted.
2. This Commission last exhaustively analyzed the operations of Pacific in Application No. 51774. Decision No. 78851 was issued therein on June 22, 1971, and the rates therein prescribed (those presently in effect, with minor exceptions) became effective in July, 1971.
3. Subsequent to Decision No. 51774, the wages and fringe benefits for Pacific's employees have increased.
4. Under existing rates and charges for its utility services, Pacific's earnings for the test year 1970 produce a rate of return of 6.84 percent on an intrastate rate base of \$3,511,200,000. ✓



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. The rate of return of 7.85 percent on a test year intrastate rate base of \$3,511,200,000 and a corresponding return of 9.5 percent on common equity allowed by Decision No. 51774 are reasonable.

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

8. Pacific is entitled to increases of 36 million dollars in net intrastate annual revenues to raise its test year rate of return from the present 6.84 percent to the 7.85 percent hereinabove found to be reasonable.

9. An increase of 70 million dollars in gross annual revenues, after settlements with independent telephone companies and based upon the test year 1970, is justified.

10. 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.

11. If, as a result of the reopening of Application No. 51774, a different revenue requirement is established which results in lower revised rates in Application No. 52794, 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 supplemental decision issued herein.

12. The effects and trend of conversions to "Lifeline" rate warrant further investigation.

13. Appendix C to the order herein accurately reflects data regarding the increases authorized herein and we so certify to the Price Commission.

The Commission concludes that Pacific's application for rate increases should be denied in part and granted in part.

O R D E R

IT IS ORDERED that:

1.a. After the effective date of this order, The Pacific Telephone and Telegraph Company (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.

b. Prior to, or concurrent with, the first billing of each present subscriber for nonpublished directory service or hunting service, Pacific shall notify each such subscriber in writing of the rate authorized herein and shall advise those subscribers that the charge may be avoided by requesting, within fifteen days, normal service excluding nonpublished or hunting service. For subscribers who comply within the fifteen days, Pacific shall make no further charge for the special services and cancel the amount initially billed therefor.

2. 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 reopening of Application No. 51774, a different revenue requirement is established and lower revised rates are authorized by supplemental order in Application No. 52794, 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, including interest at 7 percent per year. 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.

3. On or before the tenth day of each month in the year 1972 subsequent to the effective date of this decision, Pacific shall file in this proceeding a report showing the total number of "Lifeline" subscribers. Those reports may also include data on revenues, expenses, rate base, customer acceptance, or other effects of the "Lifeline" service.

4. 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.

San Francisco

Dated at \_\_\_\_\_, California, this 4<sup>th</sup> day of April, 1972.

Chairman

William Lyman Jr.  
Thomas Moran  
Vernon L. Sturgeon

Commissioners

J. B. ...  
concurring in part & dissenting in part.

~~concurring~~

concurring in part & dissenting in part.

I will file a concurring  
opinion.  
Thomas Moran

APPENDIX A

LIST OF APPEARANCES

Utilities

Continental Telephone Company of California, I.P., by James F. Crafts, Jr.\* of Orrick, Herrington, Rowley & Sutcliffe, and Richard D. Crowe.

General Telephone Company of California, I.P., by A.M. Hart\* and H. Ralph Snyder, Jr.\*

The Pacific Telephone and Telegraph Company, applicant, by Richard W. Odgers\* and James B. Young.\*

Government

California Public Utilities Commission Staff, by Richard D. Gravelle,\* Tedd F. Marvin and Vincent MacKenzie.\*

General Services Administration, I.P., by William E. Casselman, II,\* Renn C. Fowler, Robert W. Spangler,\* and Maurice J. Street.

City of Long Beach, I.P., by Louis Possner.

City of Los Angeles, I.P., by Manuel Kroman, Charles E. Mattson\* for Roger Arnebergh,\* and Robert W. Russell.

County of Marin, I.P., by Douglas J. Maloney.\*

City of San Diego, I.P., by William H. Kronberger, Jr.\*

City and County of San Francisco, I.P., by Robert R. Laughead, Milton Mares\* and Thomas M. O'Connor.\*

City of Santa Maria, P., by John A. Van Ryn.\*

Organizations and Corporations

Allied Telephone Companies Association, I.P., by Ernest W. Watson.

American District Telegraph Association, I.P., by Lessing E. Gold.\*

Association of California Consumers, P., by Sylvia M. Siegel.

California Farm Bureau Federation, I.P., by William L. Knecht.\*

California Farm Information Committee, P., by Borghild Haugen.

California Independent Telephone Association, I.P., by Neal C. Hasbrook.

California Public Interest Law Center, I.P., by Frederick W. Bray\* and John MacInnis.\*

Consumers Arise Now, I.P. and P., by William M. Bennett,\* Morton Levy, John O'Connor and Michele Shultz.

Independent Taxpayers Union, P., by D.D. Katsikaris.

Mission Coalition Organization, P., by Larry D'Alcarlo, David A. Garcia\* and Segundo Lopez.

Telephone Answering Services of California, Inc., I.P., by Ernest W. Watson.

Western Burglar & Fire Alarm Association, I.P., by Lessing E. Gold.\*

Individuals

William M. Bennett,\* P., Donald C. Jameson, I.P., John MacInnis\* I.P., Terrence J. Shannon, P., and Ted Sheedy, I.P.

- \* - Attorney-at-law
- I.P. - Interested Party
- P. - Protestant

A. 52794

APPENDIX B  
Page 1 of 3

RATES

The rates, charges and conditions of The Pacific Telephone and Telegraph Company are changed as set forth in this appendix.

Schedule Cal. P.U.C. No. 4-T. Individual and Party Line Service

Proposed rates as set forth in Exhibit No. 3A, pages 10, 11, 12, 13, 14, 15 and 16, are authorized except no change in rates or message allowance is authorized for 1- and 2-party message rate residence service with a 20-message allowance.

Schedule Cal. P.U.C. No. 9-T. Farmer Line Service

Proposed rates as set forth in Exhibit No. 3A, page 17, are authorized.

Schedule Cal. P.U.C. No. 13-T PBX Trunk Line Service

Proposed rates as set forth in Exhibit No. 3A, pages 18 and 19, are authorized.

Schedules Cal. P.U.C. Nos. 4-T, 6-T, 13-T, 18-T, 24-T and 121-T Message Unit Service in San Francisco - East Bay Extended Area and Los Angeles Extended Area and Message Rate (Measured) Exchange Service in Other Exchanges Where Offered

The following rates are authorized:

	<u>Each Message Unit</u>
Message Unit Rate	
Semi-public coin box, public telephone and foreign exchange service.	5.0¢
Other Services	4.8¢
	<u>Rate Per Message</u>
Exchange Message Rate	
Each exchange message over allowance (if any) except foreign exchange services	4.8¢
Each exchange message over allowance, foreign exchange services	5.0¢

APPENDIX B  
Page 2 of 3

RATES - (CONTINUED)

Schedules Cal. P.U.C. Nos. 4-T, 9-T, 13-T, 18-T, 34-T, 117-T,  
128-T, Hunting Service in Connection with Multiple Lines

Proposed rates as set forth in Exhibit No. 3A, page 21, are authorized.

Schedule Cal. P.U.C. No. 12-T, Private Branch Exchange Service

Proposed rates as set forth in Exhibit No. 3A, page 22, are authorized.

Schedule Cal. P.U.C. No. 17-T, Directory Listings

The following rate is authorized:

	<u>Rate Per Month</u>
Non-Published Service	\$0.25

Conditions of service as set forth in Exhibit No. 3A, page 23, are authorized.

Schedule Cal. P.U.C. No. 22-T, Key Equipment Service

Proposed rates and charges as set forth in Exhibit No. 3A, pages 24, 25, 26, 27 and 28, are authorized.

Schedule Cal. P.U.C. No. 28-T, Service Connection Charges,  
Move and Change Charges, In Place Connection Charges

Proposed charges as set forth in Exhibit No. 3A, pages 29, 30, 31, 32, 33 and 34 are authorized.

The following charges are authorized for change of telephone numbers:

	<u>Charge</u>
Change of Telephone Number	
Business Service	\$10.00
Residence Service	5.00

Schedule Cal. P.U.C. No. 32-T, Supplemental Equipment

Proposed rates and charges as set forth in Exhibit No. 3A, pages 36, 37, 38, 39, 40, 41, and 42, are authorized.

Schedule Cal. P.U.C. No. 34-T, Foreign Exchange Service

Proposed rates and conditions set forth in Exhibit No. 3A, page 43, are authorized.

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Page 3 of 3

RATES - (CONTINUED)

Schedule Cal. P.U.C. No. 50-T, Private Line  
Services and Channels - Supplemental Equipment

Proposed rates and charges as set forth in Exhibit No. 3A, pages 44, 45 and 46, are authorized.

Schedule Cal. P.U.C. No. 53-T, Message Toll Telephone Service

Proposed rates and conditions as set forth in Exhibit No. 3A, pages 47, 48, 49, 50 and 51, are authorized.

Schedule Cal. P.U.C. No. 83-T, Special  
Assemblies of Equipment

Proposed rates as set forth in Exhibit No. 3A, page 52, are authorized.

Schedule Cal. P.U.C. No. 117-T, Airport  
Intercommunicating Service

Proposed rates as set forth in Exhibit No. 3A, page 53, are authorized.

Schedule Cal. P.U.C. No. 121-T, Centrex Service

Proposed rates and charges as set forth in Exhibit No. 3A, pages 54, 55 and 56, are authorized.

Schedule Cal. P.U.C. No. 128-T, Wide Area Telephone Service

Proposed charge as set forth in Exhibit No. 3A, page 57, is authorized.

Schedule Cal. P.U.C. No. 135-T, Connections of  
Customer -Provided Equipment and Systems

Proposed rates and charges as set forth in Exhibit No. 3A, page 58, are authorized.

Local and Interexchange Private Line Services  
and Channels - All Affected Schedules

The Pacific Telephone and Telegraph Company is authorized and directed to file a schedule of private line rates in a form acceptable to the Commission such as will result in an over-all average increase of 5% in local and interexchange private line rates. Pending the effectiveness of such schedule a 5% surcharge on private line rates and services is authorized.

APPENDIX C

DATA REGARDING RATE INCREASES  
AUTHORIZED TO OFFSET 1971 WAGE INCREASES OF  
THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY  
INTRASTATE OPERATIONS  
1970 TEST YEAR

(1) Intrastate Revenues

At Present Rates	\$1,709,200,000
At Increased Rates Authorized	1,779,200,000
Percentage Increase	4.1%

(2) Revenue Increase Authorized \$ 70,000,000

(3) Net revenue as a percent of gross revenue is expected to be 15.5% as compared with 14.0% under present rates, a difference of 1.5%.

(4) Rate of return on total capitalization assignable to intrastate operations is expected to be 7.85%, the same rate of return allowed at present telephone rates prior to the 1971 wage increases, as compared with 6.84% at present telephone rates after the 1971 wage increases, a difference of 1.01%.

(5) Sufficient evidence was taken in the course of the proceeding to determine whether or not the criteria set forth in paragraph (d), (1) through (4) of Title 6, Chapter III, Part 300, Sect. 300.16 of the Code of Federal Regulations, as amended effective January 17, 1972, are or are not met by the rate increase.

(6) The rate increase is cost-based\* and does not reflect future inflationary expectations; the increase is the minimum required to assure continued, adequate and safe service and to provide for necessary expansion to meet future requirements; the increase will achieve the minimum rate of return needed to attract capital at reasonable costs and not to impair the credit of the public utility. This Appendix to the rate decision constitutes the certification required by the Code of Federal Regulations.

\* The wage increases being offset were granted by the utility prior to the November 8, 1971 announcement of a 5.5% annual wage increase guideline maximum under the Economic Stabilization Program.



A. 52794  
D. 79873

KB

J. P. VUKASIN, JR., CHAIRMAN, Concurring in part and Dissenting in part:

I concur in the Findings, and Conclusions and those provisions of the Ordering paragraph, regarding revenue requirements necessary to offset the increase in wages and fringe benefits afforded to employees of The Pacific Telephone and Telegraph Company.

However, I dissent from those provisions of the Opinion and Order which raise some of this additional revenue through the imposition of a charge for unlisted telephone numbers. Not being listed in a public directory is a right, and no levy should be made on persons desiring to exercise such a right.



S. J. P. VUKASIN, JR.

J. P. Vukasin, Jr.  
Chairman

San Francisco, California

April 4, 1972

A-52794 MM  
D-79373 MM

D. W. HOLMES, Commissioner, Concurring in part and Dissenting  
in part:

I concur in the Findings and Conclusions and those provisions of the Ordering paragraph regarding revenue requirements necessary to offset the increase in wages and fringe benefits afforded to employees of The Pacific Telephone and Telegraph Company.

However, I dissent from those provisions of the Opinion and Order which raise some of this additional revenue through the imposition of a charge for unlisted telephone numbers. Not being listed in a public directory is a right, and no levy should be made on persons desiring to exercise such a right.

  
Commissioner

Dated at San Francisco, California  
April 4, 1972

COMMISSIONER THOMAS MORAN, Concurring.

I concur with the Commission majority in this decision authorizing rate increases (subject to refund) to offset the wage increases granted by Pacific Telephone to its employees last July which, by agreement with the unions representing the majority of its employees, were made retroactive to May 1971.

As I did not sign and indeed dissented from the last prior decision <sup>1/</sup> of this Commission respecting Pacific Telephone, which gave Pacific an annual increase in revenues in excess of \$143,000,000, an explanation is in order. As I said in my dissent to that decision and which I reaffirm, the provisions therein are "clearly bad regulation, bad law and constitute inequitable treatment of the California consumer, and will most likely haunt this Commission for years to come."

Subsequent to that decision the California Supreme Court by unanimous vote nullified that portion of the rate increases therein allowed under guise of "normalization." Consequently this Commission is now already under legal obligation to order refunded to the ratepayers amounts which as of February 29, 1972 exceeded \$40,000,000. The California Supreme Court still has under consideration all the other aspects of that unfortunate decision and may nullify other provisions therein thereby further increasing the total refunds which will have to be made by Pacific to its subscribers.


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<sup>1/</sup> Application No. 51774  
Decision No. 78851, June 22, 1971

A. 52794  
D. 79873

In theory, it would obviously be more logical to postpone decision of this instant case until final determination is made in respect to said last major rate case decision. However in practice such delay would not be in the interest of the people of California because the additional sums which Pacific is paying and has been paying to its employees since May 1971 amount to more than \$1,000,000 a week and to continue such a drain would be unfair and also have a highly adverse affect upon the ability of Pacific to continue to provide the quality of telephone service which the people of California must have.

Dated: April 4, 1972  
San Francisco, California

  
Thomas Moran  
Commissioner