

ORIGINAL

Decision No. 81395

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of

THE WESTERN UNION TELEGRAPH COMPANY,
a corporation, for an order authorizing
it to revise certain intrastate rates
and charges applicable to message
telegraph and other services within the
State of California.

Application No. 52298
(Filed November 13, 1970)

Noel Dyer and David H. Lubetzky, Attorneys at Law
for The Western Union Telegraph Company,
applicant.

Lawrence Ross, for United Telegraph Workers Locals
208-34 & 48; Mrs. Sylvia Siegel, for Association
of California Consumers; and William B. Foglesong,
for Locals 34, 48, and 208, United Telegraph
Workers; protestants.

William C. Bricca, Attorney at Law, Sesto F. Lucchi,
Kenneth K. Chew, and Russell J. Leonard, for the
Commission staff.

O P I N I O N

The Western Union Telegraph Company by application dated November 13, 1970 requested authority to increase its California intrastate rates. The bases therefor were sharply increased wage and pension expenses and the need for revenues to carry forward a modernization program to update services. A prehearing conference was held on February 8, 1971. Hearings were held on March 10, 11, and 12, 1971 at San Francisco before Examiner Gillanders. The testimony and exhibits offered by applicant were received in evidence and the staff and a consumer representative cross-examined those witnesses who testified as to cost of service and the effect of the proposed rate increase on traffic volumes. Applicant then made a motion for interim relief in the sum of \$2,525,900. By Decision No. 78519 dated April 2, 1971 the Commission authorized applicant to file revised rates and conditions anticipated to provide interim relief in the sum of \$2,525,900 using the applicant's revenue

estimating method which assumed decreased usage due to higher rates. The rates authorized in this interim decision eliminated the prior rate pattern wherein telegram charges were based on distance; it authorized a single rate of \$2.30 for a 15-word telegram anywhere within the state.

On April 8, 1971 the Association of California Consumers petitioned for rehearing of Decision No. 78519. By Decision No. 78744 dated June 2, 1971 rehearing was denied.

Further hearings were held on April 13, 14, May 19, 20, and 21, 1971 to receive testimony from company and staff witnesses. At the conclusion of the May 21 hearing the matter was continued to a date to be set in order that applicant could make a straight-line remaining life depreciation study. Hearing was held on August 28, 1972 and testimony and exhibits were received from applicant and staff discussing applicant's depreciation study. The matter was submitted for decision on September 19, 1972 upon receipt of the last volume of transcript.

The record contains 963 pages of transcript and numbers 45 exhibits.

Applicant's Request

Applicant requests an increase in rates, primarily to establish a \$3.00 rate for a 15-word telegram, which it estimates will produce a gross revenue increase of \$3,535,615, based on assumed decreased usage due to higher rates for intrastate public full rate message service.^{1/} As set forth below, applicant's revenue increase estimating methods were unsupported in the record in this proceeding.

^{1/} The total revenue increase of \$3,535,615 annually is comprised of \$3,363,016 from message services, \$41,894 from acceptance and collect charges, \$127,443 from the physical delivery charge, \$2,768 from Tel(T)ex, and \$494 from money order fees.

Results of Operation

On May 19, 1971 the examiner ordered applicant to prepare a results of operation study based on a depreciation reserve requirement study and straight-line remaining life rates.

On August 28, 1972 applicant and staff presented results of operation studies based on their respective depreciation studies. The respective results of operation are shown in the following table:

Summary of California Intrastate Earnings at Proposed Rates
Estimated Year 1971 Based on Reserve
Requirements and Remaining Life Rates

Item	Staff	Utility	Utility : Exceeds : Percent : Staff : Difference :	
(Dollars in Thousands)				
Operating Revenues	\$16,610	\$14,908	\$(1,702)	(10.2)%
Operating Expenses	11,716	12,366	650	5.5
Uncollectibles	84	49	(35)	(41.7)
Depreciation Expense	1,107	1,105	(2)	(.2)
Taxes Other Than Income	633	527	(106)	(16.7)
10% Wage Increase (8/1/71)	292	435	143	49.0
Total Deductions	\$13,832	\$14,482	\$ 650	4.7%
Net Operating Revenues Before Income Taxes	2,778	426	(2,352)	(84.7)
Income Taxes	1,185	(65)	(1,250)	(105.5)
Net Revenues	1,593	491	(1,102)	(69.2)
Rate Base	13,778	16,668	2,890)	21.0
Rate of Return	11.6%	3.0%	(8.6)%	-

(Red Figure)

Revenues

According to the staff, under its straight-line method of estimating revenues, if it used the rate spread requested by Western Union the revenue increase would be in excess of \$5,000,000 instead of \$3,500,000. The reason for the larger staff revenue estimate is that the staff assumed no reduction in usage due to higher rates, contrasted with the company's assumption of substantially decreased usage due to higher rates.

A witness for the staff testified that she had no objections to the methodology applicant's witness used in his econometric study in determining an elasticity factor. She did, however, take exception to the data which applicant's witness used in his study. It was her opinion that California is not a representative average model of other states in many ways, especially as compared to New York. She testified that she attempted to check the company study but was unable to do so because public full rate message data and day money order data had not been printed out but had been stored by applicant on magnetic tape and subsequently erased. It was her opinion that "the company's response was totally inadequate to the staff's request for information."

We agree with the staff that applicant's revenue study should not be used for setting rates in California. Lacking any other suitable method, we will adopt the staff's straight-line method of estimating revenues.

Operating Expenses

The major differences between applicant and staff estimates of operating expenses are:

1. The staff has calculated smaller separation factors for terminal handlings because of lesser amount of messages trended with inclusion of 1970 intrastate messages and also because of application of different separation principle by separating terminal handling expenses by a man-minutes factor. ✓
2. The utility has overestimated the 1971 utility's payments to PT&T and independents for maintenance and other assistance. The staff had more recent information on this subject. ✓

Rate Base

The staff estimated gross plant in accordance with applicant's budget for the year 1971, but used several separation factors, such as terminal handlings factor, different from applicant's. Such changes result in the staff's intrastate rate base being 21.0 percent less than applicant's as the staff's estimate is based on later information.

Rate of Return

Applicant is constitutionally entitled to an opportunity to earn a reasonable return on its investment which is lawfully devoted to the public use. It is a percentage expression of the cost of capital utilized in providing service. Within this context, a fair and reasonable rate of return applied to an appropriately derived rate base quantifies the earnings opportunity available to the enterprise after recovery of reasonable operating expenses, depreciation allowances, and taxes.

Ultimately, the rate of return determination in this proceeding must represent the exercise of informed and impartial judgment by the Commission, which must necessarily give equal weight to consumer and investor interests in deciding what constitutes a fair and reasonable rate of return. Such balancing of interests is directed toward providing applicant's customers with the lowest rates practicable, consistent with the protection of applicant's capacity to function and progress in furnishing the public with satisfactory, efficient service, and to maintain its financial integrity, attract capital on reasonable terms, and compensate its stockholders appropriately for the use of their money.

Applicant contends that based on its "cost of capital" approach a reasonable rate of return would be no less than 11.25 percent. This results in a return on pro forma equivalent common equity in the range of 15 to 16 percent. However, according to applicant, if the Commission authorizes its requested rates, the actual rate of return realized, based on its estimated results of operation, would be 3.0 percent.

The Commission staff recommended that an 8.10 percent rate of return be used for the purpose of setting rates. This would

result in a return on equity of 10.0 percent. The staff's rate of return recommendation does not give consideration to any service deficiencies nor does it consider attrition.

Adopted Results

In Exhibit 45 the staff estimates that, based on its straight-line method of estimating revenues, in order to provide applicant an 8.1 percent rate of return, a gross revenue increase over pre-interim rates of \$4,043,000 is required. We will adopt the staff estimates as being based upon reasonable assumptions of message volumes and operating conditions. On the staff basis of revenue determination, the adopted \$4,043,000 increase requires an increase of the 15-word telegram rate to \$2.63. By contrast, the company's requested revenue increase of \$3,535,615 is based upon decreased usage due to higher rates and a requested \$3.00 rate for a 15-word telegram.

The apparent discrepancy wherein the authorized lower \$2.63 rate is estimated to produce \$4,043,000 compared to the requested \$3.00 rate giving \$3,535,000 is due to the applicant using an unsupported estimating method. In fact, on the method adopted herein, the requested \$3.00 rate is estimated to increase revenues by over \$5,000,000.

Quality of Service

The president of United Telegraph Workers, Local 208, testified that since 1943 there has been a steady decline in the service that applicant has rendered to the public. Although Western Union has received rate increases it was his opinion that the increases did not result in improved service. As a consequence, the impact on revenue has been severe because as patrons experienced difficulty in getting their telegrams delivered promptly and of being answered on the phone promptly, they tended to use the service less. The union has no objection to a rate increase conditioned on improved service.

The business manager of Local 48 of the United Telegraph Workers testified that his local did not oppose a rate increase as such but it believed that if a rate increase is granted it

should be tied to giving better service to the public with respect to public message telegrams. The union is concerned with service to the public. It is concerned that applicant is getting to be more of a relay telephone company rather than a telegraph company. It is the belief of the local that applicant by various means is lowering the quality of service rendered to the public.

The staff's witness on service concluded from his studies that the speed of delivery for telephoned business and social messages has improved so that on an overall basis applicant's service objectives have been met, although these objectives are met every month by only two of the eight offices. He recommended that applicant should take the necessary measures so that each office provides service that meets the Western Union service objectives, in normal circumstances.

Findings

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.

2. The rate authorized herein for the principal service of applicant, the 15-word telegram, is \$2.63; the rate requested was \$3.00. The authorized rate is expected to increase revenues by \$4,043,000 annually. The \$3.00 rate requested by applicant would produce a revenue increase in excess of \$5,000,000 annually when calculated on a consistent basis.

3. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1971, indicate that results of applicant's operation in the near future will produce a reasonable rate of return. ✓

4. A rate of return of 8.1 percent on the adopted rate base and return on common equity of 10.0 percent for the future is reasonable. ✓

5. 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. ✓

6. In compliance with Rule 23.1 of the Commission's Rules of Procedure:

- (a) The increased rates are expected to provide increased revenue of \$4,043,000 yearly over pre-interim rates.
- (b) The rate of return is expected to average 8.1 percent. The 8.1 percent compares with (6.0) percent under pre-interim rates, an increase of 14.1 percent.
- (c) The rate increase complies with Section 130.81, Subpart I, Title 6, of the Code of Federal Regulations.
- (d) The 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.

Conclusion

The application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that The Western Union Telegraph Company is authorized to file the revised schedules to this order as Appendix A, and concurrently to cancel its present comparable schedules. Such filings shall comply with General Order No. 96-A.

The effective date of the new and revised tariff sheets shall be four days after the date of filing. The new and revised schedule shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 22nd day of MAY, 1973.

Vernon L. Stegerson
President
William J. Brown, Jr.
Alvin M. ...
Commissioners

I abstain

Robinson, Commissioner

APPENDIX A
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RATES AND CONDITIONS

Schedule No. 2-T

MESSAGE TELEGRAPH SERVICES - PUBLIC MESSAGES(1) Basis of Computing Charges

Delete the "rate square" mileage basis for determination of rates and substitute the following:

The rate for a telegram between any two Western Union points in this state is dependent upon the number of words in the message. A basic charge applies for 15 words or less in the case of a Telegram and for 100 words or less in the case of an Overnight Telegram. Words in excess of 15 words in the case of a Telegram, and in excess of 100 words in the case of an Overnight Telegram, are charged for at additional word rates. The rates are set forth in (2) following.

(2) Telegram Service

For 15 words or less\$2.63
For each additional word between 16 and 50 words. .09
For each additional word over 50 words06

(3) Overnight Telegram Service

For 100 words or less\$1.30
For each additional word over 10001

(4) Additional Charges

A charge of 75¢ applies for the physical delivery of a telegram to an addressee within the established city or community limits of an office or agency of the Utility listed in the Preliminary Statement when the sender specifies that delivery service by messenger be provided.

Day Letter - Delete

Night Letter - Delete

APPENDIX A
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Schedule 4-T

MONEY ORDER SERVICES - REGULAR MONEY ORDERS

The total charge for a money order is made up of the money order fee and the telegraph tolls.

(a) Money Order Fee:

<u>Amount of Order</u>	<u>Fee</u>
\$ 25.00 or less	\$.65
25.01 - \$ 50.0085
50.01 75.00	1.25
75.01 100.00	1.65
100.01 200.00	2.85
200.01 300.00	4.40
300.01 400.00	5.95
400.01 500.00	7.50
500.01 750.00	9.30
750.01 - 1,000.00	11.15
Each additional \$500.00 or fraction thereof over \$1,000.00	\$ 3.50

(b) Telegraph Tolls on Money Orders:

Telegraph tolls on a money order are the tolls on a 15-word Telegram or 100 word Overnight Telegram, between the same points, whichever is requested by the sender. A supplementary message may be included, the charge for which is at the additional word rates. Telegram rates are on file in Schedule Cal. P.U.C. No. 2-T.