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ORIGINAL

Decision No. 81824

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application }  
of General Telephone Company of }  
California, a corporation, for }  
authority to increase certain }  
rates and charges for telephone }  
service to offset increased }  
labor costs. }

Application No. 53164  
(Filed February 18, 1972;  
amended January 2, 1973)

A. M. Hart, E. Ralph Snyder, Jr. and John  
Robert Jones, Attorneys at Law, for applicant.  
Roger Arnebergh, City Attorney, by Charles  
E. Mattson, Deputy City Attorney,  
for City of Los Angeles; Robert W.  
Russell and Manuel Kroman, for Department  
of Public Utilities & Transportation, City  
of Los Angeles; William L. Knecht, Attorney  
at Law, for California Farm Bureau Federation;  
Gold, Herscher & Taback, by Lessing E. Gold,  
Attorney at Law, for Western Burglar & Fire  
Alarm Association and American District  
Telegraph Co.; Louis Possner and Arthur Y.  
Honda, Attorney at Law, for City of Long  
Beach; Jay Gair, Attorney at Law; Walter W.  
Long, for General Dynamics; Frederick W.  
Bray, for California Public Interest Law Center  
and for himself; interested parties.  
Janice E. Kerr, Attorney at Law, Tedd F. Marvin,  
and Paul Popenoe, Jr., for the Commission  
staff.

### O P I N I O N

General Telephone Company of California (General) seeks authority to increase certain rates and charges for intrastate telephone service to offset increased labor costs and the effects on its operating results of certain other changes which were not considered in the results of intrastate operation adopted for test year 1970 in Decision No. 79367 dated November 22, 1971 in Application No. 51904.

In this application, as filed on February 18, 1972 which was only 60 days after the rates established pursuant to Decision No. 79367 became effective, General proposed increases in rates sufficient to yield an additional \$21.388 million in annual revenues in order to offset the effects of increased labor costs based on the test year 1970 level of operations. By a first amendment filed June 2, 1972 General revised downward its requested rate increase from the \$21.388 million to \$10.093 million. This revision was made to reflect primarily a \$10.9 million revenue increase to General attributable to certain increases in the rates of The Pacific Telephone & Telegraph Company (Pacific) because of settlements between General and Pacific under existing division of revenue contracts for jointly provided service. The increases in Pacific's rates had been made pursuant to authority in Decision No. 79873 dated April 4, 1972, later confirmed by Decision No. 80348 dated August 8, 1972, in Application No. 52794 (the Pacific wage offset application).

During the period June 13 to 20, 1972 five days of hearing were held before Commissioner Symons and Examiner Barnett in Los Angeles. At the hearing General elected to withdraw its first amendment to the application and proceed on the basis of the original filing. This election was made because of the revenue effects on General of the annulment on June 9, 1972 by the California Supreme Court of Decision No. 78851 in Application No. 51774 which authorized Pacific to increase its rates by \$143 million annually after settlements with the independent telephone companies. As a result of the annulment General would not receive \$16.335 million, as measured on a 1970 test year basis, which it would otherwise have presumably derived annually from settlements with Pacific arising out of the increased intra-state toll and multi-message unit charges authorized by Decision No. 78851. This matter was taken off calendar after the June hearings.

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On August 8, 1972, after reconsideration of the record in Application No. 51774 following the Supreme Court annulment of Decision No. 78851, the Commission issued Decision No. 80347 granting Pacific authority to increase its rates by about \$55 million on a 1970 test year basis. On January 2, 1973 General filed another amendment to its application in order to reflect changed conditions including the August 1972 Commission decisions regarding Pacific. The effect of the amendment was to revise General's request to \$16.254 million.

On May 15, 1973 hearings in this matter were resumed and held on two consecutive days at Los Angeles before Commissioner Symons and Examiner Main. Opening briefs were filed on May 31, 1973 and reply briefs on June 11, 1973. Application No. 53164 stands submitted for decision as of the latter date.

The Commission last exhaustively analyzed the operations of General in Application No. 51904. Decision No. 79367 was issued therein on November 22, 1971 and prescribed rates which became effective in December 1971. Those rates were set to yield an 0.5 percent rate of return and the test year used was 1970.

On the basis of that test year's level of operations, General has developed in Exhibit 12 its requested increase of \$16.254 million. With the Decision No. 79367 basis of its 1970 results of intrastate operation as the starting point, a series of adjustments to these results was made to reflect the 1972 wage and salary levels, the effects of Decisions Nos. 78851, 80347, and 80348 on settlements between General and Pacific, and the effects of other known changes in cost including an allowance for improved efficiency. The changes in labor costs and the decisions affecting settlements have the major impact.

Wage increases, in three steps, were made effective on July 15, 1971, December 12, 1971, and March 5, 1972. The intrastate annualized expense of this three-step increase plus increases in certain management salaries, together with an

annualization of the wage and salary increases made July 15, 1970 but not included in the record in Application No. 51904, amounted to \$22.3 million at a 1970 level of operation. As to the decisions affecting settlements, the effect of Decision No. 80348 was to increase General's intrastate revenues by \$10.9 million on a 1970 test year basis and the effect of Decision No. 80347 was to restore \$10.4 million of the \$16.335 million of such revenues eliminated by the annulment of Decision No. 78851.

As the end effect of all of the adjustments made in Exhibit 12 to the Decision No. 79367 basis, a results of operation at present rates is developed on a 1970 test year level of operation which produces a 7.61 percent rate of return. Applicant contends that its requested increase of \$16,254,000 is the amount necessary to provide an 8.3 percent rate of return.

In Exhibit 13 General tested the rates it proposes against its 1972 results of intrastate operation, based on 10 months actual and two months estimated results. After making a series of adjustments to recognize the current level of Pacific's rates and the current level of rate-making adjustments included in Decision No. 79367, General's estimated intrastate rate of return for 1972 was computed to be 7.26 percent at present rates. The estimated effect of General's proposed rates on this 1972 level of operations is shown in this exhibit to increase the rate of return to 7.91 percent. The 1972 adjusted results presented by applicant were not analyzed by the Commission staff inasmuch as applicant relied on the 1970 test period to justify the requested increase in rates. Although untested, the 1972 adjusted results indicate that applicant's earnings level is not excessive.

The Commission staff and the city of Los Angeles oppose the rate increase. The staff Exhibits C and 20 are intended ostensibly to demonstrate, through certain adjustments to the 1970 operating results developed by General in Exhibit 12, that General is not entitled to rate relief on the basis of a 1970 test year. Staff Exhibit 20 adjusts applicant's results in Exhibit 12 to reflect a more current level of intrastate toll earnings as follows:

	<u>Year 1970 - Thousands of Dollars</u>		
	<u>Utility's Adjusted Results Exhibit 12</u>	<u>Adjustment Toll at 8.35%</u>	<u>Commission Staff Adjusted</u>
Operating Revenues	\$ 411,549	\$8,889	\$ 420,438
Expenses and Taxes	324,844	4,676	329,520
J.D.I.C.	248	-	248
Net Operating Income	\$ 86,953	\$4,213	\$ 91,166
Avg. Net Plant & W.C.	1,142,635	-	1,142,635
Rate of Return	7.61%	-	7.98%

The 7.98 percent staff-adjusted return shown in Exhibit 20 reflects applicant's annualization of the 1970 wage increases. In filing the offset increase request herein, applicant claimed that its showing was wholly consistent with the Commission's Decision No. 79367 in Application No. 51904, but in that decision the 1970 wage increases were not annualized. Accordingly, the 7.98 percent return indicated in Exhibit 20 understates the adjusted rate of return by the effect of wage annualization. The effect of wage annualization is determinable in the record herein as the difference between applicant's indicated additional revenue requirement of \$16,254,000 in Exhibit 12 compared to the like amount of \$14,017,000 in Exhibit 19. The latter amount represents the additional revenue requirement requested by applicant without annualization of the 1970 wage increases. The difference in these two amounts is \$2,237,000 in revenue requirement. This difference is confirmed by staff Exhibit 15 which developed the separated difference in revenue requirement.

Authorized Increase in Revenue

To achieve the 8.3 percent rate of return previously authorized in Decision No. 79367, an increase of .32 percent above the 7.98 percent indicated in Exhibit 20 is required, less the \$2,237,000 effect of the 1970 wage annualization. The determination of the additional revenue to produce an 8.3 percent return is set forth in the calculation below:

Rate of Return Authorized in Dec. No. 79367	8.30%
Less Staff Adjusted Return (Exhibit 20)	<u>7.98%</u>
Offset Return Increase Required	.32%
Rate Base (Avg. Net Plant & W.C.)	\$1,142,635,000
Net Revenue Increase	\$ 3,656,432
Gross-to-Net Multiplier	<u>x 2.11</u>
Gross Revenue Increase	\$ 7,715,072
Less Revenue Requirement Difference to Remove 1970 Wage Annualization Exhibit 12 Less Exhibit 19	<u>2,237,000</u>
Gross Revenue Increase	\$ 5,478,072
USE	\$ 5,500,000

Rate Spread

Although the total increase in rates requested by applicant is not authorized herein, there was no opposition to the form of rate spread contained in applicant's showing. The rates authorized herein as set forth in Appendix A embody the applicant's rate proposals for service connection charges, move and change charges, directory listing rates, pushbutton telephone rates, and private line rates modified as appropriate to produce the authorized increase.

Liberalized Tax Depreciation

Inasmuch as the limited rehearing of Decision No. 79367 in relation to the proper treatment of liberalized tax depreciation is not now concluded, no modification of the tax treatment contained in Decision No. 79367 is included in the decision herein. Decision No. 79367 provided that applicant maintain records for possible refunds in relation to the Commission's ultimate determination of the proper treatment of liberalized tax depreciation for rate-fixing purposes. No change in this requirement is included herein.

Findings

1. The rates authorized herein to restore the rate of return to 8.3 percent will do no more than maintain applicant's financial integrity and enable it to raise from external sources, at a reasonable cost, the substantial amount of new capital it will require to finance its construction program.

2. Applicant, General Telephone Company of California is entitled to an increase of \$5,500,000 in annual revenues to offset the effects of wage increases subsequent to the 1970 test period of Decision No. 79367.

3. The rate increases embodied in Appendix A hereto provide \$5,500,000 in additional revenues at the 1970 level of business and are hereby found reasonable.

4. The treatment of liberalized tax depreciation herein is on a normalized basis consistent with that used in Decision No. 79367. The final resolution by the Commission of the proper treatment of liberalized tax depreciation for rate-fixing purposes will be determined in the separate limited rehearing of Decision No. 79367 on the subject of liberalized tax depreciation.

## O R D E R

IT IS ORDERED that applicant, General Telephone Company of California, is authorized to file the rate increases contained in Appendix A attached hereto in conformance with General Order No. 96-A, after the effective date of this order and to make the rates effective upon five days' notice to the public.

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

Dated at San Francisco, California, this 28th  
day of AUGUST, 1973.

Vernon L. Sturgeon  
President

W. H. Squire

H. W. Wilkins

J. R. [unclear]

Commissioners

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A

AUTHORIZED RATES

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

Schedule Cal. P.U.C. No. A-14, Directory Listings

Authorized rate for nonpublished service is 15¢ per month.

Schedule Cal. P.U.C. No. A-29, Move and Change Charges

Proposed charges as set forth in Exhibit 14, Page 8.

Schedule Cal. P.U.C. No. A-30, Service Connection Charges

Proposed charges as set forth in Exhibit 14, Page 9, except that no increase in charge is authorized for instrumentalities in place reconnected with no changes, rearrangements or moves.

Schedule Cal. P.U.C. No. A-34, Pushbutton Telephone System Service

Authorized rate is increased to \$3.30 per month for each illuminated line common equipment.

Schedule Cal. P.U.C. No. G-(All),  
All Private Line Services and Channels

Proposed 5 percent billing surcharge as set forth in Exhibit 14, Page 12.