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Decision No. 83779

ORIGINAL

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 its rates and charges for telephone service.	Application No. 53935 (Filed March 28, 1973)
Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, costs, separations, practices, contracts, service, and facilities of GENERAL TELEPHONE COMPANY OF CALIFORNIA, a California corporation; and of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a California corporation; and of all the telephone corporations listed in Appendix A, attached hereto.	Case No. 9578 (Filed July 3, 1973)

(List of appearances in Appendix A)

O P I N I O N

By Application No. 53935, General Telephone Company of California (General) seeks to increase its rates and charges for intrastate telephone service by $53.4 million annually, after settlements, based on its estimates of intrastate operations for test year 1974. Almost $15 million of this revenue has already become available as the result of recent increases in the rates of The Pacific Telephone and Telegraph Company (Pacific) pursuant to Decision No. 82162 dated July 23, 1974 and Decision No. 83296 dated August 12, 1974 in Application No. 53587, et al. Increases in Pacific's rates increased General's revenues to this extent through the operation of settlement agreements and because certain of Pacific rates, such as those for multi-message unit and message toll services, apply also to General.

In Case No. 9578, an investigation initiated by the Commission, the scope of these proceedings was enlarged to cover essentially all aspects of General's public utility operations and to cover separations procedures, settlement agreements, and the level of toll and other rates affecting Pacific, General, and the other independents.

Public Hearing

After due notice, 32 days of public hearings were held before Commissioner Symons and Examiner Main commencing August 16, 1973, and continuing until March 27, 1974. Most of these hearings were in Los Angeles, but nine days of public hearings, reserved expressly for testimony and statements from General's customers, were held at various locations throughout General's service area.

During the course of the proceedings testimony and exhibits were presented by witnesses for General, the city of Los Angeles, the Commission's staff, and by Ad Visor, Inc. On March 27, 1974 the combined matters were submitted subject to the filing of Exhibit 51 by April 19, 1974, concurrent opening briefs on May 6, 1974, and concurrent reply briefs on May 21, 1974.

On June 20, 1974, we issued Decision No. 83021 which reopened the proceedings for the purpose of receiving additional briefs on matters raised by amended Internal Revenue Regulations.[1/] The combined matters now stand ready for decision.

1/ Pertaining to the depreciation allowance for property of certain public utilities, published June 7, 1974 in Volume 39, No. 111, pages 20194-20203 of the Federal Register.

Background

General is a member of the General System, of which the domestic telephone operating subsidiaries comprise the largest independent (non-Bell) telephone system in the United States. General Telephone and Electronics Corporation (GT&E) is the parent company with communications, manufacturing, and research subsidiaries.

General, which is by far GT&E's largest telephone subsidiary, operates in approximately a 10,000-square-mile area in Central and Southern California, serving 250 communities in portions of 16 counties. Its intrastate operations were last analyzed by the Commission in Application No. 51904 and Case No. 9100 on a test year 1970 basis. Following 43 days of hearing the Commission issued Decision No. 79367 therein on November 22, 1971. In the present proceedings, a fair rate of return, affiliated interest adjustments, quality and adequacy of service, and operating results under present rates are principal elements within an over-all determination of intrastate revenue requirements.

Rate of Return

A public utility is constitutionally entitled to an opportunity to earn a reasonable return on its investment which is lawfully devoted to the public use. Within this context, a fair and reasonable rate of return applied to an appropriately derived rate base quantifies the earnings opportunity available to the utility after recovery of operating expenses, depreciation allowances, and taxes. In a similar vein, the return or earnings on invested capital provide for the interest payable by the company on its debt, the dividends on preferred stock, and the earnings on common equity.

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 subscriber and investor interests in deciding what constitutes a fair and reasonable rate of return. Such balancing of interests is directed toward providing subscribers with the lowest rates practicable, consistent with the protection of the utility's capacity to function and progress in furnishing the public with satisfactory, efficient service, and toward the utility maintaining its financial integrity including its ability to attract capital on reasonable terms and compensate its stockholders appropriately for the use of their money. In pursuing its obligations to operate economically and efficiently and to provide adequate service, General has been effective, we note with particularity, in carrying out alternatives other than debt financing in response to our admonition in Decision No. 79367 to counter declining interest coverage, and in implementing productivity improvement programs.

After considering all of the evidence, the Commission concludes that a rate of return of 8.85 percent is fair and reasonable for General. We will proceed now to a consideration of the evidence which assisted us in arriving at the rate of return we judge to be fair and reasonable.

Testimony and exhibits concerning the fair rate of return for General were presented by witness Christensen of General, witness Scheibe of the Commission's staff, and witness Kroman of the city of Los Angeles. Three sets of slightly different capital ratios, reflective of General's estimated capital structure as of December 31, 1974, were presented. We will adopt, for the purposes of this proceeding, the following capital ratios: debt, 52.0 percent; preferred stock, 6.6 percent; and common equity, 41.4 percent.

Applicant's embedded debt cost is 6.33 percent. The cost factor for preferred stock is 6.14 percent. A weighted aggregate cost of these two capital components of 3.70 percent results and is adopted.

Concerning the third capital component, each witness recommends a different over-all rate of return and thus differs as to a proper allowance for return on common equity. In relation to the adopted capital ratios and to the adopted cost factors for embedded debt and preferred stock, Mr. Christensen's recommended rate of return of about 8.85 percent provides for a computed return on common equity of 12.44 percent, Mr. Scheibe's recommended rate of return of 8.35 percent provides for a computed return on common equity of 11.23 percent, and Mr. Kroman's recommended rate of 8.30 percent provides for a computed return on common equity of 11.11 percent.

Putting his position more accurately, Mr. Christensen, in sponsoring a rate of return, has concluded the proper allowance for return on equity should not be less than 12.5 percent and accordingly, the Commission should allow approximately 8.85 percent as a fair rate of return for General. In reaching this conclusion, he emphasized, among other things, the need for adequate interest coverage.

In that regard General does not intend any additional external financing before mid-1975, provided it remains eligible for accelerated tax depreciation with normalization; General, he points out, must, nevertheless, have a financial record that will support the issuance of additional securities, when required, at reasonable rates. Even though one of the rating agencies, Standard & Poor's, currently expects an after tax coverage of 2.25 to 2.50 times to qualify for its rating of "A", an after tax ratio of about 2.6 is required in his judgment for General because he firmly expects a move toward the earlier and higher standard of financial performance of 3.0 times interest charges associated with an "A" rating.

Mr. Christensen used bond ratings as a basis for establishing comparability among utilities. General's mortgage bonds have an "A" rating. His comparison includes all companies issuing mortgage bonds during 1972 which were rated "A" by both Moody's and Standard & Poor's and which, like General, have an equity ratio of between 35 percent and 45 percent. Each of these utilities had rate relief in 1971 or 1972 with one exception. In the case of the one exception, the rate relief came in late 1970. Some had rate relief in both 1971 and 1972 and all but two had to file requests for additional rate relief in 1972. General also has filed repeated rate applications.

In light of this widespread rate relief requirement, Mr. Christensen considers the comparability of historical earnings to be meaningless during a period of rising interest and labor cost. To measure what comparable earnings should be in looking forward from 1971 and 1972, he relies upon returns on common equity allowed this selected group of utilities by the rate decisions which issued. These allowed returns ranged from 11.25 percent to 14.49 percent and the average was 12.3 percent.

Collaterally, because in his view General has at least comparable risk to the California electric utilities, General is entitled to a return on common equity more comparable to theirs than heretofore allowed. Computed returns on common equity as part of recent allowed rates of return are 12.25 percent for Southern California Edison Company, 11.96 percent for San Diego Gas & Electric Company, and 11.88 percent for Pacific Gas & Electric Company. Each of these companies has a general rate increase application pending at this time, however.

The Commission staff witness' study of the cost of capital and rate of return showed trends in interest rates, in yields on debt issues, and in interest coverages; changes in General's financing and capital structure; earning rates on average total capital; average net plant investment, revenues, expenses, and net income; and average telephones and per telephone net plant investment, revenues, expenses, and net operating income. In this study General was compared over the five-year period, 1968-1972, to 12 General System companies, 20 Bell System companies, and Pacific.

Mr. Scheibe testified that in making his analysis he did not rely primarily on comparable earnings of other utilities, but considered such earnings as simply one of the many guideposts in arriving at a fair rate of return; that comparisons with industrials using unadjusted raw earnings data are bound to be misleading; that utility comparisons should be with investments in other enterprises having corresponding risks; that avoidance of circularity is achieved through use of judgment and consideration of factors other than statistical ones; that attrition in equity earnings caused by addition of plant at higher costs per unit of additional revenues, by the increase of expenses at a faster rate than corresponding revenues, and by increases in fixed charges constitute the basis for a rate application; that rate of return is the allowance for the capital needs of a company (debt, preferred, and common equity) and not a catchall for every possible adjustment; and that a rate of return allowance should hopefully be suitable for a lengthy period of time but there is no justification for excessive allowances to avoid near future rate cases.

His recommended rate of return is 8.35 percent on General's intrastate rate base, including a judgment figure of 11.50 percent as the common equity allowance under a slightly different capital structure than the one adopted herein. He considers the 8.35 percent as reasonably stringent, indicating presumably its being at the low end of a range he would consider reasonable. His judgment as to the allowance for common stock equity was influenced by consideration of some 25 factors set out in his testimony, by his array of comparable earnings data, and by the 8.1 - 8.5 percent range in rate of return found reasonable for General in Decision No. 79367.

The witness for the city of Los Angeles recommends retention of the 8.3 percent rate of return upon which General's rates were fixed in Decision No. 79367. This witness applied four methods to derive the fair rate of return for General. The first method, utilizing the capital ratios and costs of debt and preferred stock adopted herein and updating the 11.32 percent allowance for common equity in Decision No. 79367, yields an 8.03 percent rate of return and a 10.45 percent return on common equity. In updating this allowance, Mr. Kroman adjusted the 11.32 figure upward by a factor of 1.008 in response to General's embedded debt cost having increased by that factor and downward by 0.05 percentage points in recognition of the increase in equity ratio. He then multiplied the resulting figure by 0.92 to reflect the downward trend in earnings on equity of those utilities presented for the Commission's consideration in the Application No. 51904 proceeding and of similar utilities.

Mr. Kroman's second method employs comparative earnings adjusted for differences in equity ratio and his third method employs comparative allowances for earnings on equity allowed by other commissions, also with adjustments for equity ratio. In his opinion, neither of these comparisons supports an allowance for earnings on equity of more than 11.00 percent. His fourth method is to postulate an after tax interest coverage of 2.47 times. The resulting rate of return is 8.13 percent, yielding a computed allowance on common equity of 11.11 percent. Mr. Kroman concludes from the results of his four methods that a rate of return of 8.3 percent is at the upper limit of a reasonable return for General.

The principal presentations on rate of return and the critiques thereon in the record have been of assistance to the Commission in making an informed and impartial judgment. In particular, witness Christensen's contention that a comparative earnings test spanning a past five-year period, 1968-1972, is not an adequate measure of a fair return on equity to be applied prospectively has substantial merit. High yields, ranging from about 9½ to 12½ percent, on recent senior capital issues, increased inflationary pressures, a seemingly unending stream of utility rate increase proceedings, large construction programs, utilities' stock selling below book value, complex financing problems, and the like are indicators of interrelated economic factors affecting utility earnings and the securities and money markets, and auguring perhaps a different dimension on fair return on equity.

Return on equity can be viewed as having cost elements representing time value of money, inflation, and comparative risk. Accordingly, continuing high bond yields and reduced interest coverages exert an upward pressure on the level of a fair return. Indeed, a determination of the proper allowance for earnings on common stock can be influenced markedly by these changed conditions.

A utility is entitled to an opportunity to earn that allowance. It, in fairness, should be one that will do no more than provide the interest coverage necessary to maintain the credit ratings on debt and equity securities, maintain the integrity of the stockholders' investment, and allow the utility to sell new stock without serious dilution of existing stockholders' investment.

In this regard we recently determined 8.85 percent to be a fair rate of return for Pacific (Decision No. 83162, supra). In that decision we saw the need for a substantial increase in return on equity, observing ". . . As bond interest rises, not only must Pacific have increased earnings to pay the interest, but also it must have increased earnings, and the potential for increased dividends, to attract equity investors." Similarly, if General is to compete successfully for debt and equity funds, as the need arises, it should have a record of earnings adequate to meet interest coverage tests, without exposure to a downrating of its debt securities, and adequate to attract equity capital.

General and Pacific are operating side by side in essentially the same economic climate and are both affiliates of nationwide telephone systems. As matters have turned out, General, in sponsoring an 8.85 percent rate of return in this proceeding, seeks the same rate of return recently allowed Pacific. Historically, the rate of return allowed General has, however, been somewhat above that allowed Pacific.

General is much smaller than Pacific, although both these utilities are among the largest in California. Pacific has a more conservative capital structure and a lower cost factor for debt. These three factors work in the direction of a higher rate of return for General. Countering their influence is Pacific's current need for substantial external financing in contrast to General's lack of such need. A comparison of the capital ratios, cost rates, and weighted cost applicable to General yielding an 8.85 percent rate of return with those used in the rate of return determination for Pacific adopted in Decision No. 83162 follows:

Item	General: Capital Ratios	General: Cost Factors	General: Weighted Cost	Pacific: Capital Ratios	Pacific: Cost Factors	Pacific: Weighted Cost
Debt: Long-Term	52.0%	6.33%	3.29%	42.8%	6.06%	2.59%
Short-Term	-	-	-	3.8	11.8	.45
Total Debt	52.0%		3.29%	46.6%		3.04%
Preferred Stock	6.6%	6.21%	.41%	1.3%	6.00%	.08%
Common Stock	41.4	12.44	5.15	52.1	11.00	5.73
Total	100.0%		8.85%	100.0%		8.85%
Times Interest Earned			2.69%			2.91%
Consumer Burden*			13.98%			14.21%

*As measured by return plus federal income taxes @ 48 percent on weighted costs of preferred and common stocks as return components.

For the reasons stated above, and based upon all the evidence, the fair rate of return for General in our considered judgment is 8.85 percent.

Affiliated Interests

As a holding company, GT&E controls, in addition to telephone operating companies and other interests, GTE Automatic Electric Incorporated, General Telephone Directory Company, GTE Service Corporation, and GTE Data Services Incorporated, which transact a substantial amount of business with General.

GTE Automatic Electric Incorporated (Automatic or Automatic Electric) and its subsidiaries are the developing, manufacturing, supply, and distributing companies for the telephone operating companies controlled by GT&E. Automatic is the largest non-Bell manufacturer of telephone equipment in the United States. In addition to products of its own manufacture, termed "equipment", Automatic purchases products manufactured by others, termed "supplies", for sale to its customers.

General Telephone Directory Company (Directory Company) performs directory service for the telephone operating companies controlled by GT&E as well as for a number of other non-Bell telephone operating companies. This service includes the sale of directory advertising, the compilation of the alphabetical and classified sections of the directory, and the printing of two-column directories.

GTE Service corporation (Service Company) renders advisory assistance in legal, financial, and operational matters, plus other services, to GT&E and its subsidiaries. Service Company furnishes its services to affiliates on a cost-of-service basis.

GTE Data Services Incorporated (GTEDS) was formed in 1967 to provide data processing services to the General System telephone companies as well as to other organizations outside the General System. For the system telephone companies, it now performs the following functions: the operation of computer facilities and microfilm services; the leasing of computer equipment; the development of special programs or systems; and the development of a Business Information System (BIS).

As was the case in Decision No. 79367, with respect to both the Service Company and GTEDS, applicant and the staff disagree as to the appropriate method of allocating general and indirect costs among the General System telephone companies. The differences in allocated charges as the result of applying their respective methods continues to be minor, i.e., a net expense effect of about $118,000 on General's intrastate operating results for test year 1974. Applicant's allocation method is consistent with actual billing procedures under which its share of the total billing is determined according to the ratio the customer's total operating expenses and taxes bears to the total of operating expenses and taxes of all participating General System telephone companies. The staff's method requires the use of four factors for the allocation and has long been accepted by the Commission for allocating common or general office expenses among operating districts or departments of California utilities. The four factors are number of main stations, number of employees, direct expenses, and plant in service. As in Decision No. 79367 we decline to accept either method and once again adopt a middle-ground approach. This results in a net expense reduction of $125,000, as the Service Company's part of the affiliated interest adjustment, and a net expense increase of $65,000, as a portion of the GTEDS part of such adjustment, to General's intrastate operating results for test year 1974.

With respect to the Directory Company we have adjusted intrastate operations for the purpose of this rate case to hold directory company earnings from its business with General to the rate of return allowed General, as prescribed in the last two rate proceedings. The differences between our adopted adjustment, consisting of a net expense reduction of $1,170,000, and the adjustments made by General and the staff for this purpose reflect our adopted level of test period directory revenues and the rate of return found reasonable herein for General's utility operations.

Automatic Electric Adjustment

In Decision No. 75873 and later in Decision No. 79367 we pointed out the difficult and complex nature of determining precisely a fair return for Automatic Electric. In our observing therein ". . . somewhat greater risk in Automatic Electric's manufacturing operations, even with a substantial captive market, than exists in a utility operation" together with our being " . . . cognizant of the economic necessity for allowing Automatic a reasonable return on its investment to compensate for the risks undertaken and the need to attract capital", we concluded that "Automatic would be treated fairly if it earned a return on its common equity approximating the return on common equity of a broad spectrum of American industry." In those decisions we restricted Automatic's return on equity for rate making to 12 percent applicable to the portion of its investment devoted to serving General.

In those earlier proceedings General took the position that Automatic's prices were reasonable and accordingly no adjustments to General's purchases should be made. In this proceeding General has included an adjustment for Automatic Electric in the manner prescribed by the Commission in Decision No. 79367. However, General takes the position that, rather than using a broad spectrum of American industry, a valid comparison can only be made with companies which resemble each other in most, if not all, aspects which affect the profit rate. Its comparisons, while supporting a return on equity in excess of 12 percent, are defective in that no consideration is given to Automatic Electric's privileged position by virtue of its substantial captive market.

Evidence presented by General as well as that presented by the staff indicates that Automatic Electric is an efficient, well-run operation.

The staff, in its showing, presented conflicting staff positions. Staff witness Pretti, a member of the Finance and Accounts Division, sponsored an adjustment for Automatic Electric to restrict Automatic's profits on its business with General to a manufacturer's return on equity. His array of data on a broad spectrum of American industry indicates that earnings on equity have tilted downwards since our review of this matter in the Application No. 51904 proceeding. Accordingly, he concludes that Automatic would be fairly treated if its return on common equity is reduced from 12 percent to 11 percent.

Staff witness Evans, a member of the Utilities Division, advocates limiting the rate of return for Automatic Electric on its business with General to a utility's rate of return, i.e., the rate of return allowed General applied to a Western Electric-type adjustment on Automatic Electric.

With respect to the staff recommendation to reduce the return allowed on common equity from 12 percent to 11 percent, the downturn in earnings of a broad spectrum of American industry in the years 1970 and 1971 is countered by a probable improvement in earnings having been experienced in 1972 and 1973, by the need for at least maintaining, if not increasing, returns on equity to attract capital in view of higher bond yields and interest rates, and by the fair rate of return for General increasing from a range of 8.1 percent to 8.5 percent in Decision No. 79367 to the 8.85 percent allowed herein which yields a 12.44 percent on an equity ratio of 41.4 percent. (Automatic Electric's equity ratio, however, exceeds 90 percent in relation to its adjusted net investment basis applicable for the ratemaking adjustment to restrict its earnings on common equity to 12 percent on its business with General.) Moreover, the ratemaking treatment employed provides Automatic only an opportunity, not an assurance, to earn the 12 percent. In the latter regard in 1970 Automatic Electric's earnings on allowed net investment was 8.39 percent (Exhibit 40, Table 5-C).

With respect to the staff recommendation to depart from a manufacturer's return and to limit Automatic Electric to General's rate of return, there have been no significant changes in Automatic Electric's market position or in the other aspects which have heretofore caused us to distinguish our treatment of Automatic Electric from that of Western Electric. Neither of the staff's conflicting proposals is persuasive. The adjustment for affiliated interests in our adopted intrastate operating results includes a net expense reduction of $967,000 and a rate base reduction of $14,323,000 on General's purchases from Automatic Electric and is made on a Decision No. 79367 basis, including an allowance for a 12 percent return on Automatic Electric's common equity.

GTEDS Adjustment

Apart from the minor adjustment in the allocation of costs noted earlier, the area of difference on GTEDS between General and the staff affecting operating results concerns the treatment of BIS expenditures. In Application No. 51904 our adopted operating results reflected General's test year payment to GTEDS rather than an amortized amount. To be consistent therewith for the current test year, the staff adheres to the payment basis; however, General, employing the amortization basis, does not.

Based upon the difference between test year payments to GTEDS and the lower annual amortized amounts, a net expense increase of $330,000 is included in the affiliated interest adjustment within our adopted intrastate operating results. This amount includes the $65,000 increment resulting from the middle-ground approach adopted above in regard to cost allocations of GTEDS. In addition, because there is no unamortized balance applicable to ratemaking, a reduction of $4,526,000 in intrastate rate base (the $4,526,000 being the intrastate portion of the $5,184,000 unamortized balance for the GTEDS BIS Program on General's books) is included as recommended by the staff in our adopted affiliated interest adjustment to offset the inclusion of this unamortized balance in deferred charges in the working cash requirements estimate.

These adjustments do not regulate GTEDS' profit on its business with General. In that regard, on the basis of the level of GTEDS operations applicable to General reflected in our adopted operating results, GTEDS is expected to earn a return on its investment of less than 8.85 percent, the rate of return found reasonable for General.

Although not employed by either General or the staff to change their basic showings on test year operating results, certain information came into the record as to expenses revised upward for General, under its contract with GTEDS, with the consequence that the increase in expense to General was an increase in revenues to GTEDS. Accordingly, this made it likely for GTEDS in the test year to earn in excess of an 8.85 percent return on its investment devoted to serving General; its counterpart, however, as we have pointed out, was not picked up as an increase in test year expenses in the adopted operating results. Thus, no adjustment to regulate for ratemaking GTEDS profits on its business with General is indicated.

This is the first rate case for General since GTEDS has taken over all of the data processing operations of General. Analysis of the operation, it should be brought out, was complicated by the fact that the total data processing operation was not assumed until April 1972. At that time GTEDS took over General's computer facilities to effect, among other things, reductions in costs which General claims will result if GTEDS is the operator. Prior to April 1972 GTEDS provided only a research function in the form of BIS work performed for the major part in Tampa, Florida.

No adjustment was made by the staff to GTEDS' California operations performed for General in test year 1974, presumably because the level of General's data processing expenses, which in turn are revenues to GTEDS, used by the staff in its study provide less than an 8.3 percent return for GTEDS, the midpoint of the 8.1 to 8.5 percent range on rate of return found reasonable for General in Decision No. 79367, and because such expenses did not otherwise appear unreasonable.

While we are satisfied such an adjustment is not required at this time, this should not be construed as lessening in any way applicant's continuing burden of proof as to the reasonableness of its transactions with GTEDS. Applicant is placed on notice that it will be expected to have available by its next general rate proceeding cost studies on GTEDS's data processing operation designed to assist the Commission staff in assessing those costs from the standpoints of GTEDS's earnings on work performed for General not to exceed General's allowed jurisdictional rate of return, of what General's costs would have been had it retained the data processing operation, and of unit costs incurred by other major utilities.

A minor issue at this time concerning GTEDS is whether its net investment devoted to serving General, upon which to measure rate of return, should include a working cash allowance. The answer is in the affirmative because GTEDS is entitled to an opportunity to earn a return on its investment and a working cash allowance is a part of such investment. The basic safeguards are not in adjustments to investment but in the tests of the reasonableness of General's transactions with GTEDS, which are twofold: (1) Are the charges to General equal to or below what it would have cost General to perform the various functions had it not spun off this capability? and (2) Is the rate of return of GTEDS on its business with General not in excess of the rate of return allowed General?

Another matter, which concerns not just GTEDS but also the other affiliates, requires some comment. An adjustment, minor in amount, was made by the staff for all four affiliated companies for dues and donations. Its net intrastate revenue effect is an increase of $17,000. We do not adopt this adjustment.

Automatic Electric is a manufacturing company, not a utility. Directory Company, Service Company, and GTEDS, although treated for ratemaking as extensions of General, offer as separate entities with nationwide operations certain economies which surely outweigh small amounts of dues and donations allocable to their business with General. In addition, the extensive staff investigative effort required in the complex area of affiliated interests, it seems to us, should not be hampered by a need to ferret out insignificant expenditures.

Service

Throughout the service hearings, held in various parts of General's serving territory, public participation was down markedly from previous times. Testimony and statements from the public related primarily to rate matters or serving arrangements, and not to quality of service. To the extent irregularities in services rendered were involved, General was directed to investigate and report the results. Those results were reported in Exhibit 42.

General's witnesses testified concerning the various service improvement programs the company had adopted, and that service is presently fully satisfactory (Exhibits H and I). Our staff's conclusion is that General's current level of service is acceptable but that, as with all telephone companies, General should be encouraged to continue efforts to make improvements. We do not take exception to this staff conclusion.

In view of its satisfactory service and the existence of General Order No. 133, General is requesting in these proceedings to be relieved from service reporting under indices established by this Commission in Decision No. 79367. Exhibit 11, which was prepared by General in response to staff data requests, was introduced to show that General's service is at or above satisfactory levels and that allowing General to report only on General Order No. 133 indices would be sufficient to show where problems occur.

The staff agrees with General that the reporting of only one set of indices would be more reasonable and, because of the similarity between the two sets of indices, would result in no loss of information to the Commission. However, if General is authorized to report hereafter only under the General Order No. 133 established indices, the staff recommends that such reports be at levels equal to the 96 point level presently required when reporting under conventional indices.

The position taken by the staff is persuasive. Accordingly, our order will permit General to report only under the indices in General Order No. 133 if the higher performance levels for reporting recommended by the staff are employed.

Claim was made during the hearings by Mr. Jack Krinsky that General was improperly applying its tariffs relating to directory advertising. Mr. Krinsky, a former employee of General Telephone Directory Company, operates a business called Advisor, Inc. A principal function of Advisor, Inc. is to audit, for a fee, the telephone directory advertising needs of its clients. Witness Krinsky sponsored Exhibits AA, 43, and 44 in support of claimed improper application of tariffs. General countered with Exhibits 45 and BB in support of its position that its current practices provide satisfactory service and make unlikely improperly applying its tariffs.

General's witness, Mr. Neilsen, testified in detail concerning the augmentation in October 1972 of additional procedures relating to its quality control program and the implementation, effective March 29, 1974, of certain provisions in Schedule D-1 of General's tariffs. Most of Mr. Krinsky's testimony and exhibits related to incidents occurring prior thereto.

The record shows that General has failed, at least in some instances if not regularly, to bill National Yellow Page Accounts for anchor listings associated with display ads, as required by its tariffs. The record further shows, however, that that deficient practice was discontinued forthwith upon being brought to General's attention and that all customers, both local and National Yellow Page Accounts, are presently being billed properly for anchor listings.

The staff made the following recommendations on the issues raised by Mr. Krinsky:

"(1) Charges for art work may be assessed on a flat-rate basis, this being more equitable than spreading the cost thereof over all the advertisers whether they use art work or not.

"The current art work charges are not covered by tariff, they are only a standard practice of the affiliate. As such, the rates may be applied indiscriminately, may be changed without notice to the Commission or the advertiser. To control the charges, General should be required to file a tariff for art work charges after it has made a cost study, designed up-to-date rates for the art work, and has obtained Commission approval of the rate design. General should be required to complete such study within two months from the effective date of the decision in this proceeding, and a tariff for art work should be filed after the rate design has been approved.

"(2) The steps now being taken to physically separate Directory Company's internal procedures from those which should be available to the customer should help reduce complaints and provide more uniform treatment. General should be required to file a report when such separation has been accomplished together with a statement as to how materials are made available to its customers."

These staff recommendations appear reasonable and will be adopted.

Results of Operation

General and the staff developed their respective estimates of intrastate revenues, expenses, and rate base for test year 1974 from total company operations. The separations were made in accordance with the February 1971 NARUC-FCC Separations Manual, which has been incorporated into the Rules and Regulations, as Part 67, of the Federal Communications Commission.

General's estimates of total company operations and separated results of operation were compared in Exhibits 49 and 51 with the staff's estimates, and categories of significant differences were identified. These comparative results have been recast and condensed, for presentation in Table 1 on page 24, to set forth the effect of each major category of estimating difference on operating revenues, operating expenses, net revenues, rate base and rate of return. The operating results we adopt for the test year are also included in Table 1 and, to facilitate more detailed comparisons, breakdowns of the major estimating differences within operating revenues, operating expenses, and rate base are provided in the earnings summaries in Table 2 on page 25 for total company operations and in Table 3 on page 26 for intrastate operations. In Tables 2 and 3 the following procedure was used in developing the adopted operating results: To the company estimate (column (a)) the summation of adjustments (column (c), the result of our resolution of the issues presented by the differences between the company and the staff in Exhibits 49 and 51) is added or subtracted as indicated to yield our adopted operating results, column (b).

Our adopted estimates of intrastate operations result in an 8.05 percent rate of return at present rates. This compares with a 10.12 percent rate of return estimated by the staff and a 6.96 percent rate of return estimated by General. Slightly more than one-half of this 3.16 percent difference between the rates of return is attributable, as shown in Table 1, to divergence in treatment on tax depreciation (1.42 percent) and on a related issue, job development investment credit (0.26 percent). Most of the remaining difference is attributable to estimating differences in separations and settlement (0.89 percent) and to differences in non-settlement revenue estimating (0.25 percent) and expense level estimating (0.20 percent).

TABLE 1

General Telephone Company of California

Results of Operation at Present Rates
Test Year 1974

Thousands of Dollars

Description	Total Company Operations: Oper. Revenues	Oper. Expenses	Net Revenues	Rate Base	Rate of Return	Intrastate Operations: Oper. Revenues	Oper. Expenses	Net Revenues	Rate Base	Rate of Return
Adopted Estimates	$620,573	$496,484	$124,089	$1,520,073	8.16%	$536,824	$430,036	$106,788	$1,326,875	8.05%
General's Estimates	$606,042	$495,880	$110,162	$1,545,286	7.13%	$524,843	$430,615	$ 94,228	$1,353,103	6.96%
Staff's Estimates	631,057	468,876	162,181	1,589,504	10.20	547,493	407,085	140,408	1,387,459	10.12
General Exceeds Staff	$(25,015)	$ 27,004	$(52,019)	$ (44,218)	(3.07)%	$(22,650)	$ 23,530	$ 46,180	$ (34,356)	(3.16)%

Composition Of Above Differences In Estimates By General and Staff

Description	Total Company Operations: Oper. Revenues	Oper. Expenses	Net Revenues	Rate Base	Rate of Return	Intrastate Operations: Oper. Revenues	Oper. Expenses	Net Revenues	Rate Base	Rate of Return
Tax Depreciation	$ -	$ 27,289	$(27,289)	$ (54,036)	(1.43)%	$ -	$ 23,622	$(23,622)	$ (47,336)	(1.42)%
Job Devel. Inv. Credit (JDIC)	-	4,164	(4,164)	-	(0.27)	-	3,648	(3,648)	-	(0.26)
Separations Factors	(8,280)	(4,362)	(3,918)	-	(0.25)	(5,050)	(1,691)	(3,359)	6,831	(0.29)
Settlement Ratios	(15,952)	(8,403)	(7,549)	-	(0.49)	(15,110)	(7,959)	(7,151)	-	(0.53)
State Tax Rate - Settlements	(2,487)	(1,356)	(1,131)	-	(0.07)	(2,188)	(1,217)	(971)	-	(0.07)
Non-settlement Revenue Estimating	(7,286)	(3,838)	(3,448)	-	(0.22)	(7,286)	(3,838)	(3,448)	-	(0.25)
Expense Level Estimating*	7,984	10,827	(2,843)	-	(0.18)	6,132	8,878	(2,746)	-	(0.20)
Advert. & Other Disallow. by Staff	-	1,281	(1,281)	-	(0.08)	-	1,141	(1,141)	-	(0.08)
Affiliated Interest Adj.	-	485	(485)	7,333	(0.07)	-	238	(238)	6,369	(0.06)
Other	1,006	917	89	2,485	(0.01)	852	708	144	(250)	-
Total	$(25,015)	$ 27,004	$(52,019)	$ (44,218)	(3.07)%	$(22,650)	$ 23,530	$(46,180)	$ (34,356)	(3.16)%

Composition of Differences Between General's Estimates and the Adopted Estimates

Description	Total Company Operations: Oper. Revenues	Oper. Expenses	Net Revenues	Rate Base	Rate of Return	Intrastate Operations: Oper. Revenues	Oper. Expenses	Net Revenues	Rate Base	Rate of Return
Tax Depreciation	$ -	$ 2,112	$ (2,112)	$ 20,400	(0.24)%	$ -	$ 1,840	$ (1,840)	$ 17,647	(0.24)%
Job Devel. Inv. Credit (JDIC)	-	-	-	-	-	-	-	-	-	-
Separations Factors	(8,280)	(4,362)	(3,918)	-	(0.25)	(5,050)	(1,691)	(3,359)	6,831	(0.29)
Settlement Ratios	(7,125)	(3,754)	(3,371)	-	(0.22)	(6,283)	(3,310)	(2,973)	-	(0.22)
State Tax Rate - Settlements	-	-	-	-	-	-	-	-	-	-
Non-Settlement Revenue Estimating	(6,575)	(3,464)	(3,111)	-	(0.20)	(6,575)	(3,464)	(3,111)	-	(0.23)
Uncollectibles	1,268	668	600	-	0.04	1,075	566	509	-	0.04
Expense Level Estimating*	5,175	7,165	(1,990)	-	(0.13)	4,000	5,871	(1,871)	-	(0.14)
Advert. & Other Disallow.	-	744	(744)	-	(0.05)	-	662	(662)	-	(0.05)
Affiliated Interest Adj.	-	(630)	630	5,184	0.02	-	(603)	603	4,526	0.02
Other	1,006	917	89	(371)	0.01	852	708	144	(2,776)	0.02
Total	$(14,531)	$ (604)	$(13,927)	$ 25,213	(1.03)%	$(11,981)	$ 579	$(12,560)	$ 26,228	(1.09)%

( ) Denotes converse, i. e., staff estimate or adopted estimate exceeds General's estimate.

* Differences in expenses affect operating results not only through expense levels but through their effects on settlement revenues (full-cost basis) as well.

Table 2

General Telephone Company of California
Results of Operation, Test Year 1974
Total Company Operations

(Thousands of Dollars)

Item	General (a)	Adopted (b)	Difference by Which General's Estimate Exceeds Our Adopted Estimate: Total (c)	Tax Depreciation (d)	Separations Factors (e)	Settlement Ratios (f)	Non-settlement Revenue Estimating (g)	Uncollectibles (h)	Expense Level Estimating (i)	Advertising & Other Disallowances (j)	Affiliated Interest Adjustment (k)	Other (l)
Operating Revenues												
Local Services	$ 324,388	$ 334,178	$ (9,790)	$ -	$(1,127)	$(6,283)	$(4,227)	$ -	$ 1,693	$ -	$ -	$ 148
Toll Services	251,120	254,781	(3,661)	-	(7,153)	(842)	-	-	3,476	-	-	858
Miscellaneous	38,196	40,544	(2,348)	-	-	-	(2,348)	-	-	-	-	-
Uncollectibles	(6,270)	(7,538)	1,268	-	-	-	-	1,268	-	-	-	-
Message Rate Service Adjustment	(1,392)	(1,392)	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	$ 606,042	$ 620,573	$(14,531)	$ -	$(8,280)	$(7,125)	$(6,575)	$1,268	$ 5,175	$ -	$ -	$ 1,006
Operating Expenses & Taxes												
Maintenance Expense	$ 114,919	$ 110,767	$ 4,152	$ -	$ -	$ -	$ -	$ -	$ 4,000	$ -	$ -	$ 152
Traffic Expense	39,706	39,505	201	-	-	-	-	-	201	-	-	-
Commercial Expense	54,760	52,108	2,652	-	-	-	-	-	1,150	1,502	-	-
General Office Salaries & Expense	33,145	33,117	28	-	-	-	-	-	-	28	-	-
Other Operating Expense	28,078	29,802	(1,724)	-	-	-	-	-	(1,765)	41	-	-
Total Above Expenses	$ 270,608	$ 265,299	$ 5,309	$ -	$ -	$ -	$ -	$ -	$ 3,586	$ 1,571	$ -	$ 152
Depreciation & Amortization	94,876	94,580	296	-	-	-	-	-	296	-	-	-
Subtotal	$ 365,484	$ 359,879	$ 5,605	$ -	$ -	$ -	$ -	$ -	$ 3,882	$ 1,571	$ -	$ 152
Operating Taxes (Other Than Income)	70,806	65,307	5,499	-	-	-	-	-	5,499	-	-	-
State Income Tax	10,605	8,859	1,746	4,062	(745)	(641)	(592)	114	(379)	(141)	-	68
Federal Income Tax	53,295	66,119	(12,824)	(1,950)	(3,617)	(3,113)	(2,872)	554	(1,837)	(686)	-	697
Total Above Expenses & Taxes	$ 500,190	$ 500,164	$ 26	$ 2,112	$(4,362)	$(3,754)	$(3,464)	$ 668	$ 7,165	$ 744	$ -	$ 917
Message Rate Service Adjustment	(454)	(454)	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	$ 499,736	$ 499,710	$ 26	$ 2,112	$(4,362)	$(3,754)	$(3,464)	$ 668	$ 7,165	$ 744	$ -	$ 917
JDIC	(1,121)	(1,121)	-								-	
Affiliated Interest Adjustment	(2,735)	(2,105)	(630)	-	-	-	-	-	-	-	(630)	-
Net Operating Revenues	$ 110,162	$ 124,089	$(13,927)	$(2,112)	$(3,918)	$(3,371)	$(3,111)	$ 600	$(1,990)	$ (744)	$ 630	$ 89
Rate Base												
Telephone Plant In Service	$2,013,061	$2,004,007	$ 9,054	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,054
Property Held for Future Use	1,587	1,587	-	-	-	-	-	-	-	-	-	-
Material & Supplies	6,844)	10,000	(4,063)	-	-	-	-	-	-	-	-	(4,063)
Working Cash	(907))											
Depreciation Reserve	(410,664)	(405,302)	(5,362)	-	-	-	-	-	-	-	-	(5,362)
Reserve for Deferred Taxes	(54,036)	(74,436)	20,400	20,400	-	-	-	-	-	-	-	-
Affiliated Interest Adjustment	(16,369)	(21,553)	5,184	-	-	-	-	-	-	-	5,184	-
Message Rate Service Adjustment	5,770	5,770	-	-	-	-	-	-	-	-	-	-
Total Rate Base	$1,545,286	$1,520,073	$ 25,213	$20,400	$ -	$ -	$ -	$ -	$ -	$ -	$5,184	$ (371)
Rate of Return	7.13%	8.16%	(1.03)%	(0.24)%	(0.25)%	(0.22)%	(0.20)%	0.04%	(0.13)%	(0.05)%	0.02%	0.01%

( ) Denotes Red Figure

Table 3

General Telephone Company of California
Results of Operation, Test Year 1974
Intrastate Operations

(Thousands of Dollars)

Item	General (a)	Adopted (b)	Total (c)	Tax Depreciation (d)	Separations Factors (e)	Settlement Ratios (f)	Non-settlement Revenue Estimating (g)	Uncollectibles (h)	Expense Level Estimating (i)	Advertising & Other Disallowances (j)	Affiliated Interest Adjustment (k)	Other (l)
			Difference by Which General's Estimate Exceeds Our Adopted Estimate									
Operating Revenues												
Local Services	$ 324,388	$ 334,177	$ (9,789)	$ -	$(1,127)	$(6,283)	$(4,227)	$ -	$ 1,700	$ -	$ -	$ 148
Toll Services	168,283	169,202	(919)	-	(3,923)	-	-	-	2,300	-	-	704
Miscellaneous	38,196	40,544	(2,348)	-	-	-	(2,348)	-	-	-	-	-
Uncollectibles	(4,523)	(5,598)	1,075	-	-	-	-	1,075	-	-	-	-
Message Rate Service Adjustment	(1,501)	(1,501)	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	$ 524,843	$ 536,824	$(11,981)	$ -	$(5,050)	$(6,283)	$(6,575)	$1,075	$ 4,000	$ -	$ -	$ 852
Operating Expenses & Taxes												
Maintenance Expense	$ 100,434	$ 96,467	$ 3,967	$ -	$ 450	$ -	$ -	$ -	$ 3,384	$ -	$ -	$ 133
Traffic Expense	34,147	33,698	449	-	278	-	-	-	171	-	-	-
Commercial Expense	48,791	45,966	2,825	-	475	-	-	-	1,012	1,338	-	-
General Office Salaries & Expense	29,256	29,179	77	-	66	-	-	-	(14)	25	-	-
Other Operating Expense	24,398	25,797	(1,399)	-	85	-	-	-	(1,520)	36	-	-
Total Above Expenses	$ 237,026	$ 231,107	$ 5,919	$ -	$ 1,354	$ -	$ -	$ -	$ 3,033	$ 1,399	$ -	$ 133
Depreciation & Amortization	82,472	81,812	660	-	474	-	-	-	186	-	-	-
Subtotal	$ 319,498	$ 312,919	$ 6,579	$ -	$ 1,828	$ -	$ -	$ -	$ 3,219	$ 1,399	$ -	$ 133
Operating Taxes (Other Than Income)	61,856	56,901	4,955	-	220	-	-	-	4,735	-	-	-
State Income Tax	8,845	7,437	1,408	3,542	(639)	(565)	(592)	97	(356)	(126)	-	47
Federal Income Tax	44,497	56,257	(11,760)	(1,702)	(3,100)	(2,745)	(2,872)	469	(1,727)	(611)	-	528
Total Above Expenses & Taxes	$ 434,696	$ 433,514	$ 1,182	$ 1,840	$(1,691)	$(3,310)	$ (3,464)	$ 566	$ 5,871	$ 662	$ -	$ 708
Message Rate Service Adjustment	(523)	(523)	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	$ 434,173	$ 432,991	$ 1,182	$ 1,840	$(1,691)	$(3,310)	$ (3,464)	$ 566	$ 5,871	$ 662	$ -	$ 708
JDIC	(982)	(982)	-	-	-	-	-	-	-	-	-	-
Affiliated Interest Adjustment	(2,576)	(1,973)	(603)	-	-	-	-	-	-	-	(603)	-
Net Operating Revenues	$ 94,228	106,788	$(12,560)	$(1,840)	$(3,359)	$(2,973)	$ (3,111)	$ 509	$(1,871)	$ (662)	$ 603	$ 144
Rate Base												
Telephone Plant In Service	$1,763,442	$1,749,498	$ 13,944	$ -	$ 8,034	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,910
Property Held for Future Use	1,397	1,397	-	-	-	-	-	-	-	-	-	-
Material & Supplies Working Cash	5,934 (794)	8,700	(3,560)	-	21	-	-	-	-	-	-	(13,581)
Depreciation Reserve	(360,563)	(354,234)	(6,329)	-	(1,224)	-	-	-	-	-	-	(15,105)
Reserve for Deferred Taxes	(47,336)	(64,983)	17,647	17,647	-	-	-	-	-	-	-	-
Affiliated Interest Adjustment	(14,323)	(18,849)	4,526	-	-	-	-	-	-	-	4,526	-
Message Rate Service Adjustment	5,345	5,346	-	-	-	-	-	-	-	-	-	-
Total Rate Base	$1,353,103	$1,326,875	$ 26,228	$17,647	$ 6,831	$ -	$ -	$ -	$ -	$ -	$ 4,526	$(2,776)
Rate of Return	6.96%	8.05%	(1.09)%	(0.24)%	(0.29)%	(0.22)%	(0.23)%	0.04%	(0.14)%	(0.05)%	0.02%	+0.02%

( ) Denotes Red Figure.

Tax Depreciation and Investment Credit

General claims accelerated depreciation (AD) for both California bank and corporation franchise tax (state income tax) and federal income tax, and claims asset depreciation range (ADR), class life system depreciation (CLS), and job development investment credit (JDIC) for federal income tax. General also has begun claiming shorter depreciation lives for state income tax based upon guideline lives established by the Internal Revenue Service in introducing ADR and CLS.

It is General's position that for ratemaking AD, ADR, and CLS should be normalized, i.e., unmodified life, straight-line depreciation should be used in computing federal tax expense; similarly, AD, including the change to IRS guideline lives, with normalization, should be applied in computing state tax expense; and with respect to JDIC, this credit should be taken into income ratably over the useful life of the applicable property, i.e., the cost of service reduction method defined in Section 46(e) of the Internal Revenue Code. In Tables 1, 2, and 3, however, General's estimates deviate from this position in that they fail to reflect (1) the effect of CLS on the federal tax deferral reserve and (2) the change to IRS guideline lives with respect to state tax.

The staff recommends flow-through treatment of all tax depreciation elements and JDIC. The staff's estimates in Table 1 reflect that recommendation. As an alternative, in the event flow-through with respect to federal tax expense is rejected, the staff advocates: (1) an extraordinary item adjustment, termed by the staff pro forma normalization, for federal tax depreciation -- pro forma normalization differs from test year normalization in that a weighted average of the deferred tax reserve over a specified number of the test and subsequent years is used, instead of the test year average, as a deduction from rate base; and (2) an extraordinary item adjustment for JDIC to make it representative of an estimated average credit to income over five years following the test year.

In our adopted operating results, the basis for computing federal income tax expense includes test year normalization of AD, ADR, and CLS, test year ratable cost of service reduction for JDIC, and adopted state tax expense. The adopted state tax expense reflects test year flow-through of AD including the change to IRS guideline lives.

The adopted tax depreciation treatment is consistent with Decision No. 83778 upon rehearing, limited to the issue of tax depreciation, of Decision No. 79367 in the last General rate case (Application No. 51904), and with Decision No. 83162 dated July 23, 1974 in the recent Pacific rate case (Application No. 53587, et al). A minor departure from those decisions does exist, however, in that test year flow-through rather than a projected three-year average flow-through has been used to compute state tax expense. The annual level of state tax savings or deferral has stabilized sooner than anticipated in Decision No. 83778 (see page 27 thereof, mimeo), presumably because of changes in estimated near future construction in relation to construction since 1969. Accordingly, a need no longer exists for an extraordinary item adjustment reflective of near future levels of state tax savings, when viewed in relation to test year 1974.

A need continues, however, for this type of adjustment for federal tax depreciation with normalization, because of the cumulative character of the deferred tax reserve, and for the JDIC. Such an adjustment, reflective of a projected three-year (1974-1976) average deferred federal tax reserve as a reduction to rate base and a corresponding projected three-year average JDIC ratable flow-through to income, to our adopted intrastate operating results at present rates would reduce operating expenses by \$218,000, increase net revenues by the same amount, reduce rate base by \$22,805,000, and increase rate of return by an increment of 0.13 percent to 8.18 percent from 8.05 percent. This adjustment would yield a gross revenue savings approximating \$3.5 million. However, as in the case of Decisions Nos. 83162 and 83778, we will not implement this extraordinary item adjustment because it would disqualify the utility, according to Federal Income Tax Regulations Section 1.167(1) - 1(h)(6), from determining in relevant part its federal taxes on the basis of accelerated depreciation.

Instead, as in the case of our Decision No. 83540 modifying Decision No. 83162, we will require the utility to submit to the Commission a number of reports of results of operations which are described with particularity in Appendix B hereto. These reports, which are available to public inspection, will assist us in determining whether it appears that General is realizing earnings that result in a rate of return in excess of that allowed herein. Concurrently with this decision, the Commission will issue an ongoing Order Instituting Investigation (Case No. 9831) into the rates and operations of General to enable the Commission promptly to take those steps necessary to order refunds if, after hearing, the Commission finds that General's rates have resulted in realized earnings that produce a rate of return in excess of that allowed in this decision. If it appears to the Commission, based on the information General submits pursuant to the order contained in this decision, that General may be earning a rate of return in excess of that allowed by this decision, the Commission will, in Case No. 9831, issue an order which will so advise General and the parties to that proceeding and which will provide for hearings. Moreover, in that order the Commission intends to require that all jurisdictional rates collected by General, after the date of such order, will be subject to refund pending final determination, of the rates which are just and reasonable for the future.

If, after hearing, the Commission finds that General's rates have produced earnings in excess of the return found reasonable in this decision, the Commission will require General to make appropriate refunds of rates collected subject to refund. By providing for a refund condition from the date of the Commission's order advising General and the parties to the investigation proceeding that it appears to the Commission that General's rates result in a realized rate of return in excess of that allowed by this decision, the protection afforded General's customers, pursuant to Case No. 9831 instituted today, will be maximized. We recognize that this procedure may create an issue of retroactive ratemaking because the refund condition affects rates collected before a hearing and finding as to just and reasonable rates for the future. Therefore, we will direct General to indicate whether it consents to the imposition of a refund provision as described herein in any order which may hereafter be issued in Case No. 9831. Such an indication or rejection is to be filed with the Commission within five days after the date of this decision and shall be served on the parties in these proceedings. If General does not consent to this procedure within five days of this order, we shall set hearings in Case No. 9831 for the purpose of determining the Commission's jurisdiction to impose such a refund provision without the consent of the utility.

The procedure authorized herein possesses all of the advantages and none of the disadvantages of pro forma normalization. It assures that if, because of the growth of the deferred tax reserve or any other factor, the utility's earnings exceed authorized levels, the machinery will exist for a prompt reduction in rates without, at the same time, threatening the utility's eligibility to continue to use accelerated tax depreciation.

Separations and Settlements

Separations and settlements accounts, as noted earlier, for a difference of 0.89 percent between the rates of return derived by General and the staff on intrastate operations. As shown in Table 1, this difference breaks down into 0.29 percent corresponding to different separations factors, 0.53 percent to different settlement ratios, and 0.07 percent to the use of different state tax rates in the computation of full cost settlements with Pacific.

Differences in separations factors can result in a shift of costs of operation from one jurisdiction to another and from one company to another. In this case, the different separations factors used by the staff have shifted costs, relative to General's estimates of separations, from intrastate to interstate operations and within intrastate operations, from exchange and Los Angeles extended area services to toll and interchanged multi-message unit services, resulting in additional settlement revenues, on a full-cost settlement basis, to General from Pacific. The higher settlement ratios[2/] used by the staff also yield General additional revenues.

2/ A settlement ratio is similar to a rate of return and is applied to an investment base, such as net plant plus working capital, to apportion return.

The substantial influence of the different separations factors used by the staff on intrastate operating results was disclosed by late-filed Exhibit 51. The record is clear that the staff estimated these factors, in part at least, from later data than that available at the time General prepared its estimates. Otherwise the record is silent on the reasons for the differences. However, we are not convinced General seriously disagrees, certain statements in its brief notwithstanding, with the factors developed by the staff using later data. Our adopted operating results reflect separations factors as estimated by the staff.

The 0.53 percent shown in Table 1 as the difference in rate of return attributable to the use of different settlement ratios relates, as follows, to State Toll operations, interchanged Multi-Message Unit operations, and Los Angeles Extended Area operations:

Service	Settlement Ratio Used General	Settlement Ratio Used Staff	Difference in Rate of Return
State Toll	7.7%	8.5%	0.24%
I-MMU	4.2	5.3	0.16
LAEA-EAS	5.0	6.5	0.13
Total			0.53%

General, along with all other independent telephone companies in California, participates with Pacific in the sharing of revenues derived from intrastate toll service. In estimating intrastate toll revenues, General used the above tabulated 7.7 percent intrastate toll settlement ratio and the staff used the 8.5 percent toll settlement ratio.

The staff witness selected the latest recorded settlement ratio available at the time his estimate was made. It was the one for July 1973, being then about 8.36 percent. To that he added a productivity factor of 0.14 percent to arrive at an estimated settlement ratio for 1974 of 8.5 percent. The productivity increment was used to give effect to efficiencies during the test period anticipated by this witness.

In rebuttal, General showed that this settlement ratio is trending downward, not upward, and provided its then current estimate for 1974. This estimate was down one-half percent from its original estimate, i.e., 7.2 percent instead of 7.7 percent.

The downturn is shown in Exhibit 32. According to General the downward trend, due to a number of factors, will continue unless intrastate toll rates are increased. The factors are: (1) the last increase in intrastate toll rates occurred in May 1972; (2) costs of providing intrastate toll service are growing (Pacific granted wage increases to its hourly employees in July 1972. Pacific's management employees received increases in December 1973); (3) costs will continue to grow (General will implement management salary increases during 1974 and has made effective increases for hourly employees in March 1974. Higher state franchise taxes, due to a higher tax rate, will be incurred); and (4) cost increases more than offset revenue growth and productivity improvements in providing the service as demonstrated by a review of the trend of the annualized monthly settlement ratios depicted in Exhibit 32.

We are not persuaded that there will be either a pronounced reversal of the downtrend in intrastate toll settlement ratios, or a more acute continuing downtrend than originally anticipated by General. Our adopted operating results reflect an intrastate toll settlement ratio of 7.7 percent.

General derives settlement revenues from interchanged LAEA-EAS traffic with Pacific. In the determination of the amount of settlement dollars General receives, the Pacific exchange rate of return is applied to the investment assigned to LAEA-EAS by General to determine the return component. General has estimated Pacific's exchange rate of return for 1974 to be 5.0 percent, whereas the staff used a rate of return of 6.5 percent, derived by adding up Pacific's 12 monthly recorded returns through July 1973. As shown on Exhibit 31, both the 12-month moving average rate of return and the annualized rate of return are trending downward. The factors which are depressing the intrastate toll rate of return are also at work on Pacific's exchange rate of return. In short, costs are increasing more rapidly than revenue growth and absent rate relief,3/ the downtrend in Pacific's exchange rate of return, and hence in General's LAEA-EAS settlement dollars, will continue, but probably not to the extent reflected in General's estimate. Our adopted operating results reflect Pacific's exchange rate of return for 1974 without rate relief to be 5.75 percent.

For I-MMU operations the staff's estimated settlement ratio of 5.3 percent for 1974 appears representative. It has been reflected in our adopted operating results.

As noted earlier, General and the staff used different state tax rates in the computation of full-cost settlements with Pacific. Pursuant to settlement agreements, General has estimated test year state tax expense based on prior year tax rates and earnings; the staff has not.

3/ The effects on General of changes in Pacific's rates authorized by Decisions Nos. 83162 and 83296 in Application No. 53587, et al, are taken into account in the rate spread section of this decision.

The staff, by using a 9 percent test year state tax rate in calculating settlement revenues, imputes to General greater settlement revenues than it expects to receive in the test year. While this higher tax rate is expected to be applied in settlements throughout the year after the test year, it would appear to be counteracted at that time in part at least by its own depressing effect, as an increasing tax expense, on settlement ratio. Our adopted operating results reflect in relevant part settlement revenues determined through estimating state tax expense on the basis of prior year tax rates and earnings.

Non-settlement Revenue Estimating

The entry of $7,286,000 under operating revenues in Table 1 is the sum of the following estimating differences: The staff's estimate of local service revenues exceeding General's estimate by $5,027,000; its estimate of directory revenues exceeding General's estimate by $2,348,000; and its estimate of uncollectibles exceeding General's estimate by $89,000. The associated $3,838,000 entry under operating expenses is for income taxes, which are computed for those revenue differences.

Most of the $5,027,000 difference in local service revenues relates to monthly service charges. General estimated test year monthly local service charges of $210,066,000 and the staff estimated $214,232,000 for a difference of $4,166,000. These estimates are derived from a relationship to total telephones in service, which in turn depends on estimated 1973 and 1974 station gain. Total stations as of the end of 1973 were 2,838,000, or approximately 10,000 more than estimated by General, and approximately 8,000 less than estimated by the staff. General currently estimates a test period station gain of 106,000, revised upward from the 102,000 estimate contained in Exhibit 1, Table 17-C. The staff's witness acknowledged that if he had used actual end-of-year 1973 stations, rather than his estimate, together with his estimate of test period weighted average station gain, it would reduce his estimate of test period monthly service charge revenues by approximately $800,000. General concedes that its estimate of monthly service charge revenues of $210,066,000 is low. Our adopted operating results include the staff's estimate of $214,232,000, less the $800,000.

Some $961,000, as the remaining part of the estimating differences in local service revenues, concerns revenues derived from local service accounts, such as service connections, semi-public telephones, public telephones, and the like. The staff's estimates for such items, being based on later data than General's estimates, are adopted.

As to the difference of $2,348,000 in directory advertising and sales revenues, the staff's estimate of $38,223,000, while being higher than General's estimate of $35,875,000, is lower than the directory company's own estimate which, as specified in Exhibit 40, is $39,890,000. The staff's estimate appears reasonable and will be adopted. Its adoption requires, however, appropriate revisions in directory expenses, as part of commercial expense, where both the staff and General applied General's lower revenue estimate, and in the affiliated interest adjustment for the directory company set forth in Exhibit 40.

The difference of $89,000 in uncollectibles results primarily from the above differences in the local service and directory revenue estimates.

Uncollectibles

Both General and the staff used one percent of total company gross revenues in estimating uncollectibles. The one percent factor is substantially below the uncollectible ratios experienced in recent years and is based on a goal General seeks to achieve. General's current view is that uncollectibles in the test period will exceed 1.4 percent. By strengthening efforts to reduce uncollectibles, a 1.2 percent ratio appears achievable before long, at least in terms of actual net losses, and will be adopted for the test period total company operating results. A similar increase of about 20 percent in the 0.86 percent uncollectibles used by the staff on total intrastate revenues will be reflected in the adopted intrastate operating results.

Expense Level Estimating

In Table 1 the staff's estimates of net revenues exceed those of General by $2,843,000 for total company operations and by $2,746,000 for intrastate operations because of differences in expense levels. The different expense levels are due in part to later data becoming available and in part to the use of different estimating procedures.

The development of these differences in net revenues has been set out in detail in Exhibit 51 and is summarized in the following tabulation:

Item	General Exceeds Staff	
	Total Company	Intrastate
	(Thousands of Dollars)	
Operating Revenues	$ 7,984	$ 6,132
Operating Expenses		
Maintenance	4,463	3,776
Commercial	3,760	3,310
Other Expenses Except Taxes	(268)	(316)
Taxes, Other Than Income Taxes	6,037	5,198
State Franchise Tax	(541)	(525)
Federal Income Tax	(2,624)	(2,565)
Total Operating Expense	$10,827	$ 8,878
Net Revenue	$(2,843)	$(2,746)

( ) Red Figure

The differences in operating revenues of $7,984,000 for total company and $6,132,000 for intrastate operations occur because expense levels and settlement revenues are interrelated, i.e., settlement revenues, on a full-cost settlement basis, are in part a direct function of applicable separations factors and expense levels. Accordingly, the higher expense levels estimated by General have the effect of increasing settlement revenues. They also have the effect of lowering income taxes in direct relation to the amount by which the difference in operating expenses, before income taxes, exceeds the difference in settlement revenues. The end result of this process concerning higher expense levels is to reduce net revenues but to do so to a lesser extent because of the counter effect of increased settlement revenues.

Our task at this point is to determine the appropriate expense levels which in turn will affect settlement revenues, income taxes, and net revenue. Before so doing, however, it provides needed perspective if we observe that General's estimates of test year operating expenses were prepared in late 1972/early 1973 before the full results of innovative cost reducing programs, which as matters turned out exceeded in many respects General's expectations, were in. These programs include programs for billing improvement, control analysis maintenance, and repair performance improvement. The staff's estimates reflect a later view on their results.

Clearly, in achieving economies and efficiencies, without service degradation, General has been performing well. As a measure of such performance General's employee force has been reduced from 20,121 at the end of 1970 to 18,250 at the end of 1973, while its total telephones were increasing from 2.564 million to 2.839 million. Because of recent improvement programs exceeding expectations, General concedes, where pertinent, that certain of its expense estimates or parts of them are too high.

In that regard General concedes its estimate of total company maintenance expense of $114,919,000 is too high by $3 million. Reduced by $4 million instead of the $3 million, General's estimate is representative in our view of the test period and accordingly is the level reflected in our adopted operating results.

The estimating difference of $3,760,000 in total company commercial expense, although apart from a proposed disallowance by staff of $2,636,000 in advertising expenses, reflects $550,000 more in advertising than budgeted by General. It is also apart from the shortfall in directory expenses noted in our comments on directory revenues. That shortfall amounts to about $1 million, calculated as 43 percent of a $2,348,000 directory revenue difference, consistent with the contract between General and its affiliate, the directory company.

Although General and the staff used fundamentally different methods of estimating commercial expense, a major part of the $3,760,000 estimating difference appears attributable to the staff's estimate reflecting throughout 1973 and test year 1974 a downward trend in local commercial expenses per average company station. The trend line, as shown in Chart 10-B of Exhibit 13-A, changed directions from upward to downward in late 1972 and remained that way through mid-1973, the end point of the recorded data on a 12-month moving total basis. The expense saving impact of the billing improvement program, implemented in December 1972 and completed in July 1973, appears to have caused the downward trend. It is General's position that inasmuch as no new expense saving programs are available for the test period, the trend line should level off and commence upward again. On a 12-month moving total trend line the downward influence of the billing improvement program completed in July 1973 can be expected to be experienced through mid-1974.

Our adopted operating results are $1,150,000 less than General's with respect to this estimating difference in total company commercial expense. The adopted results exclude the unbudgeted advertising expense, reflect cost levels attainable as a result of expense savings programs completed in 1973, and include a level of directory expense consistent with the adopted directory revenues.

The estimating difference of $268,000 is the amount by which the staff's estimate exceeds General's estimate of other expenses except taxes for total company operations. It is a composite of differences in estimates of traffic expense, depreciation and amortization, and other operating expenses.

The staff's estimates of traffic expense and depreciation and amortization are below General's estimates by $497,000. They are based on later data and will be adopted for the test period.

The staff's estimate of other operating expenses, also based on later data, exceeds General's estimate by $765,000. Neither estimate allows, however, for an added pension expense of slightly in excess of $1 million to be incurred in the test period as a result of liberalizing pension benefits. Our adopted operating results reflect the staff's estimate of other operating expenses after modification to include the additional pension expense.

The estimating difference of $6,037,000 in total company operating taxes other than on income is made up of a difference of $1,038,000 in payroll taxes and $4,999,000 in ad valorem taxes. The estimate we adopt for payroll taxes is fixed $500,000 below General's estimate consistent with a smaller work force being indicated by later data.

The difference in the estimates of ad valorem taxes lies mostly in the different composite tax rates used. The staff estimated increases in the ad valorem tax rate of $0.05 in each of the fiscal years 1973-1974 and 1974-1975 as contrasted with General's estimating increases of $0.59 for each of the two years. Ad valorem tax expense for the test year depends on the composite tax rate for fiscal 1974-1975, since General accrues this expense on a calendar-year basis.

Although a substantial increase in the 1974-1975 tax rate now appears likely, ad valorem taxes should fall short of the level estimated by General. This should be the case because the buildup of General's estimate includes an increment in the tax rate for fiscal year 1973-1974 of $0.59 in contrast to a decrease of $0.56 actually experienced. We adopt the staff's estimate of ad valorem taxes as reasonable for the test period.

As indicated earlier, the resolution of differences in expense levels will cause changes in settlement revenues. For total company operations, the pertinent settlement revenues decrease in our adopted operating results by $5.175 million in comparison with General's estimate as shown in Tables 1 and 2. Similarly, total company income taxes increase $2.216 million and net revenue $1.990 million in comparison with General's estimates.

Advertising Expense

General's advertising expenses have been running at about one-half of one percent of operating revenues since 1969. Its advertising budget for 1974 is $3 million. The benefits of its advertising, General contends, ultimately accrue to the ratepayer whether such advertising is aimed at providing information on telephone service, increasing revenues, attracting employees, raising capital funds, or meeting legal obligations.

General's advertising programs are designed to assist in meeting two basic responsibilities, the first of which is to ensure the continued operation of the company and the second is to maintain the lowest price for basic telephone service. Ignoring the power of advertising to maximize cost reduction and revenue generation opportunities would be to ignore, General asserts, in large part such a basic responsibility.

The Commission staff recommends disallowing $2,636,000, or 88 percent of the total 1974 advertising budget of $3 million. The staff bases the disallowances largely either on insufficient information furnished to support an expenditure as being of substantial benefit to the subscriber or the information furnished indicates the expenditure "to be designed more to improve the public image of the utility rather than to benefit the subscriber". The staff further pointed out in Exhibit 13-A that its review of the utility's 1974 budget was handicapped by the following:

> "a. Specific advertising intended for use in 1974 is in most cases not known at the time of budget preparation.
>
> "b. Proposed advertising expenditures are identified only with the media, method or type of coverage expected.
>
> "c. The utility's budget does not identify proposed expenditures with a recognizable objective in all cases."

The upshot of all of this is that on the one hand General's showing was insufficient, while on the other hand the staff appears unrealistic in its assessment of the amount of support required in an area which is largely judgmental. Thus, a middle ground between the two positions probably is more representative of what is in the ratepayers' interests.

In the Pacific rate case decision, Decision No. 83162 dated July 23, 1974 in Application No. 53587, et al, we said, after thorough examination, that "Pacific's advertising budget, 0.26 percent of operating revenues, is reasonable, but, nevertheless, we have disallowed some advertising expense as more properly belonging within the ambit of shareholder responsibility."

An allowance of about 0.25 percent of operating revenues would represent a middle ground which appears indicated for General in this proceeding. Accordingly, intrastate advertising expense of $1.336 million, based on a total company figure of $1.5 million, will be allowed in the intrastate operating results we adopt.

In making this allowance, we are mindful that advertising tasks or needs are not static and that being the case, much of the test year advertising, which was something less than fully defined at the time of the staff review, will not necessarily be the advertising that will take place during most of the future periods during which the rates established by this decision will be in effect. General's future advertising, which is designed to assist in (1) ensuring the continued operation of the company, and (2) maintaining the lowest price for basic exchange service, should, in the amount of this allowance, exclude expenditures which are predominantly for institutional advertising and good will.

Dues and Donations

In accordance with prior Commission practice, dues and donations in the amount of $28,000 and legislative advocacy in the amount of $41,000 were excluded by the staff from test year total company operating expenses. The corresponding disallowances in our adopted test year intrastate operating expenses are $25,000 and $36,000, respectively.

Affiliated Interests Adjustments

The pertinent affiliates (Automatic Electric, Directory Company, Service Company, and GTEDS) and the development of our adjustments adopted for each affiliate have been discussed at some length in earlier sections of this Opinion. In the aggregate the adjustments to intrastate operations result in a net expense reduction, or conversely, a net revenue increase, of $1,973,000 and a reduction of $18,849,000 in rate base. The breakdown by affiliates is as follows:

Affiliate	Adjustment Net Revenue	Adjustment Rate Base
	(Thousands of Dollars)	
Automatic Electric	$ 967	$14,323
Directory Company	1,170	-
Service Company	124	-
GTEDS	(238)	4,526
Total	$1,973	$18,849

( ) Denotes red figure.

Other

The remaining differences between General's estimates and the adopted estimates represent in the aggregate only 0.04 percent in rate of return. The adopted estimates, with one exception, reflect the staff's estimates.

As to the exception, the staff adopted General's estimate of material and supplies of $6,844,000 for total company operations. The record is clear that this is a markedly reduced level of material and supplies in relation to the past and will not be achievable for perhaps several years through the improvement program under way. Accordingly, a fair allowance for working capital, consisting of material and supplies and working cash reflective of our adopted revenue requirements at an 8.85 percent rate of return, is not less than $10 million for total company operations.

Required Intrastate Revenue Increase

In order to produce an 8.85 percent return on General's intrastate rate base of $1,326,875,000 for the test year 1974, its operating revenues after settlements with Pacific and uncollectibles must be increased by $22.4 million.[4/] This is an increase of 4 percent over intrastate revenues under present rates.

In deriving the required operating revenue increase, we have applied a net-to-gross multiplier of 2.113 to an additional net revenue requirement of $10.6 million.[4/] It was unnecessary to adjust rate base for a decrease in working cash requirements, as the result of the effects on a lead-lag study of an increase in income taxes responsive to an 8.85 percent return on rate base and adopted expense levels, inasmuch as the adopted rate base reflects, as previously brought out, an appropriate working capital allowance.

Rate Spread

A proper spread of the $22.4 million required increase in General's intrastate operating revenues among the various types of telephone services is influenced in large measure by Decision No. 83162 dated July 23, 1974 and Decision No. 83296 dated August 12, 1974 in the recent general rate case on Pacific (Application No. 53587, et al). In fact, a revenue increase to General of $14.2 million and $0.8 million has been predetermined by those decisions and by certain related changes (General's Advice Letter No. 3191) in General's rates.

4/ $1,326,875,000 (.0885 - .0805) = $10,615,000

$10,615,000 x 2.113 = $22,429,000

Summarized below in tabular form is our adopted rate spread yielding an annual revenue increase of $22.4 million. It was arrived at after careful consideration of all the evidence on the various rate proposals viewed in the light of the level of additional revenues we have determined to be required.

Adopted Rate Spread
Yielding Annual Gross Revenue Increase
After Uncollectibles of $22.4 Million

Item	Billing Increase	Settlement Effect	Revenue Increase	
	(Dollars in Millions)			
Revenues Derived from D. 83162 & 83296				
Exchange - Extended Service Settlements	-	$6.8	$ 6.8	
MMU:				
Message Unit	$5.1	1.3	6.4	
ORTS	-	.2	.2	
Toll:				
WATS	1.9	(.8)	1.1	
State Message Toll	(.3)	-	(.3)	
Private Line (interchanged)	-	(.3)	(.3)	
ORTS	-	.3	.3	
Foreign Exchange & ORTS (Advice Letter No. 3191)	1.7	(.9)	.8	
Subtotal	$8.4	$6.6	$15.0	$15.0
Basic Exchange Rates				
Los Angeles Extended Area	$ .028	$(.004)	$ .024	
Other L.A. Metropolitan Area	.006	-	.006	
Outside L.A. Metropolitan Area	.078	-	.078	
Extended Area Service Increment	.009	-	.009	
Message-Rate (Measured) Service	2.707	(.377)	2.330	
Subtotal	$2.828	$(.381)	$ 2.447	$ 2.4
Other				
Datatel Service	$ .038	$(.004)	$ .034	
PBX Service	.678	(.075)	.603	
Supplemental Services	(.367	.038	(.329)	
Foreign Exchange Service	.282	(.029)	.253	
Pushbutton Telephone System Service	1.117	(.114)	1.003	
Private Line Services	.046	-	.046	
Service Connection/Move and Change	3.873	(.380)	3.493	
Subtotal	$5.667	$(.564)	$5.103	$ 5.1
Uncollectibles				(.1)
Total				$22.4

( ) Red Figure.

Basic Exchange Rates

As indicated by the small revenue increase for basic exchange service in the preceding rate spread summary and by the comparison tabulated below, existing rates for primary basic exchange services remain unchanged for the most part. Once again, near parity in many basic rates of General's and Pacific's exchanges is being reached in the Los Angeles Extended Area. Rates for General's exchanges outside the Los Angeles Metropolitan Area continue to be maintained at a higher level.

Basic Exchange Monthly Rates, Primary Service

Class and Grade of Service	Extended Service LA Metropolitan Exchanges		All Other Exchanges(1)	
	Present	Authorized Herein	Present	Authorized Herein
Residence				
1-Party Flat Rate	$ 5.75	No change	$ 5.95	No change
1-Party Message Rate ("Lifeline")	2.95-20(2)	$3.00-30(2)	-	-
2-Party Flat Rate	5.05(3)	No change	5.25	No change
Suburban (SUB-R)	4.75	5.05	4.85	$ 5.25
Business				
1-Party Flat Rate	12.60(3)	No change	13.20	No change
1-Party Message Rate	7.65-80	No change	-	-
2-Party Flat Rate	10.50(3)	No change	10.50	No change
Suburban (SUB-B)	9.30	No change	9.30	$10.50
Semi-Public Coin Box (SPCB)	7.65	No change	6.60	7.65
PBX-Trunk Flat Rate	18.90(3)	No change	19.80	No change
PBX-Trunk Message Rate	3.80-0	No change	-	-

(1) Rates shown are for local service and accordingly exclude rate increments for Extended Area Service where offered.

(2) Service to be offered in L.A. Metropolitan Area Exchanges, concurrently with the withdrawal of residence 2-party flat rate service, not later than six months after the effective date of the decision herein, pursuant to Decision No. 81646.

(3) Applicable until withdrawn in compliance with Decisions Nos. 75873 and 81646.

With respect to the rate change for individual line measured residential (lifeline) service, where the call allowance is increased from 20 to 30 messages while the monthly rate is increased only five cents, the result probably is that this service would cost less for most potential subscribers. However, timing measured local service, as discussed hereinafter, will offset to some extent such probable lesser cost. The other two rate changes in basic exchange rates are minor. One brings SPCB rates in all exchanges up to the level in the Los Angeles Metro exchanges, and the other facilitates base rate area expansions through increasing suburban business and residence rates to the level of corresponding 2-party rates.

Message-Rate (Measured) Service

A five-cent rate was authorized in Decision No. 83162 for Pacific's multi-message unit service, which rate also applies to General, and for Pacific's message rate service. Accordingly, the rate for local calls in excess of the monthly allowance under General's message rate service, presently 4.7 cents each, also will be increased to five cents.

The adopted intrastate operating results, Tables 1 and 3 herein, contain adjustments to reflect fully in the test year the effects of measured local service after the conversion prescribed in Decision No. 75873, as modified by Decision No. 81646. Pursuant to those decisions General, within the Los Angeles Metropolitan Area and within six months after the effective date of this decision, must withdraw (1) the offering of business individual line flat rate, business two-party line flat rate, and business PBX trunk flat rate services and substitute therefor individual line message rate and PBX trunk message rate services; and (2) the offering of residence two-party line flat rate service and substitute therefor individual line message rate service.

Accordingly, a portion of the $2.3 million increase shown for message rate service in the adopted rate spread reflects the effect of increasing the message rate from 4.7 cents to five cents and applying it to the message volume expected after the prescribed conversion, i.e., applying it as though the conversion were completed prior to the test year so as to include its full effect in the test year. The remainder of the $2.3 million increase reflects incorporating a timing feature, not heretofore included in the prescribed conversion, into message rate service as advocated by General and the staff.

In this proceeding, as in the recent Pacific rate case (Decision No. 83162, supra), the staff and the utility have joined in proposing that local messages be timed and that the charge for local messages be based upon five-minute periods. A justification for timing is a more equitable result: charging less for short duration than for long duration local calls. Timing of local messages fills a need, the joint proposal of General and the staff appears to be reasonable, and that proposal should and will be authorized.

Thus, the adopted rate spread of $22.4 million allows General to meet its revenue requirements after conversion to measured local service including provision of timing. Prior to that conversion, however, General's additional annual revenue requirement is $4.5 million less, i.e., General will be receiving on an annual basis $4.5 million more in recurring monthly charges for basic exchange primary service after deducting an appropriate allowance for unrealized message rate revenue. Viewed in relation to the adopted rate spread, excess revenues will be produced prior to the conversion at an annual rate of about $2.2 million, i.e., the above $4.5 million less the $2.3 million increase for message-rate (measured) service in the adopted rate spread. To offset this effect, certain rate increases should be delayed as will be brought out through our treatment of service connection/move and change charges.

Other Services

The adopted spread of rate increases to other services produce revenue increases of \$5.1 million, which meets most of the additional revenue requirement of \$22.4 million after deducting the revenue increase to General derived from Pacific's new rates.

Datatel Service. General proposes these rate changes, which are based on cost studies, resulting in a \$38,000 annual billing increase. The staff concurs in the proposed rates, which appear reasonable and will be authorized.

Private Branch Exchange Service. General has proposed certain changes, yielding a \$620,000 revenue increase, which the staff considers would result in more realistic rates for the equipment involved. Consistent with its longstanding practice, the staff recommends, however, that the increases on two of the items involved be limited to 50 percent, causing a \$17,000 drop from the proposed \$620,000 increase. The proposed rate changes, as modified by the staff, include a consideration of costs, appear reasonable, and will be authorized.

Supplemental Services. These services include a variety of different types of equipment. Included are such items as answering arrangements, special dials, metering service, signalling arrangements, special telephones, long cords, jacks, loud speakers, head sets, custom installations, transfer arrangements, and touch calling service.

Under General's proposal, rates for supplemental service would be restructured to reflect changes in cost and a new Service Connection, Move and Change Schedule. This proposal will cause a shift in revenues from supplemental services to the new service connection, move and change charge structure; it will reduce General's revenues from supplemental services by $1,772,000.

The staff concurs with General in its proposed rates for supplemental services. We take exception, however, to the proposed elimination of the nonrecurring charge and establishment of a monthly rate for long cords. Allowing for a proposed standardizing of cord lengths but otherwise maintaining the present tariff provisions and charges for long cords will decrease the above reduction of $1,772,000 in General's revenues by $1,443,000 and accordingly yield the $329,000 revenue decrease shown in the rate spread tabulation. In all other respects, General's proposal for supplemental services appears reasonable and will be authorized.

Foreign Exchange Service. General proposes a 10 percent increase in the monthly rate and a six-cent charge per local message. The staff supports the proposal. It appears to be reasonable and will be authorized.

Pushbutton Telephone System Service. General proposes a redistribution of charges for pushbutton telephone services, which General contends will achieve a closer alignment with costs. Generally, under the proposed redistribution it appears that small systems will incur substantial relative increases, while large systems not only will not, but in some instances may experience a decrease. The staff, while concurring on a redistribution of charges being needed because of both cost and competitive factors, recommends reducing the proposed increases wherever necessary in order for them not to exceed 50 percent of previous rates.

General's proposal will result in a billing increase of $1,621,000. After the staff-recommended changes, the result would instead be a billing decrease of $827,500. The billing increase of $1,117,000, equating to a 4 percent increase, set forth in our adopted rate spread reflects acceptance of staff-recommended changes except for illuminated central office lines. For this item, the increase in monthly rate from $3.30 to $5.00 proposed by General, instead of to the $4.20 recommended by the staff, is adopted. Modified in this way, General's proposal is reasonable and will be authorized.

Private Line Services. General proposes to eliminate on all intraexchange private line services and channels the 5 percent billing surcharge authorized in Decision No. 81824 and to establish rates virtually identical with Pacific's rates. This proposal, which will provide a revenue increase of $46,000, is concurred in by the staff, appears reasonable, and will be authorized.

Service Connection, Move and Change Charges. General proposes to consolidate charges for service connection, moves and changes into one newly designed schedule. The level of charges will be determined by the work activities involved. All customers' requests for new service, additions, modifications, or moves will be charged for depending on whether or not the following activities are involved: service order activity, central office activity, and premises activity. The rates proposed by General, in addition to redistributing the charges among the customers based upon work activities, will contribute to the over-all revenue requirements, thus offsetting certain costs that are now borne by the general body of ratepayers.

The staff concurs in General's newly designed schedule except as to rate levels, which should be determined according to the revenue increase needed from this revenue source. The staff further points out that this new approach to connection charges will be readily adaptable to the developing "telephone store" or "phone-mart" concept under which typically customers may pick up a telephone instrument and install it themselves at locations where jacks have been installed.

General's proposal, after modification in rate levels so as to yield a revenue increase of $3,493,000 as shown in the adopted rate spread, appears reasonable and will be authorized. A comparison of old and new charges for connecting service for individual line business and individual line residence follows:

Service Connection Charges

Item	Present	Authorized Herein			
		Activity			
		Service Order	Central Office	Premises	Total
Individual Line Business					
Instrumentalities Not in Place	$25.00	$15.00	$5.00	$8.00	$28.00
Instrumentalities In Place	18.00	15.00	5.00	-	20.00
Individual Line Residence					
Instrumentalities Not in Place	18.00	6.50	5.00	8.00	19.50
Instrumentalities In Place	12.00	6.50	5.00	-	11.50

The newly designed schedule with its attendant revenue increase of $3,493,000 will not be permitted to go into effect, however, until some time after the other rate changes authorized herein become effective. Its deferral is consistent with General's lesser additional revenue requirement prior to the conversion to measured local service. As brought out in our discussion of message-rate service, excess revenues in relation to our adopted rate spread are at an annual rate of about $2.2 million prior to that conversion.

Either of the following two deferral options appears to provide an equitable method of offsetting the excess revenues during the conversion to measured local service:

(1) If General certifies to this Commission that it is able to complete, and in fact, will complete the timed message-rate service conversion within six months from the effective date of the order herein, then all new rates shall become effective in due course except the new service connection, move and change charges, which shall be implemented sixty days after the effective date of this order. All charges under the new service connection, move and change tariffs shall be separately carried in customer accounts or other appropriate records until the prescribed conversion is completed. Further, if General breaches its certification, the new service connection, move and change tariffs shall be immediately suspended and the corresponding present tariffs reinstated until the conversion is, in fact, completed. Any excess in charges collected over those indicated in the present tariffs shall be refunded.

(2) All new rates shall become effective in due course except the new service connection, move and change charges. The latter shall become effective only when the utility certifies to

this Commission that half or more of the timed message-rate service conversion has been completed, and that full conversion will be accomplished in no more time than that which elapsed between the effective date of this decision and the date of the prescribed certification.

Other Matters

The staff recommends the introduction of business one-party and residence one-party measured service in the Oxnard, Redlands, San Bernardino, and Santa Barbara exchanges. These are General's four largest exchanges outside the Los Angeles Metropolitan Area.

Introducing nonoptional business measured service and optional residential (lifeline) measured service in these exchanges would represent an indicated and logical progression from what is being done in General's Los Angeles Metropolitan Area exchanges. However, General has not made studies to determine the effects of eliminating all party-line services in the four exchanges, and the record is void of the estimated plant, revenue, and expense effects associated with such non-metropolitan measured service offerings.

In its next rate proceeding General will be expected to set forth a comprehensive program to accomplish those service offerings in the above four exchanges and provide estimates of their plant, revenue, and expense effects. Accordingly, applicant should get under way forthwith all necessary studies. These studies should be consistent with an objective of providing nonoptional business measured service and optional residential (lifeline) measured service in those four exchanges within five years after the effective date of this decision.

The staff also recommends the introduction of a second one-party measured residential service, with a higher monthly rate and a larger message allowance than existing 1 MR service, in General's Los Angeles Metropolitan Area exchanges. Sufficient need for this additional service appears to be lacking, at least at this time. We will not adopt this staff recommendation.

General and the staff differ as to whether the utility is reasonably clearing its accounts in a timely fashion. While we recognize that in this area there is some latitude for judgments as to reasonableness, we are persuaded there may be some merit to the staff's concern. Accordingly, General will be expected to show some improvement in the area of accounting and do so by periodically reviewing its clearing account balances and taking any necessary measures to assure that each clearing account is being maintained in such a way as to prevent excessive departures from a nominal balance in that account.

Before proceeding to our findings and conclusion and the order herein, we should point out that it is not practicable in a proceeding as extensive as this one to rule individually on all the various points brought before us for consideration. Our objective has been to discuss and rule on those matters which seemed of major importance in deciding the validity of applicant's request. However, broad consideration has been given to all requests though each may not be specifically treated herein.

Findings

1. The reasonable estimates of intrastate operating revenues, operating expenses, and rate base, as discussed in this opinion and set forth in column (b) of Table 3, result in an 8.05 percent rate of return under present rates. Present rates are defined for purposes of this decision as those effective as of September 23, 1973.

2. For ratemaking Automatic Electric should continue to be treated as a manufacturing company and allowed a 12 percent return on equity in the form of AE's net investment allocable to transactions with General and applicable to General's intrastate operations.

3. An allowance of $1.336 million for advertising is reasonable and has been included in the adopted intrastate operating expenses. General's future advertising, which is designed to assist in (1) assuring the continued operation of the company, and (2) maintaining the lowest price for basic exchange service, should, in the amount of this allowance, exclude expenditures which are predominantly for institutional advertising and good will.

4. Consistent with our holdings on accelerated depreciation in Decisions Nos. 83162, 83540, and 83778, supra:

a. General does not qualify for accelerated depreciation on its pre-1970 property.

b. General does not qualify for accelerated depreciation on its post-1969 property for federal tax purposes unless both General and the Commission normalize General's accelerated depreciation for ratemaking and General normalizes its accelerated depreciation in its regulated books of account. If those requirements are not met, General will be restricted to the use of straight-line depreciation for its post-1969 property also.

c. The normalization treatment of accelerated depreciation involves a fictitious allowance for federal tax expense. The fictitious allowance, however, would convert in General's case to a real part of this expense if normalization is not used, i.e., General would be required to pay its federal income taxes on the basis of taking straight-line tax depreciation.

d. Because the federal tax deferral reserve attributable to normalization is applied as a reduction to rate base, accelerated depreciation with normalization results in a lower total cost of service than straight-line tax depreciation.

e. General's federal income tax expense should be computed for ratemaking on the basis of accelerated depreciation on its post-1969 property with normalization.

f. Pro forma normalization, a method which otherwise holds considerable attraction, is unequivocally barred by federal income tax regulations (Section 1.167(l) - 1(h)(6)). General's reserve for federal income tax deferrals is $74,436,000 in test year 1974. Clearly, a gross revenue savings approximating $3.5 million, reflective of pro forma normalization and related items, described at page 29 herein is not worth putting General's entire eligibility for accelerated depreciation in dire jeopardy.

g. The earnings surveillance and timely action procedure envisioned herein and in Case No. 9831 being issued concurrently with this decision, including the reporting requirements prescribed in Appendix B hereto, should preclude General from unduly profiting by reason of the Commission's determination to allow the normalization method of accounting in determining General's cost of service for ratemaking purposes. This procedure assures that if, because of the growth of the deferred tax reserve or any other factor, the utility's earnings exceed authorized levels, the machinery will exist for a prompt reduction in rates, without at the same time threatening the utility's eligibility to use accelerated depreciation.

h. Accelerated depreciation (AD), asset depreciation range (ADR), and class life system (CLS) and job development investment credit (JDIC) are subject to similar limitations on availability of the flow-through option under federal tax laws. In our adopted operating results, the basis for computing federal income tax expense, accordingly, includes test year normalization of AD, ADR, and CLS, test year ratable cost of service reduction for JDIC, and adopted state tax expense. The adopted state tax expense reflects test year flow-through of AD including the change to IRS guideline lives.

5. A rate of return of 8.85 percent for General is fair and reasonable. The corresponding return on common equity, under the adopted capital structure, is 12.44 percent. Within the adopted capital structure the common equity portion is 41.4 percent.

6.a. The adopted intrastate operating results for test year 1974 yielding an 8.05 percent rate of return under present rates are appropriate to determine General's revenue deficiency and should be used for that purpose.

b. General is entitled to an increase of $10.6 million in net annual intrastate revenues to raise its test year rate of return from 8.05 percent under present rates to the 8.85 percent found to be reasonable.

c. An increase of $22.4 million in annual intrastate gross revenues after uncollectibles is need to produce the $10.6 million in net revenues and is thus justified.

7. The rates and charges prescribed in Appendices C and D are designed to produce, in relation to present rates and charges, the required revenue increase after deducting the revenue increases to General derived from Pacific's new rates and Advice Letter No. 3191 as shown in the tabulation of the adopted rate spread. Accordingly, General should be authorized to increase its rates for intrastate telephone service to the extent provided for in Appendices C and D and in the sequence

prescribed in the order which follows in order to accommodate an impending conversion to measured local service.

8. Pursuant to Decision No. 75873 as modified by Decision No. 81646, General, within the Los Angeles Metropolitan Area and within six months after the effective date of this decision, must withdraw (1) the offering of business individual line flat rate, business two-party line flat rate, and business PBX trunk flat rate services and substitute therefor individual line message rate and PBX trunk message rate services, and (2) the offering of residence two-party line flat rate service and substitute therefor individual line message rate service.

9. Local messages should, as proposed in this proceeding, be timed and the timing should be carried out in increments of one message unit for each five minutes or fraction thereof. Thus, a timing feature, which had been anticipated in Decision No. 81646, should be incorporated into the above prescribed conversion.

10. General should notify all subscribers in its exchanges in the Los Angeles Metropolitan Area of the impending conversion to timed message-rate service. The conversion will be effected without a service connection or change charge being levied on the affected customer.

11.a. Prior to the conversion to timed message-rate service excess revenues would result unless the rates and charges prescribed in Appendix D are deferred. In relation to the adopted rate spread, such revenue excess would be at an annual rate of about $2.2 million.

b. Either of the deferral options set out on pages 55 and 56 of this decision provides an equitable means of offsetting the excess revenues which otherwise would occur before and during the conversion to measured local service. Within ten days after the effective date of this decision, General should inform the Commission in writing as to which of these two options it elects.

12. General's service is adequate.

13. General should make its service reports under the indices established by General Order No. 133 at objective levels equivalent to the 96 point level presently required when reporting under conventional indices. Concurrently, General should discontinue its reporting under the latter indices. Because of the similarity between the two sets of indices, no loss of significant information to the Commission would result.

14.a. Charges for art work applicable to directory advertising may be assessed on a flat rate basis to those advertisers requiring art work. This is more equitable than spreading the cost over all advertisers whether they use art work or not.

b. The current flat rate for art work charges, which may or may not in the aggregate approximate actual cost, is within a standard practice of the Directory Company and is not a part of General's tariffs.

c. General should make a cost study upon which to base the design of up-to-date rates for art work. The study and an appropriate rate design should be submitted to the Commission staff by means of a draft advice letter filing within sixty days after the effective date of this decision.

d. Within ninety days after the effective date of this decision General shall file by advice letter a tariff incorporating a proper rate design for art work charges. The Commission may issue a resolution dispositive of such filing.

15. Directory Company's operating practices applicable to General's customers should be made available in written form. (By now, the physical separation of Directory Company's internal procedures, under way during the course of the hearing, from those which should be available to the customers should have been completed.) Accordingly, General should file with the Commission for informational purposes a set of the Directory Company's operating practices applicable to customers together with a statement describing how this material is made available to its customers.

16. The increase in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted to the extent set forth in the following order and in all other respects denied.

O R D E R

IT IS ORDERED that:

1. General Telephone Company of California is authorized to file with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96-A, revised tariff schedules with rates, charges, and conditions modified as set forth in Appendix C. The effective date of the revised tariff sheets shall be five days after the date of filing. The revised tariff schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. General is authorized to file with this Commission, on or after the effective date of this order and in conformity with whichever of the two deferral options of Finding 11.b. of this decision it elects and with the provisions of General Order No. 96-A, revised tariff schedules with rates, charges, and conditions modified as set forth in Appendix D. The effective date of the revised tariff scheets shall be five days after the date of filing or the earliest permissible date under the deferral option selected, whichever is later. Within ten days after the effective date of this order, General shall report to the Commission the deferral option it elects. The revised tariff schedules shall apply only to service rendered on and after the effective date of the revised schedules. Once the revised tariff schedules are in effect General shall be bound by the terms and conditions of the deferral option it elects.

3. General shall incorporate a timing feature into local message-rate service consistent with Finding 9 of this decision.

4. General shall notify all business subscribers who will be converted to timed message-rate service at least 45 days prior to the planned conversion date and furnish them with a full description of the service to be provided including examples of billings before and after conversion. No service connection or change charges shall be levied for the conversion.

5. General shall notify all residence subscribers whose service may be converted to timed message-rate service. Such notice shall describe the choice of service involved and shall be sent at least 45 days prior to the planned conversion date. All 2-party flat rate residential (2-FR) subscribers shall be furnished a pre-paid postcard addressed to the utility for the election between 1-party timed message (1-MR) and 1-party flat rate service (1-FR). All 2-FR subscribers who fail to inform the utility of such election within 45 days shall be converted to 1-party flat rate service. No service connection on change charges shall be levied for customers converting from 2-FR service, nor shall such charges be levied in the case of 1-FR subscribers electing to take 1-MR service within 90 days after that service becomes available in their exchange.

6. General shall file with this Commission intrastate results of operations reports, both on a reported and on a decisional (this decision) basis, on or before March 31, 1975, detailing its earnings for the month of January 1975, and the 12-month period ending January 31, 1975, as specified in Appendix B to this decision. Thereafter, General shall continue to file intrastate results of operations reports for each month, commencing with February 1975, detailing its earnings for that month and for the 12-month period ending that month as specified in Appendix B to this decision. Each monthly report subsequent to the initial report shall be filed no later than sixty days after the close of the month involved.

7. General shall, within five days of the date of this order, advise the Commission and the parties to these proceedings whether, in connection with any order issued by the Commission in Case No. 9831 instituted concurrently herewith indicating to the Company that it appears to the Commission that General may be realizing earnings which result in a rate of return in excess of that allowed by this decision, it consents to the inclusion in such order of a provision requiring that rates collected subsequent to the date of such order will be subject to refund pending determination by the Commission, after hearing, of the justness and reasonableness of said rates, and thereby waives the prior hearing requirement set forth in Section 728 of the Public Utilities Code.

8. General shall file with its next General Order No. 133 quarterly report a statement setting forth the reporting levels for the telephone service measures of the general order equaling the objective levels ordered in Decision No. 79367 for conventional service indices. After the filing of such a statement, and its acceptance by the staff, General is authorized to substitute the reporting of General Order No. 133 indices at such higher reporting levels for the conventional indices presently required by Decision No. 79367.

9. Within ninety days after the effective date of this order, General shall file with this Commission a revised tariff schedule for art work charges developed in conformity with Finding 14 of this decision. The filing shall conform to the requirements of General Order No. 96-A.

10. Within ten days after the effective date of this order, General shall file with this Commission a set of the recently

compiled Directory Company operating practices applicable to customers together with a statement describing how this material is being made available to General's customers.

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

Dated at San Francisco, California, this 26th day of NOVEMBER, 1974.

I abstain

[signature], Commissioner

[signature] President

[signature]

[signature] Commissioners

Commissioner THOMAS MORAN

Present but not participating.

APPENDIX A

APPEARANCES

Albert M. Hart, H. Ralph Snyder, Jr., and John Robert Jones, Attorneys at Law, for General Telephone Company of California, applicant in A. 53935 and respondent in C. 9578.

Roger P. Downes, Attorney at Law, for The Pacific Telephone and Telegraph Company, respondent.

Burt Pines, City Attorney, by Charles W. Sullivan and C. P. Karos, Attorneys at Law, for the City of Los Angeles; Robert W. Russell, Chief Engineer and General Manager, and Manuel Kroman, by K. D. Walpert and Kenneth E. Cude, Department of Public Utilities & Transportation, for the City of Los Angeles; Louis Possner, for the City of Long Beach; William L. Knecht, Attorney at Law, for California Farm Bureau Federation; Carl B. Hilliard, Jr., Attorney at Law, for Telephone Answering Systems of California, Inc. (TASC); Lessing E. Gold, Attorney at Law, for Western Burglar and Fire Alarm Association; and Jack Krinsky, President, Advisor, Inc., for certain business telephone subscribers; interested parties.

Walter Kessenick, Attorney at Law, Kenneth Chew, and James G. Shields, for the Commission staff.

General Telephone Company of California shall prepare and file with the California Public Utilities Commission monthly and 12 months ended California intrastate results of operations reports. These reports shall provide in detail its earnings on an as reported and on a Decision No. 83779 adopted basis for each monthly period and 12-month ending period commencing with the month of January 1975 and continuing each month thereafter.

Each intrastate results of operation report shall contain the following detailed information:

1. Operating Revenues
   - a. Local Service Revenues
   - b. Toll Service Revenues
   - c. Miscellaneous Revenues
   - d. Uncollectibles
   - e. Total

2. Operating Expenses
   - a. Current Maintenance
   - b. Depreciation and Amortization
   - c. Traffic Expense
   - d. Commercial Expenses
   - e. General Office Salaries and Expenses
   - f. Operating Rents
   - g. General Services and Licenses
   - h. Other Operating Expenses
   - i. Total

3. Taxes
   - a. Federal Income
   - b. California Corporation Franchise
   - c. Social Security
   - d. Other
   - e. Total

4. <u>Balance Net Revenues</u>

5. <u>Average Net Plant and Working Capital</u>

   a. Telephone Plant in Service
   b. Property Held for Future Telephone Use
   c. Telephone Plant Acquisition Adjustment
   d. Working Cash
   e. Material and Supplies
   f. Depreciation Reserve
   g. Reserve for Deferred Taxes
   h. Total

6. <u>Percent Balance Net Revenues to Average Net Plant and Working Capital (Rate of Return)</u>

Each results of operation report shall contain information separately computed on each of the following bases:

A. As Reported (California Intrastate Results of Operation).

B. Adjusted to Eliminate Unusual or Nonrecurring Items, with Explanations as Necessary.

C. Decision No. 83779 Basis Including the Following Decision No. 83779 Adopted Adjustments:

   (1) California Corporation Franchise Tax Current Basis
   (2) California Corporation Franchise Tax Accelerated Depreciation Flow-Through
   (3) Dues, Donations, and Contributions
   (4) Legislative Advocacy
   (5) Advertising
   (6) Automatic Electric Adjustment
   (7) Directory Company Adjustment
   (8) GTEDS Adjustment
   (9) Accelerated Depreciation on Account 176, (California Corporation Franchise Tax Flow-Through)
   (10) Working Capital Allowance
   (11) Other Decision No. 83779 Adjustments
   (12) Other Rate-fixing Adjustments as Appropriate

D. Decision No. 83779 Basis as Above but with Decision No. 83779 Rates Annualized and Reflecting Associated Settlement Effects.

The first report, for the period ending January 31, 1975 shall be filed on or before March 31, 1975. Each subsequent report shall be filed no later than sixty days after the close of the reporting month.

APPENDIX C

RATES

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

Schedule No. A-1
Individual and Party Line, Suburban, PBX Trunk and Semipublic Service--Authorized Rates

Class and Grade of Service	Rate Per Month: Extended Service Los Angeles Metropolitan Exchanges 1/	All Other Exchanges 2/
Business Service		
Individual Line - Flat	$12.60 3/	$13.20
Individual Line - Measured	7.65(80)	-
2-Party Flat	10.50 3/	10.50
Suburban Business	10.50	10.50
Semipublic Coin Box	7.65	7.65
PBX Trunk - Flat	18.90 3/	19.80
PBX Trunk - Message	3.80(0)	-
Residence Service		
Individual Line - Flat	5.75	5.95
Life-Line Measured	3.00(30)	-
2-Party Flat	5.05 3/	5.25
Suburban Residence	5.05	5.25

(Message allowance shown in parenthesis)

NOTES

1/ Extended Service Los Angeles Metropolitan Exchanges

Covina	Monrovia	Sierra Madre
Downey	Ontario	Sunland-Tujunga
Etiwanda	Pomona	West Los Angeles
Huntington Beach	Redondo	Westminster
Long Beach	San Fernando	Whittier
Malibu	Santa Monica	

2/ Rates shown are for local service. Extended service, where offered, is offered at these rates plus extended service rate increments as set forth in Exhibit No. 10A, Page 6.

3/ Applicable until withdrawn in compliance with Commission order to institute message rate service.

APPENDIX C
Page 2 of 3

RATES

Schedule No. A-1 - Continued

All Other Exchanges

Arrowhead	Indio	Perris
Badger	Isleton	Pinyon
Banning-Beaumont	Joshua Tree	Redlands
Carpinteria	Laguna Beach	Reedley
Courtland	Lake Hughes	Salton
Crestline	Lancaster	San Bernardino
Desert Center	Lindsay	Santa Barbara
Desert Hot Springs	Lompoc	Santa Maria
Dunlap	Los Alamos	Santa Paula
Eagle Mountain	Meadowview	Santa Ynez
Elsinore	Miramonte-Pinehurst	Squaw Valley
Fowler	Moreno	Sun City
Grant Grove	Morongo Valley	Temecula
Guadalupe	Murietta	Thousand Oaks
Hemet-San Jacinto	Oxnard	Twentynine Palms
Homestead Valley	Palm Desert	Walnut Grove
Idyllwild	Palm Springs	Yucca Valley

Message Rate (Measured)

Class of Service	Rate Per Local Unit
Measured Rate Service - Each Local Unit over Allowance	5¢
Hotel Service - Each Local Unit	5¢

Note: A unit is a completed local call of 5 minutes or less in duration. Each additional 5 minutes or less of continuous conversation time will be considered as another unit.

Schedule No. A-2
Datatel Service

The proposed rates set forth in Exhibit No. 10A, Page 9 are authorized.

RATES

Schedule No. A-6
Private Branch Exchange Service

The proposed rates set forth in Exhibit No. 10A, page 10 as modified by Exhibit No. 33, Section 7, are authorized.

The transfer of "Service Connection Charges" for inward dialing and centrex services from Schedule A-30 into Schedule A-6 is also authorized.

Schedule No. A-15
Supplemental Services

The proposed rates set forth in Exhibit No. 10A, pages 12 to 21, are authorized, except the long cord rates. The 15- and 25-foot cords shall be offered at the unchanged present rates, offering of the 10-foot cord shall be discontinued.

Schedule No. A-19
Foreign Exchange Service

The proposed rates set forth in Exhibit No. 10A, page 22, are authorized.

Schedule No. A-34
Pushbutton Telephone Service

The proposed rates set forth in Exhibit No. 10A, page 29, are authorized except as follows:

Pushbutton Telephone System	Monthly Rate
(1) Line Common Equipment Each Central Office Line	
Equipped for touch-calling	$5.70
(2) Pushbutton-station Location	
Each	$3.00

Schedules Nos. D & R G-1, 2, 3, 4, 5, 6, 7, 9, 11, 12, 13, 18, 20, 21, 22, 26.
Private Line Services

The rates and charges set forth in Exhibit 10A, pages 38 through 61 are authorized, simultaneously with the elimination of the 5% billing surcharge.

Other Rates and Charges

Rates and charges for other related services shall be revised to the extent required by the above-authorized revisions.

APPENDIX D

RATES

<u>Schedules Nos. A-29 and A-30</u>
<u>Move and Change, Service Connection Charges</u>

The rates set forth in Exhibit 10A, pages 26 to 28, are authorized except as follows:

All exchange services (except centrex and inward dialing service):

Service Order Activity	Residence	Business
Initial Order		
First primary line	$6.50	$15.00
Additional primary line, each	6.50	6.50
Subsequent Order	3.00	3.00
Central Office Activity, each line	5.00	5.00
Premise Activity	8.00	8.00

<u>Other Rates and Charges</u>

Rates and charges for other related services shall be revised to the extent required by the above-authorized revisions.