Decision No. 84492

CRICIPAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

CALIFORNIA HOTEL & MOTEL ASSOCIATION,

Complainant,

VS.

CALIFORNIA-PACIFIC UTILITIES COMPANY, CITIZENS UTILITIES COMPANY OF CALIFORNIA, CONTINENTAL TELEPHONE COMPANY OF CALIFORNIA, EVANS TELEPHONE COMPANY, GENERAL TELEPHONE COMPANY OF CALIFORNIA, KERMAN TELEPHONE COMPANY, MARIPOSA LIVINGSTON TELEPHONE COMPANY, MARIPOSA COUNTY TELEPHONE COMPANY, INC. PACIFIC TELEPHONE & TELEGRAPH COMPANY, REDWOOD EMPIRE TELEPHONE COMPANY, SISKIYOU TELEPHONE COMPANY, WEST COAST TELEPHONE COMPANY OF CALIFORNIA, and WESTERN CALIFORNIA TELEPHONE COMPANY.

Case No. 9880 (Filed March 3, 1975; amended April 15, 1975)

Defendants.

### INTERIM OPINION

### Proceeding

Complainant is a California nonprofit corporation representing more than 530 hotels and motels (hereinafter referred to collectively as hotels). The association serves as a clearing house for information for its members and represents their interests in matters of common concern.

Complainant prays that the Commission grant the following interim relief:

- 1. An increase of the allowable maximum surcharge for each outgoing exchange message from 18 cents to 23 cents per message.
- 2. An increase of the allowable maximum surcharge for each multi-message unit and intrastate toll call from 25 cents to 30 cents.
- 3. An order enjoining defendants from implementing time-measured local service to hotels (a) until such time as defendants furnish the equipment necessary to enable such hotels to obtain the necessary information from which to bill guests immediately on a per call basis for the additional costs arising from such time-measured local service, and (b) until such time as the Commission issues and makes effective an order authorizing hotels to increase the aforementioned surcharge to a figure sufficient to compensate such hotels for the additional costs to them.
- 4. An order granting such further relief as the Commission shall deem proper.

Complainant alleges that since 1962 the costs to hotels of providing outgoing telephone service for guests have risen substantially. By this complaint, complainant seeks immediate interim relief to offset certain identified increased costs related to both local and long distance intrastate calls. Complainant states it will file a separate complaint asking for permanent relief upon a full examination of all of the costs incurred by complainant's members in connection with providing telephone service for guests.

Present Hotel Charges for Telephone Service

Each of the defendants has on file with this Commission a schedule of rates and conditions applicable to hotel PBX service under which hotels are permitted to charge hotel guests an amount

not to exceed 18 cents in total, including message charge and excise tax, for each outgoing local exchange message. This limit was ordered in Decision No. 69491 dated August 3, 1965. The filed schedule of some of the defendants also contains a condition under which hotels are permitted to charge hotel guests not to exceed 15 cents, plus the tariff charge, plus federal excise tax for each multi-message unit message or intrastate toll message, whether sent-paid or not. The schedule of other defendants shows a maximum of 25 cents for the surcharge on each such call if sent-paid and no surcharge if such call is non-sent-paid. The 15-cent maximum charge was authorized by the aforesaid Decision No. 69491, and the 25-cent maximum charge was authorized by Decision No. 82077 dated October 30, 1973.

Complainant states that the maximum charges allowed by the foregoing decisions were based upon developed costs for the year 1962 incurred by hotels in providing outgoing intrastate telephone call service for guests. Complainant points out that Decision No. 69491 held that hotels are entitled to recover their reasonable handling costs for guests' outgoing intrastate telephone calls through surcharges placed on guests' outgoing calls. Showing for Increase in Charge for Local Calls

Complainant supports its request for an ex parte interim order that would increase the maximum surcharge which hotels may place on each outgoing local exchange message from 18 cents per call to 23 cents per call with the following showing:

1. An increase in the message unit charge to complainant's members by The Pacific Telephone and Telegraph Company (PT&T) for each local call from 4.5 cents to 5 cents was authorized by Decision No. 83162 dated July 23, 1974. This amounts to a cost increase of .5 cent per local call.

<sup>1/ 64</sup> CPUC 567.

<sup>2/ 64</sup> CPUC 567, 577.

- 2. A use tax on each local call by local governments has been imposed throughout California. This tax is 5 percent of the charge for the call for the majority of calls. This amounts to a cost increase of .25 cent per local call.
- 3. Equipment rental charges to complainant's members have been increased by PT&T since 1962. Appendix D to the complaint shows that when increased rental charges are related to guest outgoing local calls for a representative sampling of California hotels, an increase results of 5.3 cents per local call on the average. For purposes of interim relief complainant asks recognition of only 4.25 cents of such average increase.
- 4. Salaries paid by complainant's members for telephone operators in members' establishments have increased since 1962. Appendix E attached to the complaint shows that on the average the total of such salaries has increased substantially notwithstanding the change to direct dial equipment.

### Showing for Increase in Charge for Multi-Message Unit and Intrastate Toll Calls

Complainant supports its request for an ex parte interim order that would increase the maximum surcharge which hotels may place on multi-message unit and intrastate toll calls from 25 cents to 30 cents with the following showing:

1. The relative number of sent-paid calls as compared to non-sent-paid calls has decreased. The present 25-cent maximum surcharge for each multi-message unit or intrastate roll call was authorized by Decision No. 82077 dated October 30, 1973, because of PT&T's inability to record non-sent-paid calls on its proposed Traffic Service Position Systems (TSPS). The previously authorized 15-cent maximum surcharge (which covered both sent-paid and non-sent-paid calls) was increased to 25 cents to make complainant's members whole for the loss of revenue incurred by PT&T's implementation of TSPS.

Complainant alleges that the 25-cent surcharge for sent-paid calls was predicated upon a study undertaken by PT&T indicating the ratio between total non-sent-paid calls and paid calls. That study indicated that 62 percent of the outgoing calls were sent-paid and 38 percent of the outgoing calls were non-sent-paid calls.

Appendix F attached to the complaint is a study undertaken by PT&T at complainant's request to update its study of the calling pattern of complainant's members' guests. The study shows that as of August 1974, 57.5 percent of the outgoing calls are sent-paid calls and 42.5 percent are non-sent-paid calls. In order that complainant's members may recover the same revenue that complainant's members recovered under the 15-cent surcharge on both sent-paid and non-sent-paid calls and under the 25-cent surcharge on sent-paid calls, Appendix G is attached to the complaint to demonstrate that complainant's members now require a minimum additional 1 cent per sent-paid call.

- 2. Equipment rental charges have been increased to complainant's members by PT&T since 1962. Appendix D to the complaint shows that these increased charges, when related to guest outgoing multi-message unit and intrastate toll calls for a representative sampling of California hotels, result in an increase of 5.3 cents per local call on the average. For purposes of interim relief, complainant asks recognition of only 4 cents of such average increase.
- 3. Salaries paid by complainant's members for telephone operations in members' establishments have increased since 1962. Appendix E is attached to the complaint to show that on the average the total of such salaries has increased substantially notwithstanding the change to direct dial equipment.

C. 9880 ltc

# Showing for Enjoinder of Charge for Time-Measured Local Calls

PT&T was authorized by Decision No. 83162 dated July 23, 1974 to implement time-measured local service by imposing upon hotels an additional message unit charge of 5 cents for each five-minute interval following the first five minutes of each local call by a hotel guest. Complainant is informed and believes that PT&T has not yet implemented time-measured local service because of the lack of equipment necessary for PT&T to time and record the duration of local calls.

General Telephone Company of California (General) was authorized by Decision No. 83779 dated November 26, 1974 to impose an additional message unit charge of 5 cents per unit for each five-minute interval following the first five minutes of each local call. Complainant is informed and believes that General will implement time-measured local service for business on May 1, 1975. 1/

Complainant is further informed that neither PT&T nor General has equipment available for use by hotels which will give them the necessary information which will enable them to bill guests for the time-measured local service on a per room, per day basis. Complainant argues that unless PT&T, General, or any other defendant implementing time-measured local service can furnish the necessary equipment which will enable hotels to bill guests for time-measured local service on a per room, per day basis, hotels will be seriously injured by the inability to recover additional costs to them arising from the authorized increase in charge for local messages exceeding five minutes in length.

Complainant, therefore, requests that each defendant be enjoined from implementing charges to hotels based upon timing of local calls until such defendant provides, at a reasonable cost to hotels, the necessary equipment enabling each hotel to receive data on a per room, per day basis, and bill guests accordingly.

<sup>1/</sup> Time-measured local service authorized by Decision No. 83779 was suspended by Decision No. 84393 dated April 29, 1975. Ordering Paragraph 4 of Decision No. 84393 provides for future hearings on this matter.

### Position of PT&T

PT&T in its answer to the complaint, filed on April 14, 1975, did not respond to complainant's request for increases in the surcharges to be charged hotel guests by hotels for telephone calls.

In answer to the request for injunctive relief, PT&T alleges that it does not intend to implement time-measured local service to hotels as authorized by Decision No. 83162 prior to the time such equipment is available at a reasonable cost to hotels and that PT&T has previously so informed complainant. PT&T expects to have such equipment available before the end of 1975. PT&T states it will implement time-measured local service to hotels in accordance with timetables for such implementation which PT&T will make available to the Commission and complainant. PT&T alleges that complainant has failed to allege facts sufficient to support its request for an interim order enjoining PT&T in that a showing has not been made of impending or threatening injury that can be averted only by the injunctive process.

### Position of General

General, in its letter dated March 12, 1975, did not comment on complainant's request for increases in hotel telephone surcharges.

General opposes applicant's request for injunctive relief since complainant has alleged no facts which support complainant's belief that measured local service business rates (MLS) will result in increased charges from General to hotels. General states that until sufficient experience is accumulated as to the impact of MLS, if any, on complainant, any request for relief is premature. Finally, General alleges that the request is not timely in that complainant had ample opportunity to be heard on the subject of MLS in the hearing which led to Decision No. 83779. General indicates that it is willing to work with complainant to seek appropriate solutions if and when required.

C. 9880 JR/ltc

General, in its answer filed April 14, 1975, requests that the complaint be dismissed.

#### Discussion

In Case No. 7865, filed in 1965, the California Hotel & Motel Telephone Committee requested increases in the maximum permissible surcharges that hotels may charge their guests or others for making intrastate telephone calls through hotel private branch exchange telephone systems. Decision No. 69491 discusses in detail the results of an exhaustive analysis by a staff engineer. The staff engineer found errors in complainant's study and took exception to many of the assumptions and details employed by the complainant in allocating costs.

Prior to cross-examination of any witnesses or the presentation of any rebuttal testimony, in response to requests initiated by counsel for complainant, continuances were granted to enable the parties to attempt to reach agreement on acceptable surcharges and other issues necessary to conclude the proceeding.

The staff did agree to a surcharge proposal by complainant provided agreement could also be reached on basic data requirements to be met for any future presentations before the Commission in support of any change in hotel guest telephone surcharge rates. Agreement by complainant, the staff, and PT&T was reached on the basic data requirements as set forth in an exhibit prepared by the staff entitled "Basic Requirements for Any Future Cost Study in Support of a Filing for Increase of Hotel Guest Telephone Surcharge Rates" (Exhibit 29, Section B). Subsequently, Decision No. 69491 found that Section B of Exhibit 29 sets forth reasonable requirements for any future cost study in support of a filing for an increase in hotel guest telephone surcharge rates, and ordered that:

"3. Complainant, or any successor representing a hotel or hotel interests, is put on notice that any future cost study in support of a filing for increase of hotel guest telephone surcharge rates should meet substantially the requirements set forth in Appendix B, attached hereto."

Appendix B to Decision No. 69491 is included in this decision as Appendix A.

A comparison of complainant's showing, summarized above with Appendix A hereto, discloses that complainant has not complied substantially in this proceeding with the showing required by Decision No. 69491"in support of a filing for increase in hotel guest telephone surcharge rates".

We are not convinced by complainant's showing that the defendants should be enjoined from implementing charges to hotels based on timing of local calls. Complainant has not shown that hotels will be seriously injured by the inability to recover costs arising from the additional charge for local messages exceeding five minutes in length.

We note that General is authorized until May 1, 1975 to charge \$18.90 monthly per trunk for PBX trunk line flat rate service. After May 1, 1975, with the advent of time-measured service, the monthly rate General is authorized by Decision No. 83779 dated November 26, 1974 to charge for PBX trunk line time-measured service decreases to \$3.80 per trunk. Further, it is questionable that substantially more than 15 percent of measured service trunk calls will be of a duration of more than five minutes. 3/

We also note that a telephone call from a hotel in downtown San Francisco to the San Francisco airport will cost a hotel guest 31 cents if the call is placed sent-paid through the hotel telephone, 54 cents if the call is placed with an "other city" credit card through the hotel telephone, and 20 cents if the call is placed through a public pay telephone.

<sup>3/</sup> Effective date of MLS has not been determined. Ibid.

From the positions of complainant, PT&T, and General on the proposed increases in surcharges, and considering the foregoing indication of the cost of telephone service to hotel guests, it appears that none of the parties are concerned with the impact on the hotel guest of telephone hotel charges. The time may be now when review of the reasonableness of hotel surcharges is required to take into account the cumulative effects on the public of changes in system operation, rate structure, and authorized charges. Findings

- 1. Complainant has not complied with the requirements of Decision No. 69491.
- 2. Complainant has not demonstrated that present surcharges by hotels on local and toll calls are unreasonable.
- 3. Complainant has not demonstrated that the proposed increases in surcharges by hotels on local and toll calls are reasonable.
- 4. Complainant has not demonstrated that measured local business rates will injure hotels.
- 5. Complainant has not demonstrated that injunctive relief is needed.
- 6. This record contains no definitive data on the availability, cost, and feasibility of equipment for billing hotel guests for time-measured local usage.

### Conclusions

- 1. The request for interim ex parte increases in maximum allowable surcharges to be charged hotel guests by hotels for exchange, multi-message unit, and intrastate toll calls should be denied.
- 2. Complainant should be permitted to amend its showing within a year to comply with Decision No. 69491 and make a showing in support of its requests at a public hearing.
- 3. PT&T and General should be required to provide the data hereafter ordered.

### INTERIM ORDER

#### IT IS ORDERED that:

- 1. The request of the California Hotel & Motel Association for interim ex parte increases in the maximum allowable surcharges to be charged hotel and motel guests by hotels and motels for each outgoing exchange message and for each multi-message unit and intrastate toll call is denied without prejudice.
- 2. The request of the California Hotel & Motel Association for an order enjoining defendants from implementing time-measured local service to hotels and motels is denied.
- 3. This complaint is dismissed without further order unless complainant within twelve months of the effective date hereof amends its complaint to comply with Appendix A attached hereto and requests a public hearing to demonstrate the reasonableness of increases in surcharges to be charged guests by hotels and motels for telephone calls.
- 4. General Telephone Company of California and The Pacific Telephone and Telegraph Company are ordered to file with the Commission, within ninety days of the effective date hereof, a report as to the feasibility, availability of equipment, and cost of arrangements to enable hotels and motels to obtain the information necessary to bill guests for time-measured local usage.

5. General Telephone Company of California is ordered to file with the Commission, within one hundred twenty days after the introduction of time-measured local service, the results of a study of a representative sample of hotels and motels in time-measured exchanges of charges for trunks and for local message usage before and after introduction of time-measured local message rates.

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

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#### BASIC REQUIREMENTS FOR ANY FUTURE COST STUDY IN SUPPORT OF A FILING FOR INCREASE OF HOTEL GUEST TELEPHONE SURCHARGE RATES

- (a) Directly assignable costs must be directly assigned, not allocated. This applies to equipment rental on items of telephone equipment for which usage is not directly shared between management and guest usage. Message charges for all categories of messages would be similarly directly assigned where records permit. In other cases the assignment would be made in accordance with the method discussed under Item (d) following. For such items those directly assignable to management or administrative use should be excluded from any totals to be allocated to guest handling costs. Such items as are directly assignable to management or administrative use should be excluded regardless of the accounting treatment used by hotels.
- (b) Potential revenues under the maximum allowable charges permitted by the tariff in force at the time of the study must be shown, regardless of whether a given hotel elects to collect such maximum charges. Where collection of such charges would result in additional or incremental handling costs, an adjustment to handling costs should be made and supported. Nothing in this statement should be construed as prohibiting the presentation also of the actual expenses and income picture. (There would be incremental costs in the case of a hotel actually allowing free local calls. For example, taking a guest dial hotel, there would be monthly equipment rental for guest room registers, costs of reading those registers, entering readings on room cards, and such other incremental costs as could be reasonably supported. However, in the case of a hotel allowing free credit card calls, the incremental costs of collection would be expected to be minimal for any hotel having TWX Page Report Service or generally for any hotel under the proposed 15¢ flat charge for toll and MMU calls.) Day to day failures to collect charges not included under blanket foregoing of collections by call categories are treated separately under the next item.

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- (c) Uncollected potential revenues for all hotels must be shown regardless of whether full collection is accomplished. However, such uncollected potential revenues can be deducted, in the case of surcharges, by a red figure for uncollectibles under "Gross Sales", and in the case of message charges, by an excess of such charges under "Cost of Calls" over those shown as collections from guests under "Gross Sales". Such uncollectibles are a legitimate cost of operation provided they are held to a reasonable level. Nowever, support for what constitutes a reasonable level should be a part of the report. Uncollectibles on surcharges can be shown in a single red figure line under "Gross Sales", on a schedule of income and expenses as, for example, by Table IV of present study.\* These must be detailed and accounted for by call categories and causes elsewhere in the report. Uncollectibles on message charges reflected as an excess of such charges under "Cost of Sales" over those shown under "Gross Sales" must be correctly separated as between Intrastate and Interstate Toll (under both "Gross Sales" and "Cost of Calls") and correctly separated as between local and MMU under "Cost of Calls".
- (d) As the basis for the separations mentioned in the preceding section (c) a study must be made for a test period at each sample hotel to determine directly the actual guest chargeable usage in each call category (independent of any peg count traffic study) and the percentage of uncollectibles experienced, together with the itemization of relative amounts due to each of the principal causes of failure to collect.

Such a study must include a determination of incidence of all non-billable calls (both intrastate and interstate). Separation of billable message charges as between intrastate and interstate must be made, based generally on the methods used in Chapter 4 of staff Exhibit 11, but where necessary also giving effect to transfer of bulk billed guest MMU from "Cost of Calls - Local" to "Cost of Calls - Intrastate, Intercity".

<sup>\*</sup> Table IV of present study refers to Exhibit No. 1 in Case No. 7864. Words or phrases in quotes are terminology used in that exhibit.

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- (e) Recorded traffic (including non-billable intrastate calls and non-billable interstate calls not shown in traffic records) will be reconciled as being within and reasonably related to the total of calls recorded in any peg count study made for the purpose of determining allocation factors. Call completion rates for each hotel, and ratio of guest incoming calls to guest outgoing calls must also be specifically determined by the traffic count at each hotel. Overall call completion ratios for areas in which the study hotels may be located should be relied upon only where specific completion rates cannot be determined.
- (f) Application of the principles outlined in Items (a) through (e) should result in producing adjusted data internally consistent or reconcilable within or between the various tables and schedules of the study. Taking the present study for example, the purpose is to produce consistency between the "Gross Sales" data and the "Cost of Calls" data for each category of calls shown on Table IV, between the outgoing guest call data on line 11 of Schedule 1 and the message charge data on lines 3 and 4 of Schedule 1. It should also provide consistency or reconcilability as between outgoing messages for the test year shown on line li of Schedule 1 and the "Gross Sales" and "Cost of Calls" data of Table IV.\*\* In addition, it should provide consistency of reconcilability between outgoing calls for the test year used on line 11 of Schedule 1 to determine unit costs, and the pcg count data of Schedules 3, 4, and 5 used to develop allocation factors.\*\* Such internal consistency or reconcilability should be a minimum requirement for any future cost study, and the steps outlined in Items (a) through (e) are a minimum program for its attainment.
- (g) Full responsibility for the reasonable accuracy of recorded data and the reasonableness of the adjusted or estimated data furnished by hotels should be clearly assumed by the person or persons making the cost study. All such data should be fully and carefully evaluated and not accepted at face value.

Table IV refers to Part 1 of Exhibit No. 1 and Schedules 1, 3, 4, and 5 refer to Parts 2 and 3 of Exhibit No. 1 in Case No. 7864. Words or phrases in quotes are terminology used in that exhibit.

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- (h) The report must contain a statement of the nature of telephone operations at each study hotel, giving sufficient detail to permit determination of whether MMU calls are or are not dialed by the PBX operator, and, what sort of tickets must be prepared by the PBX operator, and for what types of calls handled. The statement should be complete enough to permit determination of the reasonableness of totals obtained for the peg count period (as between switchboard and guest dial), proper inclusion or exclusion of ticket writing in the schedules developing allocation factors, and proper application of coefficients in those schedules.
- (i) All handling cost figures allocated to guest usage must be separated as between outgoing and incoming call costs.
- (j) Percent room occupancy for each study hotel must be included in the report as follows:
  - (1) By months for the test year.
  - (2) By days for the period of any peg count or other special study period.

Data on number of guests accommodated must also be provided on the same basis as percent room occupancy. For hotels not regularly compiling this data it would be provided at least for any peg count or other special study period. This portion of the report should also give the number of available guest rooms and the basis for computation of occupancy percentages at each study hotel.

- (k) All hotel records pertinent to the data of the report will be retained by the hotels and/or the agency making the cost study from the beginning of the test year used, to submission of the matter to the Commission. Records to be retained include, but are not necessarily limited to the following:
  - (1) Local call vouchers (including all vouchers whether or not collection was effected) for representative sample periods in the test year and, in particular, for any period of special study on collections, chargeable guest usage, or peg count traffic studies.
  - (2) Records of guest register readings and rebate forms under the same conditions stated for local call vouchers.

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- (3) TWX vouchers and traffic sheets under the same conditions stated for local call vouchers. The telephone company will be requested to retain TWX transmission sheets for the same time periods. Study hotels not having TWX page reports and not normally writing traffic sheets should log all chargeable traffic during peg count or other special study periods and retain such records.
- (4) Telephone billings including Interstate Toll
  Commission Detail forms for the entire test year,
  and for the billing round, including the days of
  any special study on guest chargeable usage, or peg
  count traffic study.
- (5) Equipment rental breakdowns to be requested from the telephone company long enough in advance of the study, furnishing sufficient detail to provide positive identification of all items provided for exclusive management or administrative use. This data should, of course, be retained.
- (1) The report must include average guest room rental charges for the test year and for the year of the last previous study (whether or not the same study hotels are involved).
- (m) Other income items in the telephone department provided for under the Uniform System of Accounts for Hotels, and in particular, pay station commissions should be included in the study. If the position taken in the study is that such income should not be included as telephone department income, support for that position can, of course, be adduced. The amounts for each study hotel should, however, be reported as a part of the study.
- (n) Hotels should make every reasonable effort to reduce guest telephone handling costs, and to assure the most equitable and effective collection of guest surcharges (at whatever permissible level of charges is nominally adopted by each hotel). Any future study must set forth the policies followed by each of the test hotels with regard to the means of realizing these objectives.

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- (0) With reference to hotels showing unusually high unit costs, the statement of the preceding Item (n) applies with additional emphasis. Inclusion of such hotels in any future group of study hotels can be justified only if particular effort is applied to them to determine the following:
  - (1) Whether the costs reported are valid.
  - (2) Whether the number of messages processed for the test year in each category has been correctly determined.
  - (3) Whether collection practices are effective and equitable.
  - (4) What efforts have been made by the hotel to reduce its handling costs and increase the effectiveness of its collection practices. It is noted that the unit costs shown in Table 1 of Exhibit 1 for certain study hotels are at a level obviously far beyond effective relief through increase of guest surcharges.
- (p) Extension of sampling beyond the limited group of hotels, selected for intensive detailed cost study, to other hotels broadly, with respect to experience and practices under the surcharge tariff in force, was made in the present proceeding at the request of the staff. Such extension should be a part of any future study. (Ref.: Exh. 11, Chapter 3 and Appendix Pages A-1 through A-7).
- (q) In any future cost study a statement should be included showing the number of Association member hotels and the number of the member hotels which indicated they have had a full schedule of surcharge rates continuously posted, in a conspicuous manner in guest rooms, with an indication as to the period it has been so posted.
- (r) In all future studies, the term "Intrastate Toll and MMU" must be substituted for "Intercity, Intrastate".\*\*\* The "and MMU" portion can be omitted in most references, and understood to be included where applicable.

<sup>\*\*\*</sup> The term "Intercity, Intrastate" is that used in Exhibit No. 1, Case No. 7864.