

Decision No. 85252

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CONTINENTAL TELEPHONE COMPANY OF
CALIFORNIA, a California corporation,
for authority to increase its rates
for telephone service.

Application No. 55376
(Filed December 12, 1974)

Orrick, Herrington, Rowley & Sutcliffe, by
James F. Crafts, Jr., and Robert J. Gloistein,
Attorneys at Law, for Continental Telephone
Company of California, applicant.
Scott LeFaver, for the City of Gilroy; Fred Wilken,
for the People of Sanger; and Jerry Fuchs, for
Gilroy Dispatch; protestants.
William L. Knecht and William H. Edwards, Attorneys
at Law, and Ralph O. Hubbard, for the California
Farm Bureau Federation; Neal C. Hasbrook, for
the California Independent Telephone Association;
and Brundage, Season, Reed, Pappy & Hacle, by
Jeff Pesses, Attorney at Law, for the Inter-
national Brotherhood of Electrical Engineers;
interested parties.
Lionel B. Wilson, Attorney at Law, Kenneth Chew,
and George A. Amaroli, for the Commission staff.

INTERIM OPINION ON MODIFICATION

Applicant's request for general rate relief was accompanied by a petition for interim rate increase. Hearings were held on the petition for interim relief on March 24, 25, and 26, 1975 in San Francisco before Examiner Gilman. The company claimed that it needed an interim increase of 3.6 million in intrastate revenues before December 31, 1975 in order to have sufficient interest coverage to issue bonds. It claimed that \$10 million of bond financing was needed to refund a similar amount of short term debt which could not be extended beyond the early months of 1976 and an additional \$4 million was to be applied to the company's continuing construction program.

The staff conceded that an emergency existed, but challenged the company's showing in two major respects. It claimed that the applicant could successfully market bonds with a 2.18 times coverage rather than the 2.3 times coverage sought by applicant. The staff also contended that the company's estimate of toll revenues was too pessimistic; it asserted that \$1.657 million in additional revenues would meet the emergency.

The Commission adopted the staff's position relying on the staff's ability to provide timely recommendations for correction if the staff's toll revenue estimates proved too optimistic. It authorized interim rate relief intended to produce \$1.657 million in additional revenue between July 1 and December 31, 1975 (D.84662 dated July 15, 1975).

Almost immediately after the decision was issued, the applicant filed a petition for modification, alleging that the staff's toll revenue estimate had proven to be so much in error that a further \$1.853 million in interim relief was necessary to permit issuance of bonds, despite an additional extension of its short-term line of credit to March 31, 1976. The Commission's Finance and Accounts Division produced a study challenging the company's contentions in several respects.

Hearings on the petition for modification were held on August 15 in Weaverville and September 15 through 17 in San Francisco before Examiner Gilman. Oral argument was held on September 19 and the petition for reconsideration was submitted. The petition for reconsideration was heard on the assumption that the amount of interim relief awarded would be limited by the same standard used in D.84662, i.e., the amount necessary to meet the emergency.

The Utilities Division staff opposed the use of the emergency standard, asserting that by accepting a short delay the Commission would be able to utilize a different standard; by waiting until all of the direct evidence was introduced the amount of interim relief could be set at the lowest level of expected permanent rate relief. The Utilities Division asserted that relitigation under the test used in the last decision would be dilatory and a significant waste of the staff's limited resources of time and talent. The division claimed that the delay necessary to permit receipt of all parties' direct evidence on permanent rates would not significantly prejudice applicant's ability to obtain timely financing.

Largely because of applicant's decision to stipulate to the staff's results of operations evidence (rather than presenting its own showing which allegedly would justify a substantially larger ultimate increase) all the evidence necessary for the final decision was submitted before action on the petition for modification could be taken. It now appears pointless to keep each phase of this matter in separate compartments. All of the evidence now available should be used to determine whether and to what extent additional interim relief should be granted.

We have in previous cases fixed interim rates based on the amount of permanent relief a utility undisputedly requires. (California-Pacific Utilities, D.83549 in A.54664, A.54665 (October 8, 1974).) Since it is now possible to consider all of the evidence presented we can now form a reliable estimate of the minimum amount of permanent relief which the company could expect to receive. The staff showing on expenses, revenues, and rate base indicates an added revenue requirement of \$0.803 million per month^{1/} even using the low end of the staff-recommended rate of return. The complete record

^{1/} We have used monthly rather than the annual figures, since it is unlikely that this interim decision will remain in effect for more than a few months.

would not support any smaller amount of permanent relief; on the contrary, it would demonstrate that any lesser rate was unreasonable and a potential threat to the company's ability to render good, economical service indefinitely. The record clearly demonstrates that the present level of rates including the interim relief already granted is insufficient to accomplish even the minimum financing plan recommended by the staff, and that it would be adverse to long range consumer interests to cause arbitrary delays in obtaining additional long-term debt capital.

Applicant has offered to stipulate to the staff's results of operations, with certain reservations which have little immediate impact on interim rate levels. Controversy still exists between the parties as to rate of return and rate spread; both areas, as well as the service problems encountered, present knotty issues which require deliberate consideration. Since there is no dispute about the need for at least \$0.803 million per month of permanent rate relief, it would be unreasonable to compel the utility to wait several months while the matters still at issue are being considered and resolved. It would also be unfortunate for those of applicant's employees who are now laid off or working short weeks^{2/} because of applicant's fiscal difficulties. While there is no absolute correlation between rates and employment, expedited relief on the basis of the minimum staff showing appears to be sufficient to support a return to full employment.

2/ Many of applicant's salaried employees are being paid on a 4-day week basis, while some continue to work all or part of the fifth day without cost to customers.

We are especially disturbed by indications in the record that these layoffs and reduced work weeks may have resulted in the permanent loss of highly trained personnel. This is waste which sooner or later will have an undesirable impact on the consumer, either in higher future costs or in poorer service. There are indications that reductions in maintenance and construction programs, though designed to have no impact on customers, may nevertheless already have produced changes in scheduled maintenance which will potentially degrade service. The longer these deferrals last, the more difficult it will be to prevent severe service problems.

Since the rates given in the last decision were insufficient to meet the financial emergency, additional relief must be granted.

Protective Conditions

As our estimate may prove to be substantially in error, we will provide that any revenues collected under this order shall be subject to refund.

The refund condition is also required because of the pendency of a proceeding which may increase statewide toll rates. (Application of PT&T etc., A-55214.) If there is an increase in those rates during the effective life of this order we will require an equal reduction in the amount of surcharge. The record contains a formula which can be used to calculate the reduction once the amount of toll relief given PT&T is known. Therefore, there would be no reason to hold a further hearing.

Rate Spread

The staff recommended that any new interim increase should be imposed by a surcharge on toll calls only, since most of the financial emergency had been caused by a reduction in toll calling. The company opposed this type of spread, claiming that customers might modify their calling habits enough to significantly reduce the

amount of revenue increase below that needed. The arguments and evidence on this point are not sufficient to persuade us to abandon the spread pattern established in D.84662 herein.

In D.84662 we utilized a surcharge applicable to all intrastate billings as appropriate for an interim proceeding. Such a formula spreads an interim increase so as to reduce or eliminate the amount of litigation needed to resolve conflicts between the interests of various classes of consumers.

In D.84662, the Commission fixed the rate increase surcharge at 9.06 percent rather than the 4.53 percent suggested by the staff as applicant planned to issue securities within 6 months of the decision. The smaller surcharge would not have achieved the desired revenue coverage until one year after the decision. The 9.06 percent surcharge enabled a year's interest coverage to be achieved in 6 months. Staff counsel urged that this treatment constituted retroactive ratemaking and warned that a continuation of the feature here would be an error. The staff asserts that this result is the same as establishing a more than reasonable rate to make up for a utility's failure to achieve its allowed rate of return during past periods. This is not true. In D.84662 we indicated that the 9.06 percent surcharge would not produce a return on equity in excess of that adopted in the company's last rate case. On the contrary, the rate of return and return on equity produced by the increase were specifically found "not excessive". When earnings are below reasonable levels each dollar of increased earnings required to offset current costs including cost of capital is reasonable, regardless of why the earnings fell below reasonable levels.

Interim Rate of Return

In D.84662 we used the last adopted rate of return on equity as the test of excessiveness. Now that we have received all the evidence needed to determine the next authorized rate of return it would be pointless formalism to continue to rely on rate of return evidence which is years out of date. Consequently the protective condition imposed here will allow us to order a refund if it is found that the rates authorized allow the company to earn in excess of the next, rather than the last, authorized rate of return.

The Stipulation

Applicant offered to stipulate that the staff's results of operations be adopted, but that no finding be made regarding applicant's election of the tax credit available under the Tax Reduction Act of 1975. Applicant asserts that its decision to offer the stipulation can reduce the burden on the Commission staff and free it to employ its limited resources elsewhere. The staff has not opposed accepting this stipulation. The only economic disadvantage to the public would be in the ratemaking treatment of the 1975 investment tax credit.

Given the insignificant amount at issue in the tax credit problem, and the fact that only the company and the staff are active participants in this proceeding, we think it appropriate that a precedent setting decision should be avoided.

With respect to the treatment for ratemaking purposes of the investment tax credit, applicant's offer to stipulate does not require a final determination by the Commission. For purposes of determining the stipulated results of operations, the 4 percent investment tax credit available under the Internal Revenue Code

since 1971 has been flowed through to net income. In its original application, applicant sought authority to account for such 4 percent investment tax credit by a normalized method of accounting and reserves the right to renew its request for such authority at any time in the future.

The additional 6 percent investment tax credit available to applicant under the Tax Reduction Act of 1975 has been accounted for in the stipulated results of operations according to the ratable flow through method of accounting which was elected by applicant under the applicable provisions of Section 46(f) of the Internal Revenue Code, as amended by the Tax Reduction Act of 1975. The staff does not agree with this method of accounting for the additional investment tax credit and challenges the election of such method of accounting by applicant.

In this proceeding the difference between the two methods of accounting for the additional investment tax credit is relatively insignificant. The federal income tax expense reflected in the stipulated results of operations would be only approximately \$40,000 less, and the net operating revenue approximately \$40,000 greater, if the additional 6 percent investment tax credit were flowed through to net income on a five-year average basis. It is therefore applicant's position that the Commission may adopt the stipulated results of operations without making any final determination as to the propriety of the election made by applicant under the Tax Reduction Act of 1975. Applicant would not object to the reopening of the proceeding for the limited purposes of a further determination on that issue if subsequent developments in the applicable law make such a reopening appropriate.

Table I sets forth in comparative form the original showing of applicant's 1975 total California results of operations, the comparable showing of the staff, and the showing to which applicant is prepared to stipulate for purposes of this proceeding. The footnotes to the table indicate the areas in which the stipulated results of operations differ from the staff showing. Such differences are based upon discussions between applicant and the staff and it is applicant's understanding that the staff is agreeable to the adjustments reflected there, except to the extent hereinafter set forth with respect to the investment tax credit.

Applicant emphasizes that, while the stipulated results of operations reflect the affiliated adjustments proposed by the staff, its stipulation is for the purpose of this proceeding only and does not constitute an agreement that the affiliated adjustments or any other ratemaking adjustments are proper. Applicant agrees that, for purposes of this proceeding, its test year 1975 total California rate base may be considered to be \$211,247,000 and that its test year total California net operating revenue may be considered to be \$14,152,000, thus producing a rate of return for the test year of 6.70 percent at present rates. Applicant has not agreed to or accepted, and reserves the right to dispute in any subsequent proceeding, any of the affiliated adjustments or other ratemaking adjustments which resulted in a staff showing substantially the same as the foregoing. If it were feasible to do so, applicant would offer to stipulate only to the three figures set forth above in this paragraph and thus graphically eliminate the implication that applicant is accepting staff-proposed affiliated adjustments. The affiliated adjustments are reflected in the stipulated results of operations only to permit the preparation of the separated results of operations which are set forth in Table 2. Applicant is not accepting for any purpose the techniques or concepts applied by the staff in determining its showing.

Applicant offers the stipulation with the understanding that its acceptance by the Commission for purposes of this proceeding would be without prejudice to any position which the Commission or its staff may wish to take in any present or future proceeding involving applicant or any other public utility. Acceptance of the stipulated results of operations would not constitute any indication by the Commission of its position on any of the disputed issues which need no longer be considered as a result of applicant's stipulation.

TABLE 1

CONTINENTAL TELEPHONE COMPANY OF CALIFORNIA

Summary of Earnings Based on Utility and Staff Estimates
 Estimated 1975 at Present Utility Rates
 Total California Operations

<u>Item</u>	<u>Utility</u>	<u>Staff</u>	<u>Utility</u>
	<u>(Dollars in Thousands)</u>		
<u>Operating Revenue</u>			
Local Service	\$ 15,011	\$ 16,415	\$ 16,415
Toll Service	56,200	49,027	49,027
Miscellaneous	1,898	1,926	1,926
Subtotal	73,109	67,368	67,368
Uncollectibles	476	330	330
Total	72,633	67,038	67,038
<u>Operating Expenses</u>			
Maintenance	14,097	13,642	13,642
Traffic	8,175	7,817	7,817
Commercial	4,321	4,072	4,072
Gen. Off. Sals. & Exps.	6,728	5,270	5,340 (1)
Other Operating Exps.	2,494	2,840	2,840
Subtotal	35,815	33,641	33,711
Depreciation	14,236	13,921	13,921
Taxes Other Than on Income	7,294	6,878	6,878
Taxes Based on Income	638	(1,609)	(1,569) (2)
Subtotal	22,168	19,190	19,230
Adjustment - Wage Increase	-	294	294
Adjustment - Affiliates	-	(359)	(349) (3)
Total	57,983	52,766	52,886
Net Operating Revenue	14,650	14,272	14,152
<u>Weighted Average</u>			
<u>Depreciated Rate Base</u>			
Unadjusted	217,306	213,924	213,924
Adjustment-Affiliates	-	(2,684)	(2,677) (4)
Adjusted	217,306	211,240	211,247
Rate of Return	6.74%	6.76%	6.70%

(Reduction)

- (1) Revised amount to reflect accounting misunderstanding between utility and staff, resulting in a \$70,000 increase net of toll revenue and tax effects.
- (2) Includes 1975 Tax Act additional investment credit on ratable flow through.
- (3) Composite expense effect for operations of all affiliates.
- (4) Composite rate base effect for operations of all affiliates.

TABLE 2

CONTINENTAL TELEPHONE COMPANY OF CALIFORNIA
Separated Summary of Earnings Utility Stipulated
Year 1975 Estimated Present Rates

<u>Item</u>	<u>Total Calif.</u>	<u>Interstate</u>	<u>Total Intrastate</u>	<u>Total State Toll</u>	<u>State Message Toll</u>	<u>State Private Line</u>	<u>Total Exchange</u>
(Dollars in Thousands)							
<u>Operating Revenues</u>	\$ 67,368	\$13,726	\$ 53,642	\$ 35,301	\$ 34,492	\$ 809	\$18,341
Uncollectibles	330	67	263	173	169	4	90
Revenues After Unc.	67,038	13,659	53,379	35,128	34,323	805	18,251
Total	67,038	13,659	53,379	35,128	34,323	805	18,251
<u>Operating Expenses</u>							
Maintenance	13,797	2,755	11,042	7,020	6,620	400	4,022
Traffic	7,928	1,530	6,398	4,862	4,857	5	1,536
Commercial	4,100	487	3,613	1,459	1,435	24	2,154
Gen. Off. Sal. & Exps.	5,340(1)	981	4,359	2,826	2,738	88	1,533
Other Operating Exps.	2,840	555	2,285	1,520	1,485	35	765
Subtotal	34,005	6,308	27,697	17,687	17,135	552	10,010
Depreciation & Amort.	13,921	2,575	11,346	6,971	6,665	306	4,375
Property & Other Taxes	5,500	1,030	4,470	2,791	2,662	129	1,679
Payroll Taxes	1,378	255	1,123	772	754	18	351
State Income Tax	56	118	(62)	88	130	(42)	(150)
Federal Income Tax	(1,625)	222	(1,847)	(525)	(277)	(248)	(1,322)
Aff. Int. Exp. Adj.	(349)	(66)	(283)	(175)	(168)	(7)	(108)
Net Operating Expenses	52,886	10,442	42,444	27,609	26,901	708	14,835
Net Operating Revenues	14,152	3,217	10,935	7,519	7,422	97	3,416
<u>Rate Base</u>							
Tel. Plant in Svc.	249,591	46,723	202,868	126,667	120,802	5,865	76,201
Tel. Plant Under Constr. N.I.B.	3,779	709	3,070	1,940	1,840	100	1,130
Materials & Supplies	3,088	519	2,569	1,463	1,405	58	1,106
Working Cash	2,864	533	2,331	1,495	1,449	46	836
Less Dep. Res.	45,302	8,612	36,690	23,108	21,971	1,137	13,582
Less Tax Def.	96	18	78	51	49	2	27
Subtotal	213,924	39,854	174,070	108,406	103,476	4,930	65,664
Aff. Int. R/B Adj.	(2,677)	(506)	(2,171)	(1,350)	(1,296)	(54)	(821)
Total Rate Base	211,247	39,348	171,899	107,056	102,180	4,876	64,843
Rate of Return	6.70%	8.18%	6.36%	7.02%	7.26%	1.99%	5.27%

(1) Revised amount to reflect accounting misunderstanding between utility and staff, resulting in a \$70,000 increase net of toll revenue and tax effects.

A-55376 104

Service

Rate proceedings often evoke numerous complaints of inadequate and unsatisfactory service. Many of the customers who feel aggrieved by service difficulties assert that all consideration of rate increases should be postponed until all of applicant's service meets acceptable standards.

Applicant responded in detail to each of the complaints made at the hearing, detailing its diagnosis and remedial efforts taken. The staff service witness had the benefit of those complaints as well as those contained in letters of protest to the Commission. Because of time problems, however, he prepared his exhibits without being able to analyze the company's individual responses. The staff's service analysis was basically aimed at measuring the company's performance against the standards set forth in General Order No. 133, which are based on system averages and are intended to permit comparison between telephone utilities. The staff's ultimate conclusion was that service in comparison to other telephone utilities is reasonably good and improving. It made several detailed suggestions, many of which applicant is willing to comply with, depending on the availability of financing. Detailed study will be needed to analyze and compare those suggestions with the complaints and applicant's responses.

It is appropriate at this time to reject the contention that all service complaints should be remedied before any rate increase is considered. The complaints contained few matters which are not related either to construction or maintenance. It would appear that a significant portion of the matters complained of can be

remedied if they can be remedied at all, only by either improved maintenance or construction activity. Since the present level of rates could be maintained only with further cuts in both categories, it can be seen that postponing rate relief would hinder rather than encourage service improvements.

Other Considerations

The staff suggested that further interim relief should be confined to an extension of the present surcharge which adds a 9.06 percent surcharge to all intrastate billings.^{3/} Applicant's position is that that surcharge should be increased to at least 19.39 percent (assuming a December 3 effective date).

Both of these positions assume that applicant will continue to operate with emergency limitations until final relief is granted; that final rate relief, without dispute, cannot be less than (stated in surcharge terms) \$9.639 million per year. Both parties also assumed that permanent relief can and should follow very quickly, for example some time in December, allowing a quick return to normal maintenance and construction.

For the reasons stated above, the assumptions concerning timing are not satisfactory. It appears that the public interest requires both the earliest possible return to normal operations, and deliberate consideration of the remaining issues. We have therefore decided to surcharge existing rates at levels which might be described as semi-permanent rates rather than at levels merely sufficient to prevent the emergency situation from becoming critical. We postpone action at least temporarily on applicant's request for full rate relief, and will likewise delay final decision on rate spread and other questions. We must emphasize that the record does not permit a finding that rates at this level are sufficient for a full return to planned maintenance and construction.

^{3/} Except yellow page charges.

The order which follows will cancel the presently effective 9.06 percent surcharge, substituting therefore a 27.33 percent surcharge. The net effect is an 18.27 percent increase over present rates. ✓

We believe that consumers should be aware of the application of funds which they are asked to provide. The applicant will actually receive less than half of the extra revenues this increase will provide. With the minor exceptions noted in the margin,^{4/} nearly half will go to the federal government as income tax. Only applicant's half is available for supplying the labor, goods, and capital needed in the performance of applicant's obligations to the consuming public.

We find that:

1. Even if the staff prevailed on each disputed issue the record would not support a finding that a rate increase of less than \$0.803 million per month is fair and reasonable. ✓

2. Applicant has outstanding short-term debt and will have insufficient funds to pay this obligation when due, unless it can issue bonds as planned.

3. Applicant has budgeted reductions in construction and maintenance; those reductions will impair applicant's service obligations to its consumers.

4. Even if applicant reduces its dividend payment to its parent corporation to \$5.3 million, as recommended by the staff, it will still require at least \$9.7 million in bond financing to meet its current obligations.

^{4/} The actual figure is 47.09 percent. Less than $\frac{1}{2}$ percent of this is siphoned off by increased uncollectibles (i.e., consumers who do not pay their bills) and less than 8.68 percent is attributable to the California corporate franchise tax.

5. At present rates, applicant can meet but not exceed the minimum legal standards to issue \$9.7 million in bonds within 3 months after the date presently fixed for the expiration of its short-term line of credit.

6. It is highly unlikely that applicant will be able to issue bonds at interest rates and terms tolerable to customers if its earnings do not exceed the minimum interest coverage standard by a substantial amount.

7. If applicant issues only \$9.7 million in bonds it will not increase its presently budgeted construction or maintenance levels; nor will it rehire any laid-off employees or place any more on full work weeks.

8. The rates established here may allow applicant to earn as much as 9.0 percent on rate base; no lesser return could now be found reasonable.

9. There will be some diminution in the revenue allowed by this rate increase by reason of changes in calling patterns; the record does not permit an estimate of this effect sufficient to require a change in method of surcharging adopted in D.84602.

10. It is necessary and reasonable to ensure that surcharging does not, by reason of some unanticipated change, produce excessively high returns to applicant.

11. It would be unfair to applicant to postpone adopting the undisputed portion of a rate increase while remaining issues are being considered. It would be in the public interest to allow applicant to resume normal maintenance and construction.

12. It is necessary to ensure that any additional toll settlement revenue which is received by applicant as a result of orders in A.55214 is offset against the relief authorized herein. That can be accomplished by a formula which decreases applicant's surcharge revenue by \$48,600 for each \$1.0 million of additional toll revenue granted The Pacific Telephone & Telegraph Company on an annual basis; no further hearing will be necessary to establish the amount of surcharge decrease once an order in A.55214 is issued.

13. The stipulation proposed by applicant is fair and reasonable and should be accepted.

14. A surcharge of 27.33 percent, and a cancellation of the presently authorized surcharges will produce additional revenues of \$9,639,000 annually.

15. Applicant's present rates with authorized surcharges will be, for the future, unjust and unreasonable; the rates with the surcharge established herein, together with the conditions set out in the ordering paragraphs which follow, will not be excessive or unreasonably high.

Conclusions

1. It is not in the public interest for a utility to be dependent on the goodwill of a short-term lender for an extension of the term of an obligation it cannot repay because earnings are insufficient to allow it to issue bonds at interest rates, and under terms acceptable to customers and lenders; such a situation constitutes a financial emergency and entitles the utility to interim rate relief.

2. Once the minimum amount of permanent relief can be calculated with reasonable precision, interim relief can be set at that amount, rather than being limited by the last authorized rate of return or the amount necessary to meet the emergency.

3. Once it is demonstrated that a utility is, without dispute, entitled to a certain amount of rate increase, the Commission need not defer granting such increase for consideration of issues which would not reduce the amount of undisputed increase, if such delay would cause or prolong a financial emergency.

4. No retroactive ratemaking was involved either in D-84662 or in this decision.

5. Applicant should be authorized to increase its rates by a surcharge uniformly applicable to all California intrastate billings except for directory advertising services.

6. Applicant should be required to reduce its surcharge to offset any revenues received as a result of A-55214.

INTERIM ORDER ON MODIFICATION

IT IS ORDERED that:

1. Applicant is authorized, on or after the effective date hereof to file in accordance with General Order No. 96-A the tariff schedule attached hereto as Appendix A and to make the tariff effective for service rendered on and after the date of filing. The surcharge revenue collected under the tariff shall not be subject to settlement with connecting utilities. The surcharge shall be of no further force and effect on the effective date of a final order herein.

2. Applicant shall account separately for all surcharge revenues received as a result of this application and shall render such reports and projections of the transactions in this account as may be required by letter over signature of the Secretary of the Commission.

3. All ordering paragraphs of Decision No. 84662 are hereby rescinded.

4. Applicant may be ordered to refund any or all of the surcharge revenues received as a result of orders in this proceeding to the extent that the revenues received added to applicant's other intrastate revenues produce a higher rate of return, after ratemaking adjustments, than that ultimately allowed in this proceeding.

5. The staff shall by late-filed exhibit indicate the impact on the surcharge of revenues received by applicant as a result of any order in Application No. 55214; no further hearing will be scheduled for consideration of surcharge reduction on that grounds.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 16th
day of DECEMBER, 1975.

*I concur except
with respect to
Conclusion #1
Leonard Ron*

*I dissent to this method
of setting rates on a make. shift
basis. Robert Rafinovich
Commissioner*

[Signature] President
William J. Quinn
Vernon L. Johnson
Leonard Ron
Commissioners

APPENDIX A

Applicability

Applicable to customer's intrastate billing for services rendered, except classified directory listings and advertising.

Territory

Within the territory served.

Rates

Intrastate billing surcharge effective December 17, 1975 and until further order of the Public Utilities Commission of the State of California. ✓

Percentage Rate

27.33% ✓