

**ORIGINAL**Decision No. 90342 SEP 25 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for tariff revisions and rate increases for classified directory advertising.

Application No. 57465  
(Filed July 20, 1977)

Investigation on the Commission's own motion into the telephone directory advertising rates, charges, contracts, rules, practices, and service of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY and of ALL TELEPHONE CORPORATIONS listed in Appendix A attached hereto.

OII No. 5  
(Filed November 22, 1977)

(See Appendix A for appearances.)

INTERIM OPINION

On July 20, 1977 The Pacific Telephone and Telegraph Company (Pacific) filed Application No. 57465 requesting an increase in its rates for classified telephone directory advertising rates which would produce increased annual revenue of approximately \$23.3 million based on an April 1976 through March 1977 test year. The requested increase comprises a four-fold revision of Pacific's tariff. The proposed revisions are:

1. Restructuring and increasing the number of circulation rate groups;
2. Changing the circulation base from utility telephones to network access lines;

3. Revising the classification formulas for determining circulation; and
4. Raising the general level of directory advertising rates.

Pacific also requests authority to make rate group changes within the framework of Commission Resolution No. T-9668 dated July 19, 1977 upon not less than five days' notice to the public and the Commission to be effective coincident with the directory publication date.

The increase will result in an increase in directory revenues of approximately 13.7 percent.

On November 22, 1977 we instituted Order Instituting Investigation No. 5 (OII 5) which is an investigation into the telephone directory advertising rates, charges, contracts, rules, practices, and service of Pacific and of all telephone corporations. OII 5 was consolidated with Application No. 57465. By Decision No. 88717 dated April 18, 1978, we ordered that the issue of conservation in OII 5 would be considered only in connection with Pacific's Application No. 57465. On April 25, 1978 a prehearing conference was held wherein it was determined that hearings in these consolidated matters should be conducted in two phases. Phase 1 for receipt of evidence concerning Pacific's proposed rate increase and its conservation practices and Phase 2 for receipt of evidence on all issues included in OII 5 except conservation.

Hearings in Phase 1 were held on 19 days between June 27, 1978 and September 20, 1978. Six of the 19 days were devoted to receipt of evidence from public witnesses other than the appearances. Phase 1 was submitted upon the filing of concurrent closing briefs on November 20, 1978. Hearings for the receipt of evidence regarding Phase 2 commenced April 3, 1979 and have not yet been completed. This decision will address only the issues raised in Phase 1.

Directory advertising rates, both classified and alphabetical, are based on a system of rate groups. Each rate group has its own rates which progress from group to group, and the

circulation of each directory determines the group under which a particular directory falls. There are currently 29 rate groups; Pacific proposes to increase this number to 60. The present grouping structure was adopted by the Commission in 1968 by Decision No. 74917, prior to which there were 21 groups.

Pacific's proposed group schedule has more groups with smaller intervals within each than the present schedule. Under the present schedule approximately one third of Pacific's directories advance in rate group each year on the average. However, for some directories the intervals between increases are much longer. The main effect of increasing the number of groups would be to promote more frequent, but smaller, circulation rate increases which could be more acceptable to advertisers.

Because the proposed group schedule divides circulation into smaller intervals, it should more precisely define the value of the directory to the advertiser. In general, a book which reaches a greater number of potential buyers is worth more than a book which reaches a fewer number; and the greater the disparity in circulation, the greater the difference in value. The proposed groups recognize this by dividing the total circulation range into 60 groups compared to the present 29. Thus, each group covers a small interval and more precisely defines directory circulation value.

The spread and progression of both the present and proposed groups are reasonably uniform.

The proposed group schedule provides room at the top end for further circulation growth in the largest book, Los Angeles. In the present group schedule, Los Angeles has already advanced to Group 29 and thus no further growth in circulation, no matter how significant, would be recognized with higher rates. This violates the principle that value to the advertiser and, thus, advertising charges should be related to circulation. Under the proposed group

schedule, Los Angeles would fall into Group 58 and thus have potential to advance to higher groups in the future as circulation increases warrant.

Directory circulation groups, and thus directory advertising rates, are presently based on a formula of the number of utility telephones in each exchange in the directory area. Pacific proposes to change this base from utility telephones to network access lines, claiming that the present method will not provide an accurate reflection of actual circulation in an environment whereby customers may provide their own terminal equipment.

Utility telephones and network access lines are defined as follows:

Utility Telephones

Residence and business main, PBX, Centrex and extension telephones.

Network Access Lines

Main telephones plus equivalent main telephones.

Main telephones are telephones that are connected by individual, auxiliary, or party line circuits directly to a central office switchboard or toll board. Connection may be by wire, radio channels, or power line carrier channels. Only one main telephone is reported for each individual line or subscriber on a party line. Additional telephones connected to the same line are classified as extensions.

Equivalent main telephones are central office lines that terminate in other than a main telephone per line.

The move toward customer-provided telephone terminal equipment may eventually greatly erode the percentage of such equipment provided by Pacific and lower the count of utility telephones. Under the present method a drop in the number of utility-provided telephones could cause the circulation of a directory to drop and the directory advertising rates to decrease as the directory moves into a lower circulation group. There would not, however, be a commensurate

effect on the value to the advertiser of directory advertising since advertising value is not a function of ownership of terminal equipment, but rather of the number of potential directory users the directory reaches. Network access lines would be unaffected by such a shift to customer-provided equipment and, thus, represent a better measure, at least proportionally, of the number of potential directory users, and, thus, the value of the directory to the advertiser.

There is great variation in the relative number of utility telephones, access lines, and population among the various geographical areas covered by Pacific's directories. A given directory area may have a larger proportion of extensions and, thus, a lower ratio of access lines to utility telephones than another. This could cause two directories which are presently in the same rate group to fall into different groups under the revised measure or two which are presently in different groups to be in the same group after the revision. The elimination of extensions is the major difference between utility telephones and network access lines.

Commission Resolution No. T-9668 dated July 19, 1977 sets forth various guidelines for all telephone utilities in making advice letter filings for circulation rate group increases. Among those guidelines is a requirement that company administrative stations shall not be included in the station count when such station count is used for the purpose of determining the circulation rate group used for directory advertising rates.

The present classification formulas, under which factors are applied to determine the circulation of Pacific's directories, were established in 1968 pursuant to Decision No. 74917.

Under the present formula directories are classified as follows:

Single Exchange

Books which encompass only one exchange. There are currently 16 Pacific directories of this type.

Multi-exchange, Single-county

Books which encompass more than one exchange, but only within a single county. There are 40 Pacific directories of this type.

Multi-exchange, Multi-county

Books which encompass more than one exchange in more than one county. There are 10 Pacific directories of this type, all in northern California. These directories characteristically cover large areas with possibly a few smaller concentrations of population and large, sparsely populated rural areas.

Prior to 1968, circulation was calculated by counting the number of stations in the largest exchange in the directory area. This gave rise to inequities among directories since in multi-exchange books no consideration was given to the value to advertisers of "free" circulation to exchanges other than the largest. In 1968 the present formulas were adopted:

Single Exchange Directories

Formula circulation is all stations<sup>1/</sup> in the exchange.

Multi-exchange, Single-county Directories

Formula circulation is all stations in the largest exchange plus 45 percent of the stations in the remaining exchanges.

Multi-exchange, Multi-county Directories

Formula circulation is all stations in the largest exchange plus 25 percent of the stations in the remaining exchanges.

Pacific's proposal would revise these formulas as follows:

Single Exchange Directories

Formula circulation is all network access lines in the exchange.

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1/ Station is synonymous with utility telephone.

Multi-exchange, Single-county Directories

Formula circulation is all network access lines in all exchanges.

Multi-exchange, Multi-county Directories

Formula circulation is 60 percent of all network access lines in all exchanges.

For single exchange directories no change is proposed; formula circulation is equal to total circulation in both cases.

For multi-exchange, single-county directories the proposed formula would eliminate free circulation. There is little justification in allowing free circulation in this classification simply because the area consists of more than one exchange. The advertiser derives some benefit, albeit difficult to quantify, from a book's circulation regardless of whether that circulation is in one exchange or in several within one county.

For the ten multi-county books Pacific's proposed "60% of all" formula gives recognition to the fact that these are very large geographic areas and that the advertiser consequently does not realize the full value of total circulation to the extent he would for single-county directories. The present formula gives an average 48 percent free circulation for these books, while the proposed formula gives 40 percent free. Overall, the 60 percent formula gives this classification a percentage increase approximately equal to that for the others.

The Communications Division staff endorses the above proposals.

Pacific proposes revised rates which, when taken with the proposed rate group revisions, network access line count, and revised classification formulas, would produce an average rate increase of 20.3 percent. Pacific bases its proposed higher rates in major part on the contention that the present rates are significantly below proper levels based upon the current value of the advertising involved and based upon a relatively smaller increase in directory advertising rates contrasted to those of other advertising media in recent years.

Although a rate increase of approximately 20.3 percent is proposed, Pacific expects actual revenue will increase by approximately \$23.3 million, an increase of only 13.7 percent. The actual revenue increase figure takes into account regrading which is the decrease in revenues caused by advertisers reducing or canceling their advertising purchases subsequent to a rate increase.

Pacific did not present any cost evidence to support its request; it bases its request on a value of service concept. Pacific contends that its present rates are significantly below proper levels based upon the current value of the advertising involved and that there has been a smaller increase in directory advertising rates contrasted to the increases in the rates of other advertising media such as radio, television, newspapers, and outdoor billboards. Since 1968 Pacific's rates have been increased once, that being in 1974 when an increase of 7 percent was authorized by Decision No. 83162 in Application No. 53587. Between 1972 and 1977 rates for advertising in other media have increased from 39 to 80 percent. Pacific's directory advertising rates are generally lower than those of General Telephone of California and are also lower than those of other Bell companies in other parts of the United States.

The Communications Division staff supports Pacific's request; however, it proposes a different distribution of the proposed increase. The Communications Division staff alleges that Pacific's proposed tariff schedule is not properly constructed to provide the most reasonable distribution of the increase. It further alleges that Pacific has placed an unreasonably low portion of the total increase on display advertisers at the expense of advertisers buying other items. The following tabulation, prepared by the staff, summarizes the percentage increase for each category and the portion of total published revenue that category currently represents.



DISTRIBUTION OF RATE INCREASE BY CATEGORY

<u>Category</u>	<u>Annual Published Revenue*</u>	<u>Percent Of Total Revenue</u>	<u>% Priceup</u>	
			<u>Company Proposed</u>	<u>Staff Proposed</u>
White	\$ 9,896,500	5.8%	20.1%	20.1%
Listing	25,398,700	14.9	23.9	17.6
Space	18,689,900	11.0	33.9	18.3
Trade	21,749,700	12.7	36.8	25.4
Display	<u>94,915,800</u>	<u>55.6</u>	<u>13.0</u>	<u>20.6</u>
Total	\$170,650,600	100.0%	20.3%	20.5%

\* April 1976 through March 1977 issues.

As the tabulation shows, the overall priceup for staff's alternate is nearly the same as Pacific's, 20.5 percent as compared to 20.3 percent. The major difference between the two is that display advertising, which produces about 55 percent of total directory advertising revenues, is raised 13.0 percent in Pacific's proposal as compared to 20.6 percent in staff's alternate. To make up the difference, Pacific has raised rates for the other categories considerably more than has staff, with the exception of rates for white items which are raised identically in both proposals.

The percentage of display advertisements has increased the most as evidenced by the following table which shows the growth of the various categories between 1973 and 1976.

GROWTH OF NUMBER OF ITEMS BY CATEGORY

<u>Category</u>	<u>Number of Yellow Page Items</u>		<u>% Increase</u>
	<u>1973</u>	<u>1976</u>	
White	187,657	224,432	19.6%
Listing	1,435,192	1,601,956	11.6
Space	125,606	147,366	17.3
Trade	340,291	363,916	6.9
Display	<u>107,031</u>	<u>131,104</u>	<u>22.5</u>
Total	2,195,777	2,468,774	12.4%

As this tabulation shows, the display category growth of 22.5 percent between 1973 and 1976 was higher than that of the other categories. Pacific proposes to give this category only a 13.0 percent priceup, less than any other category. Contrast this with the slowest growing category, trade items, which have grown only 6.9 percent but were given the highest priceup, 36.8 percent.

Pacific's 1974 directory rate increase failed to discourage this trend of disproportionate growth in display items. That decision raised display items an average of 2.7 percent as against an average of 9.5 percent for all other items.

The rates proposed by Pacific and the Communications Division staff can be found in Appendices D and E of Exhibit 68, respectively.

During the hearing process Pacific altered its proposal with respect to making rate group changes upon not less than five days' notice to the public and the Commission to be effective coincident with the directory publication date. Rather than the above proposal, Pacific's counsel advised that it was in agreement with the staff's proposal set forth in Section G of Exhibit 68 and urged the adoption of the staff proposal. The staff proposes that the filings comply with the guidelines set forth in Commission Resolution No. T-9668 but that the advice letter filings for directory group changes should become effective automatically without requiring further Commission approval. Commission Resolution No. T-9668 requires that any advice letter requesting a change in rate group which will result in increased advertising rates must be filed at least 60 days prior to the date of publication of the directory. The Commission staff witness stated that this is the procedure currently followed for Pacific's classified directory filings. The staff recommends the same procedure for alphabetical and street address directories so that the procedure would be uniform for all directories.

With respect to conservation Pacific presented evidence that directory paper is made from waste scrap and residual waste materials. Pacific also indicated a number of programs which it has initiated in order to reduce paper usage. The staff report (Exhibit 68) endorsed four programs which would increase paper conservation as follows:

1. Conversion to five-column classified directory formats.
2. Reconfiguration of classified directory areas.
3. Rescoping of white page coverage.
4. Surname suppression.

Pacific has already instituted these programs except for surname suppression. With respect to surname suppression, it proposes to study a pilot program tried by Southwestern Bell Telephone Company to determine if it could be implemented by Pacific.

Motions to dismiss the application on the grounds that Pacific had not borne its burden of proof, especially since it did not present any cost data to justify the increase, were made by Consumers' Lobby Against Monopolies and Ad Visor Inc. Staff counsel joined in such motions; however, the representative of the Commission's Communications Division opposed the motions. On November 20, 1978 Consumers' Lobby Against Monopolies filed a petition for Administrative Law Judge's Proposed Report.

Some of the parties question the validity of comparing directory advertising with other types of advertising media. They argue that other types of media are not similar to directory advertising. Even if other types of media are comparable, evidence should have been presented by Pacific as to the underlying reasons for increases in the other types of media; no such evidence was presented by Pacific.

Another party presented evidence that Pacific's directory advertising charges are presently higher than charges of independent directory publishers, which are not regulated by this Commission, and, therefore, are too high.

The cities of San Diego, San Francisco, and Los Angeles and Ad Visor Inc. argue that the repression formula advanced by Pacific should be disregarded as it fails to consider growth and that the figures are based upon a 1976 test year rather than 1979.

Evidence was also presented concerning inaccuracies in the publication of Pacific's directories.

Some of the parties are fearful that the rate increase proposed by Pacific will force some small businesses out of business as they will be precluded from directory advertising because of its cost.

We have previously stated in Decision No. 85374 dated January 27, 1976 in Application No. 55905 (application of Western California Telephone Co. to increase rates for directory advertising service) that directory advertising rates should be set at commercial levels to produce reasonable amounts of revenue to help offset other costs of providing service. There is no evidence in this record which persuades us to alter our position in this regard. Revenues from directory advertising and expenses associated therewith need not be considered in an application confined to directory advertising increases; however, such revenues and expenses are a necessary consideration in an application to increase rates for communication services of a telephone corporation so that such revenues and expenses may be considered in arriving at a fair rate of return for the overall operations of a telephone corporation.

We have been informed by Pacific that it intends to file an application for a general rate increase in the very near future under the Regulatory Lag Plan as set forth in Resolution No. A-4693

dated July 6, 1977. Since Pacific will not realize the full impact of this decision in its revenue for approximately two and one half years, we will not order a rate reduction in other service to offset the increase authorized herein. We will consider the revenue impact of this decision in the application Pacific intends to file in the very near future.

Findings of Fact

1. Pacific's directory advertising rates are presently based upon the circulation of a particular directory.

2. There are presently 29 circulation groups for determining directory advertising rates.

3. Pacific proposes to increase the number of circulation groups from 29 to 60. This proposal is reasonable.

4. The number of utility telephones, exclusive of Pacific's administrative stations, are presently utilized to determine the circulation of a directory.

5. Pacific's customers may now utilize telephone equipment other than that provided by Pacific.

6. The utilization of equipment not provided by Pacific invalidates the formula set forth in Finding 4.

7. The utilization of network access lines, as proposed by Pacific, is a more accurate method for determining circulation.

8. Pacific presently issues three types of directories as follows: single exchange; multi-exchange, single-county; and multi-exchange, multi-county.

9. The present formula for determining the rate group into which a directory falls is as follows:

1. Single exchange - all stations in the exchange.
2. Multi-exchange, single-county - all stations in the largest exchange plus 45 percent of the stations in the remaining exchanges.

3. Multi-exchange, multi-county - all stations in the largest exchange plus 25 percent of the stations in the remaining exchanges.
10. Pacific proposes a revision in the formula set forth in Finding 9 as follows:
  1. Single exchange - all network access lines in the exchange.
  2. Multi-exchange, single-county - all network access lines in all exchanges.
  3. Multi-exchange, multi-county - 60 percent of all network access lines in all exchanges.

The revision proposed is reasonable.

11. Pacific did not present any cost evidence in support of its request for a rate increase.
12. Pacific's proposal is based upon a value of service concept.
13. Pacific's rates for directory advertising were last increased pursuant to authority granted in Decision No. 83162 dated July 23, 1974 in Application No. 53587 et al. 77 Cal PUC 117.
14. Pacific's rates for directory advertising are generally lower than those of General Telephone of California and those of other Bell companies in other parts of the United States.
15. The staff's proposal that advice letter filings for directory group changes should be filed in accordance with Commission Resolution No. T-9668 and become effective automatically without further Commission approval is reasonable and will be adopted.
16. Value of service is a reasonable concept for determining directory advertising rates provided directory advertising revenues and expenses associated therewith are considered in connection with the overall earnings of Pacific in arriving at a rate of return.
17. The proposed tariff schedule of the staff is more reasonable than that of Pacific and should be adopted.
18. Pacific will not realize the full impact of the increase authorized herein for approximately two and one-half years after the effective date of this decision.

Conclusions of Law

1. The application of Pacific should be granted to the extent set forth in the following order.
2. The increases in rates and charges authorized herein are justified (which will produce an estimated annual revenue increase of \$23.3 million based on a 1976-77 test year).
3. The rates and charges authorized herein are just and reasonable and present rates and charges, insofar as they differ therefrom, are for the future unjust and unreasonable.
4. The motions to dismiss the application should be denied.
5. The petition for Administrative Law Judge's Proposed Report was not timely filed with respect to Phase 1 of the proceeding and should be denied as to Phase 1.
6. All other motions consistent with the findings and conclusions of this opinion should be granted; those inconsistent therewith denied.
7. Since there is an immediate need for the relief sought, the order which follows will be made effective the date hereof.

INTERIM ORDER

IT IS ORDERED that:

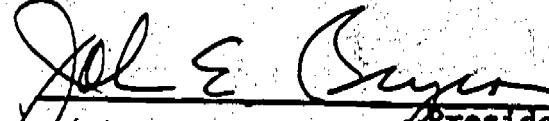




1. The Pacific Telephone and Telegraph Company (Pacific) is authorized to file and make effective in accordance with General Order No. 96-A revisions to its tariffs for the alphabetical and classified directory circulation rate group schedule, circulation base, and classification formulas as proposed in the application.
2. Pacific is authorized to file and make effective in accordance with General Order No. 96-A revisions to its alphabetical and classified directory rate tariffs to reflect the staff alternate rates as shown in staff Exhibit 68, Appendix E. The revised rates shall become effective coincident with the issuance of each directory subsequent to the effective date of the revised tariffs provided that all affected customers are notified of the rates to be charged at the time of sale.

3. Pacific's advice letter filings for revisions to its tariffs for alphabetical and classified directory circulation group changes and street address listing group changes shall be filed in accordance with the provisions of General Order No. 96-A and made effective on thirty days' notice to the Commission and to the public provided, however, that the guidelines of Commission Resolution No. T-9668 shall continue to apply to alphabetical and classified directory advice letter filings.

4. Pacific shall convert all present four-column classified directories to five-column directories.

5. Pacific shall report annually to this Commission its progress in rescoping white page coverages in its metropolitan area alphabetical directories.

The effective date of this order is the date hereof.  
Dated SEP 25 1979, at San Francisco, California

  
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President  
  
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Commissioners



APPENDIX A

LIST OF APPEARANCES

Applicant: Walter J. Sleeth and Stanley J. Moore, Attorneys at Law, for The Pacific Telephone and Telegraph Company.

Protestants: Kenneth White, for Western Independent Directory Publishers Association; and Ed Duncan, for himself.

Respondents: A. M. Hart, H. R. Snyder, Jr., Kenneth K. Okel, by Kenneth K. Okel, Attorney at Law, for General Telephone and Telegraph Company of California; Stanley J. Moore, Attorney at Law, for The Pacific Telephone and Telegraph Company; and William R. Johnson and Charles A. Nutter, for Citizens Utilities Company of California.

Interested Parties: A. M. Hart, H. R. Snyder, Jr., Kenneth K. Okel, by Kenneth K. Okel, Attorney at Law, for General Telephone and Telegraph Company of California; Warren A. Falmer and Michael F. Willoughby, Attorneys at Law, for Industrial Communications Systems, Inc. and Cal-Autofone and Radio Electronics Products, Co.; David L. Wilner, for Consumers' Lobby Against Monopolies; Fred Krinsky and Jack Krinsky, for Ad Visor, Inc., and over 1,000 telephone subscribers; William Halpin, for O'Connor Agency and 1,500 telephone subscribers; Eric Selten and Sigelman & Stein, by Rick M. Stein, Attorney at Law, for The Selten Agency, Inc.; John W. Witt City Attorney, by William S. Shaffran, Deputy City Attorney, for the City of San Diego; Leonard L. Snaider, Attorney at Law, for George Agnost, City Attorney, City and County of San Francisco; Ed Perez, Deputy City Attorney, for Burt Pines, City Attorney, City of Los Angeles; James A. Varon, Attorney at Law, for General Telephone Directory Company; James W. Clarke, for Western Independent Directory Publishers Association, Inc. and Clarke Directory Publications, Inc.; Robert McKim Bell, Attorney at Law, for California Contractors' State License Board; Thomas J. Hays, for California Moving and Storage Association; Sigelman & Stein, by Rick M. Stein, Attorney at Law, and James W. Clarke, for Clarke Directory Publications, Inc.; Joseph Garcia, Attorney at Law, for Department of Consumer Affairs; V. A. Silveira, for California Independent Telephone Association; K. D. Walpert, for Department of Transportation, City of Los Angeles; and Burt Wilson, for CAUSE - Campaign Against Utility Service Exploitation.

Commission Staff: Elinore C. Morgan and Tibor I. Toczaer, Attorneys at Law, James G. Shields, and James C. McVicar.