

**REPORT FROM THE
STATE CORPORATION COMMISSION
ON
REEXAMINING THE DECISION TO INCREASE
THE CHARGE FOR CALLS FROM PUBLIC PAY TELEPHONES
TO
THE GOVERNOR
AND
THE GENERAL ASSEMBLY OF VIRGINIA**



House Document No. 20

**COMMONWEALTH OF VIRGINIA
Department of Purchases and Supply
Richmond
1977**

COMMONWEALTH OF VIRGINIA



JUNIE L. BRADSHAW
CHAIRMAN
PRESTON C. SHANNON
COMMISSIONER
THOMAS P. HARWOOD, JR.
COMMISSIONER

BERNARD L. HENDERSON, JR.
ADMINISTRATIVE ASSISTANT
BOX 1197
RICHMOND, VIRGINIA 23209

STATE CORPORATION COMMISSION

January 21, 1977

TO: The Honorable Mills E. Godwin, Jr.
Governor of Virginia

and

The General Assembly of Virginia

The report contained herein is pursuant to House Joint Resolution No. 104 of the 1976 Session of the General Assembly of Virginia.

Respectfully submitted,


Junie L. Bradshaw, Chairman

HOUSE JOINT RESOLUTION NO. 104

Expressing the sense of the General Assembly that the State Corporation Commission should reexamine the decision to increase the charge for calls from public pay telephones from ten cents to twenty cents.

Agreed to by the House of Delegates, February 21, 1976

Agreed to by the Senate, March 13, 1976.

WHEREAS, in State Corporation Commission Case No. 19452, all telephone companies providing public coin station service in Virginia were authorized and directed to increase the charge for such service from ten cents to twenty cents; and

WHEREAS, the stated reasons for this decision by the Commission were that the ten cent charge does not cover costs in rendering public coin station service and that the establishment of a charge below cost for the rendering of any category of service is inconsistent with the Commission's regulatory objective of avoiding subsidization of one category of service by users of other categories of service; and

WHEREAS, the General Assembly endorses the elimination of such subsidization as a general appropriate and desirable regulatory objective; and

WHEREAS, the application of the policy against subsidization in the case of public coin station charges would be only marginally useful in the event the Commission were to find that the subscribers to basic categories of telephone service account for the bulk of the use of public pay stations; and

WHEREAS, it does not appear that any evidence was offered in Case No. 19452 to establish the extent to which the subscribers to basic categories of telephone service are also users of public pay stations; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That it is the sense of the General Assembly that the State Corporation Commission should reexamine the decision establishing the public pay station charge at 20 cents per local call for the reason that the burden to the public associated with an increase with such charges to 20 cents should be justified only by a clear showing of inequitable subsidization in the event such charges were to remain at 10 cents per local call; provided, however, that nothing herein should be construed to prevent the appropriate adjustment of other rates in the event the Commission acts to reestablish the public pay station charge at 10 cents.

Pursuant to House Joint Resolution No. 104 of the 1976 Session of the General Assembly, the State Corporation Commission secured cost and revenue information from each operating telephone company in the Commonwealth in order to analyze the impact on Virginia ratepayers of the change from 10¢ to 20¢ rate for local calls made from coin telephones. Data was received representing 99% of the Virginia ratepayers.

ANALYSIS

- 1) Best available estimate of the cost of a local coin phone call is 21¢.
- 2) The revenue requirement per Virginia subscriber was reduced 18¢ per month due to the 20¢ rate.
- 3) Although some subscribers used the coin phone often and some never used the service, the average subscriber made less than one coin call a month so on the average the Virginia subscriber spends 13¢ per month on coin phone calls.
- 4) An estimated 28% of coin phone calls were made by non-Virginia ratepayers (visitors, transient and others) with an estimated decrease in revenues required from Virginia subscribers of \$1,100,000.
- 5) Although there was a 27% reduction in coin phone calls there was a net increase in revenue.
- 6) A survey by the Attorney General's Office indicates that the majority of Virginia subscribers (57%) never use coin phones and 94% would object to the increase in their bill that would be necessary if the State were to revert to the 10¢ call.

RECOMMENDATION

It is recommended that the 20¢ coin phone call charge be continued because it closely tracks costs, it results in a net saving on the monthly bills of Virginia ratepayers, and apparently follows the wishes of the majority of ratepayers.

ANALYSIS OF 20¢ COIN PHONE CHARGE FOR LOCAL SERVICE

BRIEF HISTORY

On October 18, 1974 the C&P Telephone Company filed an application requesting authority to increase the coin rate for local pay-station service from 10¢ to 20¢. Because of the statewide nature of this request, the Commission expanded the proceeding to include the other 23 independent operating telephone companies. A public hearing was held on April 10, 1975. Evidence presented at the hearing indicated that costs associated with coin service exceeded revenues. A related matter receiving attention was the importance of reaching an operator from a pay phone during an emergency when a coin to activate the call was not available.

On August 19, 1975, the Commission issued its Findings and Order. The Commission concluded that charges for coin service should be uniform throughout the State, should more closely follow cost, had not been increased (as opposed to other services) in over 20 years and should be increased to 20¢ statewide. In addition, the Commission recognized that the public interest required the need to access to an operator without the need of a coin and directed that all public coin phones be converted to "Dial-Tone First" service. For the C&P Company, it was anticipated that the 20¢ rate would increase annual revenues by \$4,517,000 and the "Dial-Tone First" requirement would

increase expenses by \$1,330,000 annually, resulting in a net effect to this company of \$3,187,000 annually in increased revenues. This figure was considered in a concurrent order issued on the same day concerning the overall revenue requirements of the C&P Company, which reflected the \$3,187,000 in additional revenue from coin tele-phones.

During the 1976 session of the General Assembly, House Joint Resolution No. 104 was agreed to which directed the Commission to reexamine the decision establishing the 20¢ charge. On October 29, 1976 the Commission's Division of Public Utilities sent a questionnaire to each operating telephone company so that appropriate data could be compiled and analyzed as mandated by the legislature. This has been done.

SCOPE OF STUDY

Responses to the questionnaire have been received and the results tabulated. In some cases, a full year's experience with the 20¢ was not available and the balance of the additional revenue was annualized. An estimate was made of revenues for the test period if the 10¢ charge had remained in effect so that a valid basis of comparison could be used. Several companies pay commissions for the right of having pay phones on privately owned property. Under the 20¢ charge, commissions increased slightly. There were one-time expenses to convert the coin boxes to the 20¢ operation and in the case of some independent companies, significant capital investment expenditures were necessary, involving the complete replacement of older pay stations. Annual carrying charges on the additional capital investment were estimated at 30% of the additional investment. This would include rate of return on investment, depreciation, income tax

factor allocations and maintenance. The additional annual expenses and commissions were deducted from the additional revenue generated by the charge to arrive at the additional net revenue figure of \$3,930,302. The C&P Telephone Company provides 83% of the State's pay stations and the major independents provide 16%. The effect of the 20¢ charge reduces the average C&P customer's bill by 23¢ per month and the average independent customer's bill by 3¢ per month for a weighted statewide average of 18¢ per month. Since only 72% of coin calls are made by Virginia subscribers the average Virginia subscriber is paying an additional 13¢ per month to use pay telephones but his bill is receiving the benefit of an 18¢ reduction per month, for a net benefit of 5¢ per month.

The Attorney General's Office conducted a poll of 900 residential subscribers in the Greater Richmond, Northern Virginia and Hampton Roads areas to determine whether subscribers would be receptive to higher monthly charges in lieu of the increase in pay station charges. In each area, the survey showed that a majority uses pay stations not more than once per month, and over 90% would oppose higher monthly charges if the pay station charge were reduced from 20¢ to 10¢.

RECOMMENDATIONS

The conclusions which can be drawn up to this point from all available data relative to the 20¢ charge are as follows:

1. 20¢ charge more nearly tracks costs.
2. 20¢ charge shifts revenue burden to those responsible.
3. 20¢ charge has a net beneficial effect on average Virginia subscriber worth 5¢ per month.

4. A majority of Virginia subscribers favor the 20¢ coin rate as opposed to any increase in their monthly bills.

It is the recommendation of the State Corporation Commission that the 20¢ coin rate be continued.

JURISDICTIONS WITH LOCAL COIN RATE IN EXCESS OF 10¢

(As of November, 1976)

20¢ Charge in Effect

Arizona
Colorado
Illinois
Michigan
Missouri
North Carolina
Ohio
Texas
Vermont
Virginia
Wyoming
All Provinces of Canada

15¢ Charge in Effect

District of Columbia
Nevada
Oklahoma
Washington

25¢ Charge Pending

Georgia

20¢ Charge Pending

Arkansas
Deleware
Iowa
Kansas
Kentucky (Cincinnati Metropolitan Area)
Maine
Maryland
Pennsylvania
South Carolina
West Virginia

SOUTHEASTERN INSTITUTE OF RESEARCH, INC.

200 West Grace Street, Suite 402
Richmond, Virginia 23220
Phone: (804) 649-9241



RESEARCH REPORT
TO
ATTORNEY GENERAL'S OFFICE

The Southeastern Institute
Of Research, Inc. Richmond
Public Opinion Poll

September, 1976

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PROCEDURES

The Southeastern Institute of Research Richmond Public Opinion Poll is conducted monthly through the use of telephone interviews with a random sample of households in the Richmond metropolitan area. All households with telephones located within the local calling area of Richmond are eligible for participation in the poll.

Sample Size

Three hundred telephone interviews are completed with male and female household heads for each month's poll. A sample size of 300 yields a minimum reliability of $\pm 5.7\%$ at the 95% level of confidence for questions with answers split 60/40. For answers split 90/10, the reliability at that confidence level increases to $\pm 3.5\%$.

Sample Selection

Households included in each month's poll are selected by the random digit dialing technique to insure reaching all segments of the telephone-owning population. This insures that households with listed numbers and those without will be included in the final sample. Persons who have unlisted numbers by request, as well as those who have obtained a telephone following the publication of the directory, will all be included in the sample.

Telephone Interviewing

All telephone interviewing is conducted from the centralized telephone system in the offices of the Southeastern Institute of Research, assuring complete control of all interviewing procedures and maximum consistency of results. Interviewers are fully trained and under constant supervision. Interviewing is initiated during the day and in the evening to provide the equal chance of including everyone in the sample. Phones which are busy or do not answer are called back up to four times in order to eliminate any possible bias from this source. All interviews for this month's poll were conducted between September 14 - September 17, 1976.

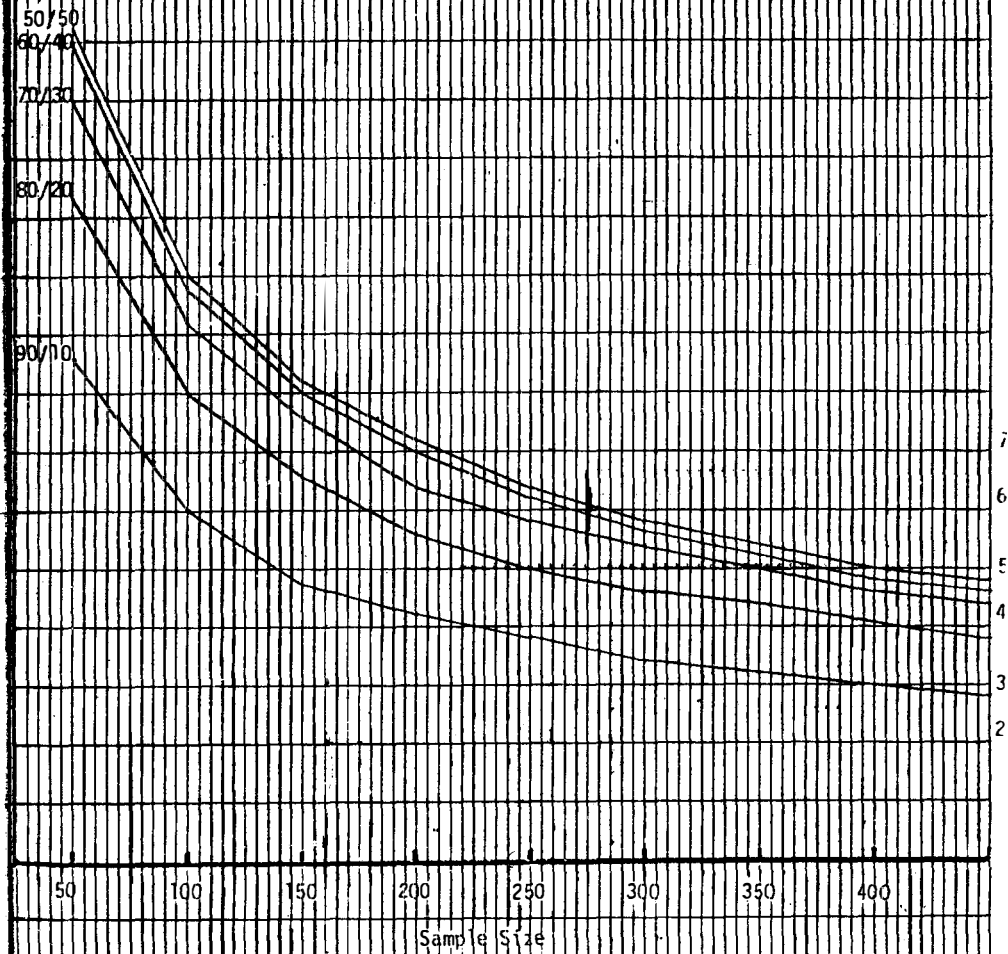
Tabulation and Presentation of Data

Upon completion of all interviewing, questionnaires are edited and coded. The collected data is transferred to punch cards for tabulation by computer. Cross-tabulations of the resulting data are made by the following demographic variables: age, sex, race, income, education, occupation, and place of residence in the area.

Table Format

All of the tables for the Southeastern Institute of Research Richmond Public Opinion Poll are prepared by computer and percentaged automatically. Due to rounding, some columns may total slightly more or less than 100%, although the total lines are consistently shown as 100%. No one number will differ from its actual determined value by more than +0.5%. Tables which show totals of more than 100% are "multiple response" where more than one answer could be given by an individual respondent.

Reliability Of Various Sample Sizes
 For Selected Question Proportions
 95% Confidence Level



QUESTIONS SUBMITTED BY ATTORNEY GENERAL'S OFFICE FOR
 SEPTEMBER 1976 RICHMOND PUBLIC OPINION POLL

In an average month how many times do you and others in your household use a pay telephone to make local calls?

Never use pay phone	+
1 time	-
2 times	0
3 times	1
4 or more	2
DK	3

If the cost of making a local call on a pay telephone was reduced from 20 cents to 10 cents, would you be willing to pay more on your telephone bill each month?

<input type="checkbox"/> If Yes:	(Go)	<input checked="" type="checkbox"/> No	9
	How much more would you be willing to pay?	Would you pay:		
		<u>Yes</u>	<u>No</u>	4
	50 cents	4	<input type="checkbox"/>	5
	40 cents	5	<input type="checkbox"/>	6
	30 cents	6	<input type="checkbox"/>	7
	20 cents	7	8	8

FREQUENCY OF PAY TELEPHONE USAGE AND
 ADDITIONAL AMOUNT WILLING TO PAY ON MONTHLY TELEPHONE BILL
 BY AGE OF HOUSEHOLD HEAD

	ALL	UNDER 25	25-34	35-44	45-54	55-64	65 AND OVER
	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT
NEVER USE PAY PHONE	57	42	47	46	60	75	85
1 TIME	12	6	22	18	5	8	0
2 TIMES	8	10	14	8	9	3	0
3 TIMES	4	13	1	4	5	3	5
4 OR MORE TIMES	17	29	14	22	18	8	10
DON'T KNOW	1	0	1	2	2	0	0
TOTAL	100	100	100	100	100	100	100
50 CENTS-MO	6	0	4	8	7	8	8
40 CENTS-MO	0	0	0	0	0	0	0
30 CENTS MO	0	0	0	0	0	0	0
20 CENTS MO	0	0	0	0	0	0	0
NOT WILLING TO PAY 20 CENTS	0	0	1	0	0	0	0
WOULD NOT PAY MORE	94	100	95	92	93	94	92
TOTALS	100	100	100	100	100	100	100
BASE	300	31	85	50	55	36	39

FREQUENCY OF PAY TELEPHONE USAGE AND
 ADDITIONAL AMOUNT WILLING TO PAY ON MONTHLY TELEPHONE BILL
 BY HIGHEST LEVEL OF EDUCATION ATTAINED BY HOUSEHOLD HEAD

	ALL PERCENT	SOME HIGH SCHOOL OR LESS PERCENT	HIGH SCHOOL GRADUATE PERCENT	SOME COLLEGE PERCENT	COLLEGE GRAD PERCENT	GRADUATE STUDIES OR DEGREE PERCENT
NEVER USE PAY PHONE	57	64	58	55	50	56
1 TIME	12	7	10	18	8	24
2 TIMES	8	4	9	5	17	6
3 TIMES	4	3	5	2	8	6
4 OR MORE TIMES	17	16	17	20	17	9
DON'T KNOW	1	4	0	0	0	0
TOTAL	100	100	100	100	100	100
50 CENTS-MO	6	9	5	5	2	9
40 CENTS-MO	0	0	0	0	0	0
30 CENTS MO	0	0	0	0	0	0
20 CENTS MO	0	0	0	0	0	0
NOT WILLING TO PAY 20 CENTS	0	1	0	0	0	0
WOULD NOT PAY MORE	94	91	95	95	98	91
TOTALS	100	100	100	100	100	100
BASE	300	70	86	55	52	34

FREQUENCY OF PAY TELEPHONE USAGE AND
 ADDITIONAL AMOUNT WILLING TO PAY ON MONTHLY TELEPHONE BILL
 BY OCCUPATION OF HOUSEHOLD HEAD

	ALL	PROFESSIONAL /MANAGERIAL	CLERICAL/ SALES	CRAFTSMEN/ OPERATIVES/ SERVICE WKR	PRV SERV WKR /LABORERS	PETIMED	STUDENTS
	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT
NEVER USE PAY PHONE	57	53	42	53	50	92	60
1 TIME	12	20	15	11	0	0	0
2 TIMES	8	9	12	11	0	0	0
3 TIMES	4	6	0	6	0	3	0
4 OR MORE TIMES	17	12	31	17	33	5	40
DON'T KNOW	1	0	0	2	17	0	0
TOTAL	100	100	100	100	100	100	100
50 CENTS-MO	6	4	4	7	0	5	0
40 CENTS-MO	0	0	0	0	0	0	0
30 CENTS MO	0	0	0	0	0	0	0
20 CENTS MO	0	0	0	0	0	0	0
NOT WILLING TO PAY 20 CENTS	0	0	0	1	0	0	0
WOULD NOT PAY MORE	94	96	96	93	100	95	100
TOTALS	100	100	100	100	100	100	100
BASE	300	90	26	112	6	39	5

FREQUENCY OF PAY TELEPHONE USAGE AND
 ADDITIONAL AMOUNT WILLING TO PAY ON MONTHLY TELEPHONE BILL
 BY TOTAL ANNUAL FAMILY INCOME

	ALL	UNDER \$5,000	\$5000-9999	\$10,000- 14,999	\$15,000- 19,999	\$20000-24999	\$25,000 AND OVER
	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT
NEVER USE PAY PHONE	57	74	54	63	46	33	49
1 TIME	12	7	10	7	22	15	20
2 TIMES	8	4	5	9	15	11	11
3 TIMES	4	0	5	9	2	7	3
4 OR MORE TIMES	17	13	27	11	15	33	17
DON'T KNOW	1	2	0	0	0	0	0
TOTAL	100	100	100	100	100	100	100
50 CENTS-MO	6	9	7	5	4	0	9
40 CENTS-MO	0	0	0	0	0	0	0
30 CENTS MO	0	0	0	0	0	0	0
20 CENTS MO	0	0	0	0	0	0	0
NOT WILLING TO PAY 20 CENTS	0	0	2	0	0	0	0
WOULD NOT PAY MORE	94	91	90	96	96	100	91
TOTALS	100	100	100	100	100	100	100
BASE	300	46	41	56	46	27	35

FREQUENCY OF PAY TELEPHONE USAGE AND
 ADDITIONAL AMOUNT WILLING TO PAY ON MONTHLY TELEPHONE BILL
 BY TOTAL ANNUAL FAMILY INCOME

	ALL	UNDER \$5,000	\$5000-9999	\$10,000- 14,999	\$15,000- 19,999	\$20000-24999	\$25,000 AND OVER
	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT
NEVER USE PAY PHONE	57	74	54	63	46	33	49
1 TIME	12	7	10	7	22	15	20
2 TIMES	8	4	5	9	15	11	11
3 TIMES	4	0	5	9	2	7	3
4 OR MORE TIMES	17	13	27	11	15	33	17
DON'T KNOW	1	2	0	0	0	0	0
TOTAL	100	100	100	100	100	100	100
50 CENTS-MO	6	9	7	5	4	0	9
40 CENTS-MO	0	0	0	0	0	0	0
30 CENTS MO	0	0	0	0	0	0	0
20 CENTS MO	0	0	0	0	0	0	0
NOT WILLING TO PAY 20 CENTS	0	0	2	0	0	0	0
WOULD NOT PAY MORE	94	91	90	96	96	100	91
TOTALS	100	100	100	100	100	100	100
BASE	300	46	41	56	46	27	35

FREQUENCY OF PAY TELEPHONE USAGE AND
 ADDITIONAL AMOUNT WILLING TO PAY ON MONTHLY TELEPHONE BILL
 BY SEX AND RACE OF RESPONDENT

	ALL	MALE	FEMALE	WHITE	BLACK
	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT
NEVER USE PAY PHONE	57	48	66	56	59
1 TIME	12	11	14	13	9
2 TIMES	8	8	8	9	6
3 TIMES	4	8	1	5	3
4 OR MORE TIMES	17	24	10	16	19
DON'T KNOW	1	1	1	0	3
TOTAL	100	100	100	100	100
50 CENTS-MO	6	4	7	5	7
40 CENTS-MO	0	0	0	0	0
30 CENTS MO	0	0	0	0	0
20 CENTS MO	0	0	0	0	0
NOT WILLING TO PAY 20 CENTS	0	1	0	0	1
WOULD NOT PAY MORE	94	95	94	95	93
TOTALS	100	100	100	100	100
BASE	300	145	155	232	68

FREQUENCY OF PAY TELEPHONE USAGE AND
 ADDITIONAL AMOUNT WILLING TO PAY ON MONTHLY TELEPHONE BILL
 BY SEX AND RACE OF RESPONDENT

	ALL	MALE	FEMALE	WHITE	BLACK
	PERCENT	PERCENT	PERCENT	PERCENT	PERCENT
NEVER USE PAY PHONE	57	48	66	56	59
1 TIME	12	11	14	13	9
2 TIMES	8	8	8	9	6
3 TIMES	4	8	1	5	3
4 OR MORE TIMES	17	24	10	16	19
DON'T KNOW	1	1	1	0	3
TOTAL	100	100	100	100	100
50 CENTS-MO	6	4	7	5	7
40 CENTS-MO	0	0	0	0	0
30 CENTS MO	0	0	0	0	0
20 CENTS MO	0	0	0	0	0
NOT WILLING TO PAY 20 CENTS	0	1	0	0	1
WOULD NOT PAY MORE	94	95	94	95	93
TOTALS	100	100	100	100	100
BASE	300	145	155	232	68

DEMOGRAPHIC CHARACTERISTICS OF SAMPLE
 SOUTHEASTERN INSTITUTE OF RESEARCH
 RICHMOND PUBLIC OPINION POLL

<u>AGE OF HOUSEHOLD HEAD</u>	<u>%</u>
UNDER 25	10%
25 - 34	29
35 - 44	17
45 - 54	19
55 - 64	12
65 & OLDER	13
TOTAL	100%
BASE =	(296)

<u>EDUCATION OF HOUSEHOLD HEAD</u>	
SOME HIGH SCHOOL	24%
HIGH SCHOOL GRADUATE	29
SOME COLLEGE	19
COLLEGE GRADUATE	18
POST GRADUATE STUDIES OR DEGREE	11
TOTAL	100%
BASE =	(297)

<u>OCCUPATION OF HOUSEHOLD HEAD</u>	
PROFESSIONAL/MANAGERIAL	32%
CLERICAL/SALES	9
CRAFTSMEN/OPERATIVES	40
SERVICE WORKERS	2
RETIRED	14
STUDENTS	2
TOTAL	100%
BASE =	(278)

AL ANNUAL FAMILY INCOME

	<u>%</u>
UNDER \$5,000	18%
\$5,000 - \$9,999	16
\$10,000 - \$14,999	22
\$15,000 - \$19,999	18
\$20,000 - \$24,999	11
\$25,000 & OVER	14
TOTAL	100%
BASE =	(251)

PLACE OF RESIDENCE

RICHMOND	47%
HENRICO	37
CHESTERFIELD	13
OTHER COUNTIES	3
TOTAL	100%
BASE =	(300)

<u>SEX OF RESPONDENT</u>	<u>%</u>
MALE	48%
FEMALE	52
TOTAL	100%
BASE =	(300)

<u>RACE OF RESPONDENT</u>	<u>%</u>
WHITE	77%
BLACK	23
TOTAL	100%
BASE =	(300)

STATEMENT OF COMMISSIONER BRADSHAW

When the issue of raising the rate of public phones from 10 cents to 20 cents first came on before the Commission for determination, it was my opinion, based on the evidence at that time, that the rate should remain at 10 cents. My position today remains the same.

If there ever existed an exception to the rule that rates should track costs, it could be justified in this instance because of the public service nature attached to public coin phones.

It could be argued there is more justification today for the increase as compared to a year ago since the companies have made expenditures for phone conversion to accommodate the new rate. However, based on the attached analysis made by the staff (which is based upon industry data after one year of operating experience), I am more convinced than ever that the move to the 20 cent rate was premature. Without detailing all of my reasons, I would like to point out that the 21 cent assigned as cost for a single call is based on data supplied by the company. Although this has been reviewed by the staff, one must recognize that applicants when supplying data frequently present same in a light which would promote their interest.

I am not convinced the data is firm enough to accurately fix cost at 21 cents. Therefore, it is my opinion,

that other conclusions drawn by the staff as to benefits flowing to the regular telephone subscriber by virtue of the 20 cent rate fall short.

In addition to taking exception to the Commission's staff analysis, I must also respectfully take exception to the survey conducted by the Attorney General's Office. This was a telephone survey to 300 regular telephone subscribers who were polled as to their choice of higher rates or public telephones remaining at 20 cents. Had the survey reflected the opinion from those people who rely exclusively on public pay phones such as students, servicemen, the poor who cannot afford phone service and etc., it is my opinion the results would have been different and I could have thereby placed more credence in the survey.

