

Local officials lose fight to gain favor for utility control

From page 1

necessarily representative of that majority.

"For example, Houston had only one vote while Borger, Amarillo and Dallas had two each.

"But it is still possible the executive board (which meets Sunday) or the league membership will pass our resolution.

"I certainly intend to urge passage."

Dallas Mayor Wes Wise, the TML president, appoints all league committees.

Dallas Mayor Pro Tem George Allen and Alex Bickley, city attorney of Dallas, helped lead the opposition to the proposal for a state utilities commission.

City of Midland officials sponsored the resolution opposing the creation of such a commission.

CONCUR-Concerned Cities for Utilities Regulation—and Mayor James Hays of Silsbee

had also offered resolutions endorsing the concept of state-level regulation of privately-owned public utilities.

Those voting for the resolution opposing creation of a state utilities commission were Allen of Dallas, Mayor Pro Tem Eddie Acree of Big Spring, Mayor Dr. David M. Bandy of Temple, Bickley of Dallas, Mayor C.C. Bodan of Borger, Fort Worth Councilman Leonard Briscoe, Mayor Charles Corser of Victoria, Councilwoman Lila Cockrell of San Antonio, Mayor T.M. Cornelius of Burkburnett, City Manager Ken Ded Devero of Beaumont, Mayor Oscar DuConge of Waco, Mayor pro tem Dr. Norman Ellis of North Richland Hills, Mayor E. Hale of Orange, Councilman Willie Hammond of Odessa, City Manager Niel Hamon of Wharton, Mayor W.T. Harlow of Brownwood, Councilman Jack Hewlett of Cleburne, Mayor Johnny B. Lee of Halton City, City Manager George La Ludder of Cavan, Mayor Jason Leiby of Corpus Christi, Councilman Jerry McClure of Borger, Mayor G. C. McCrary of Post.

Mayor Raymond D. Noah of Richardson, Mayor Harry Purser of Forest Hill, Al Ruschhaupt of McKinney, City Manager Fred Sandlin of Abilene, City Manager John S. Stiff of Amarillo, Mayor L. W. Stolz of La Grange, Mayor L. Ray Vahue of Amarillo and City Manager Ed Wannover of Tyler.

Those favoring creation of a state utility commission were Holtheinz, Mayor W.E. Black of Deer Park, Commissioner Bob Bustin of Kilgore, Mayor Pro Tem Clarence Christian of Muleshoe, Mayor G. C. Felts of Port Neches, Mayor Allen Gray of Alvin, Councilwoman Zelma Hardy of Kerrville, Mayor Hays of Silsbee, Mayor Bill Holmes of Marlin, Mayor A. E. Howell of Boerne, Councilwoman Flo Kemmerer of League City, Alderman Ruben Scheffer of El Paso, Director of Personnel Bill Storey of Pasadena, Mayor Larry Sullivan of Seabrook, Councilman Homer Triche of Groves, Councilwoman Beverley Van Sicken of Bellaire and Mayor Eduardo Vela of Hidalgo.

Local mayors lose fight for utility commission

By ERNEST BAILEY
Post Reporter

FORT WORTH—Mayor Fred Hofheinz and other Houston area mayors and city officials were defeated here Saturday in efforts to get the Texas Municipal League Resolutions Committee to adopt a resolution favoring the creation of a state utility commission.

Instead, the committee voted 31-17 for a resolution in opposition to such a creation but in support of "remedial legislation regarding utility accounting practices and procedures."

That resolution along with 11 others approved by the committee will be considered Tuesday at the business session of the league which is holding its 62nd annual con-

ference at the Tarrant County Convention Center.

More than 2,000 Texas city officials are meeting to consider a wide range of problems and issues facing municipal government.

Hofheinz also was voted down 29-18 on his proposal to recommend that the Texas Municipal League sponsor legislation to create a state utilities commission to regu-

late intrastate telephone rates and to regulate all utilities in all unincorporated and rural areas of Texas.

After the committee meeting, Hofheinz said that while he was unhappy the majority of the resolutions committee did not vote for the state utilities commission resolution he was pleased with the amount of support that was evidenced.

"Last year there were only two votes on the committee for state regulation," the Houston mayor said. "Today there were 17 votes."

"The time has come for state utility regulation."

"I feel as though the majority of the TML will agree the resolutions committee is not

Please see Local/page 3A

Hofheinz to urge utilities commission

Truiston Post 10/25/74

Mayor Fred Hofheinz will seek support for a state public utilities commission Saturday at the Texas Municipal League's four-day conference to be held in Fort Worth.

Hofheinz will introduce a resolution at the conference asking that the commission be formed.

"The soaring cost of public utilities has reached an intolerable level, and positive legislation is needed to provide for severe scrutiny of these ever increasing costs," Hofheinz said.

Hofheinz, the first mayor of a large Texas city to favor such a commission, said he feels it is important that the right kind of commission be established.

"It would be tragic if the next session of the State Legislature were to create a public utilities commission which

did not assist municipalities in their efforts to regulate public utilities responsibly, but only made matters worse," he said.

He said he is also concerned about the fact that local assistance in regulating utilities is so costly and difficult that only a few cities can go beyond token efforts to regulate them.

Some guidelines for the commission that Hofheinz proposes include developing of procedures to evaluate rate increase requests, providing trained personnel to help cities conduct rate hearings, and regulation of intrastate long distance telephone rates and other unregulated utility rates.

The league has traditionally opposed the formation of such a commission, Hofheinz said.

American Statesman 11-2-74

Doggett To Introduce Proposals On Utility Regulation Reforms

Capitol Staff

Area Sen. Lloyd Doggett says he would introduce a series of legislative proposals designed to reform utility regulation in the state and create a Texas Utility Regulation Commission.

Doggett is seeking re-election to his state senate job, on a platform that includes utility regulation measures.

"Placing the companies under the jurisdiction of a utility regulation commission is (the) first step," Doggett said, "with stringent safeguards to prevent the commission from becoming a pawn of the industry it was supposed to regulate."

He said, "The commission would review rate requests and other questions about the price and quality of the

utilities' service. Municipalities would have a choice as to whether they wished to regulate rates themselves or come under the commission's jurisdiction."

His proposals also include:

"—Annual reporting of utility company revenues and expenses so that city councils will not be limited in their review of rate requests."

"—Requiring utility rates to be based on the original cost of the utilities' equipment, and not on inflated estimates of the equipment's worth," said Doggett, claiming that inflation equipment costs are used to reduce estimates of revenue received.

— He also advocated, "Prohibiting the companies from including the cost of consumption-oriented advertising in the expenses

they list when setting their rates," and "making telephone companies subject to city zoning requirements, from which they are now specifically exempted."

— Doggett also said the "net" and "gross" billing arrangement used by utility companies should be placed under the Consumer Credit Code. "In charging a higher price for the 'gross' bill (paid later) than for the 'net' (paid before the due date), the

companies are, in effect, providing credit and charging interest for it," Doggett said. "But unlike all the other credit-providing institutions in the state, the utilities do not have to disclose the rates, follow fair credit practices, or otherwise live up to the consumer code," he said.

—He would require companies to reimburse customers for shoddy or substandard service, noting that "throughout the state there are complaints about high-handed and slovenly service, especially from the telephone companies."

"The only way we can give the companies an incentive to prevent these abuses is to add a reimbursement provision," Doggett said.

— Increasing the 60-day period during which a city may challenge a utility's rate request is also necessary, Doggett said. "In too many cases, 60 days is not enough time for the city to marshal technical expertise and give close attention to the company's request," said Doggett.

Haddington
on joint committee
on utility
regulation

MEMORANDUM FROM:

League of Women Voters of Texas

DICKINSON PLAZA CENTER • DICKINSON, TEXAS 77539

Oct. 27

Dear Henrietta:

I guess things are pretty quiet in Austin right now except for the campaigners. What's new on the TCR?

I'm sure you have seen articles about the Utility commission controversy and the Tex. Municipal League but decided to send these articles anyway. I don't know how the League fits into this exactly. We have been on the "fringe" for several years. Many of the members from this area, especially the Bay Area have been trying to get this added to League program for years. We did some study on it during the study of boards and commissions but there was always some hesitation about pursuing it farther since it does not exactly fit our positions. I have always been concerned that it was actually a conflict. After all we have been trying to get rid of some of the boards and commissions, but perhaps this is one that is badly needed. If this goes any further in the Legislature you can watch for more questions from League members.

The articles on the judicial isn't exactly news except that it is being printed right now. Is it picking up any support?

Hear you are moving to Dallas? I'm sure you will like it. I do. Dallas was my home for 22 years. Good Luck

Heleen

Utility Commission Opposition Looms

By CARL FREUND
Fort Worth Bureau of The News

FORT WORTH—Mayor Wes Wise of Dallas, who heads the Texas Municipal League, predicted Monday that it will oppose proposals calling for the 1975 Legislature to create a state utilities commission.

A fight over the proposed regulatory agency has split the Municipal League, which consists of representatives of city governments across the state.

Wise said Dallas will support a resolution which contends that city governments—not a state agency—should set rates which utilities charge for natural gas, electricity and telephone service.

Councilwoman Margaret Rimmer of Fort Worth said it will join Dallas in supporting the resolution.

The showdown will come Tuesday when the Municipal League ends its annual meeting here.

"This is basically a fight between the Dallas-Fort Worth area and Houston," Wise told The News. "We believe that the regulation of utilities is a local function. Mayor Fred Hofheinz of Houston is a strong advocate of a state commission."

WISE NOTED that the Municipal League's resolutions committee voted 31-17 against a Hofheinz proposal calling for state regulation with cities getting the option of setting their own rates. Municipal League directors turned down a similar proposal 21-8.

City Mgrs. Pat Moffatt of Haltom City and Bob Blevins of Bedford said they will support the Dallas-Fort Worth position.

Corpus Christi representatives said they will side

with Hofheinz.

Officials of Gulf Coast cities supporting a state regulatory agency have formed an organization called Concerned Cities for Utility Regulation (CONCUR).

Joe Pirtle of Seabrook, their chairman, said they "bitterly resent the fact that money from our cities which go into the Municipal League can be used by its staff to oppose ideas that we favor."

PIRTLE STOPPED short of saying that any cities would withdraw from the Municipal League if it opposes a regulatory agency. Cities use the tax funds to pay dues to the Municipal League, which lobbies before the Legislature.

Advocates of a state commission argue that many smaller cities lack funds to fight big utilities although the Municipal League can give them some help. They also point out that no state agency regulates long distance phone rates.

Contending they have been hard hit by inflation, utilities have filed numerous requests for rate increases across the state in recent months. Fort Worth councilmen are studying a Southwestern Bell Telephone Co. request for a 17.5 per cent rate increase which would give the company an additional \$11.5 million a year in the Fort Worth metropolitan area.

Critics of a utilities commission say it could actually lead to higher rates if natural gas, electric and phone companies should control it. There is also a danger it could adopt an anti-business attitude if controlled by others, they argue while contending that utility rates in Texas are lower than in most states.

U.S. 80

Santa Fe
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Spurr A Test

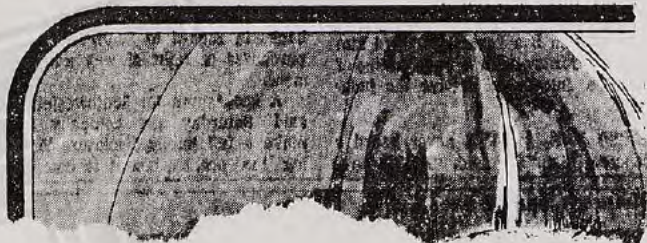
Regents of the University of Texas system consider the decision of Dr. Stephen Spurr to resign as a test of their change administrative policies without the aid of faculty members.

This is one regency quickly decision of LeMaistre, the chancellor, to Spurr after he resigns.

"We know a segment of the Association of Professors who think that it should have a voice in decisions administrative replaced," one of The News.

"The association

During Japan Fortnight, I



A Public Utility Commission for Texas?

By FRED PASS
Editor, Texas Almanac

DOES TEXAS need a public utility commission?

In several past sessions, the Texas Legislature has considered this question. Each time, opponents of a state commission have won.

The question will come up again next year. Rate hike requests, submitted by public utility companies pinched by inflation and uncertain energy supplies, have been hitting city councils like popcorn hitting the popper lid. For that reason, the issue most likely will draw more heat than in past years.

Under Texas law, city governments regulate utilities and are required to establish a "fair return on the fair value" of utility investment. Unincorporated areas are not regulated.

In a recent issue of its "Texas Town and City" magazine, the Texas Municipal League presents pros and cons of the question.

Sen. Ron Clower of Garland gives the "yes" side. Last year he submitted a proposal calling for a utilities commission, but opponents managed to bottle it up. As chairman of the Senate subcommittee on consumer affairs, he has held hearings on the question this year.

He says that another series of legislation will be offered next year and probably will contain local option clauses. If they fail, a second series of bills



PASS

will attempt to tighten local regulations.

Giving the "no" side is Dan Matkin, mayor of Irving.

Matkin is chairman of the Texas Municipal League's Utility Advisory Council which is working for improved utility regulation through interlocal cooperation. He has appeared before Clower's committee a number of times to object to the creation of a state utility commission.

FOR

Clower contends Texas has no true regulation, that too many municipal governments simply rubber-stamp approval of company requests.

"Some cities make a token effort at regulation and some make no regulation at all, and the result is the same: What a public utility wants, it almost always gets," he says.

He cited the case of one public utility which asked more than 200 cities it serves to allow 10 per cent rate increases.

"In all but one of the cities," he says, "the city councils granted the increase with little or no attempt to determine whether the requested increase would in fact provide the fair return on fair value. The councils simply rubber-stamped the company's request."

Sen. Clower says three of Texas' largest cities have professional staffs to deal with utility rates and service problems. The others are under a handicap.

"Rarely do elected councilmen and women have the technical competence to fully evaluate a company's rate request, and they almost never have the time to do it," he says.

Another procedure, Clower says, is for the council to strike a bargain with

the utility company at a rate lower than the request, while not knowing if the lower price is still too high.

AGAINST

The most significant objection to a public utility commission, says Mayor Matkin, is that it transfers local power to the state.

"Texas citizens have benefited for years under what is perhaps the strongest form of municipal home rule in the U.S.," notes Matkin. "Local officials have never been bashful about voicing objections to any scheme that might abrogate local prerogatives."

By establishing a state regulatory commission, local governments would be inviting the state to intrude in their affairs, he says. This could lead to further intrusion by future Legislatures.

Matkin contends that experience in other states shows that a state commission will not necessarily improve the lot of cities that do not have staffs to deal with complex utility requests.

As a rule, he says, utility commissions do not provide experts to present and defend a city's case—the responsibility remains with the city. While rate analysts employed by the state would check proposals and study utility problems, the commission would sit in a quasi-judicial role and decide between presentations.

"The actual burden of protecting the consumer would still rest with the city council in the same fashion that cities now deal with gas rate cases before the Railroad Commission," he says.

Help is on the way to those cities that need it, says Matkin. The Municipal League's Utility Advisory Council was given permanent status in June to give assistance to cities requesting it.

8-22-74 Dallas M. News

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Fort Worth Bureau of The News

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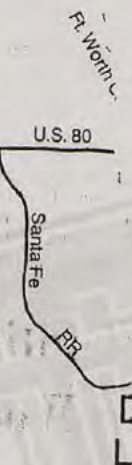
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Spurr A Test

Regents of the University of Texas system consider the resignation of Dr. Stephen Spurr, president of its Austin campus, as a test of their change administrative officials without the approval of faculty members.

This is one of the more quickly made decisions of the board of regents, LeMaistre, the chancellor, to Spurr after he resigned.

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During Japan Fortnight, t



During times of high costs, utility rate rises irk consumers

By JAKE HENSHAW
And DAVE PRECHT
Post Reporters

At a time when a housewife pays 15 cents for a pound of navy beans that cost 12 cents last year, and a motorist pays 48 cents for a gallon of gasoline that cost 32 cents a year ago, the telephone, gas and electric bills become a monthly frustration that rubs the consumer's nerves raw and pocketbook thin.

During the past year, Texas city councils have witnessed a parade of telephone, electric and gas utility representatives—all asking for customer rate increases ranging from 5 per cent to as high as 40 per cent.

INCREASING COSTS OF utilities, imposed at a time of high profits, is generating support among consumers for a statewide regulatory commission.

But a utilities commission may not be the panacea it is touted to be, opponents claim.

Sen. Glenn Kothmann, D-San Antonio, views it as "just more bureaucracy," and Rep. Ralph "Skip" Scoggins, R-El Paso, is "very skeptical of setting up any more state agencies for anything."

"Just because you create a commission, it doesn't mean prices will go down," said Kothmann. He said insurance rates, as an example, are "too high" and they are state regulated.

Scoggins said he is "looking at the possibility of turning

Utilities: Who governs?

Last of a series

the regulation of unincorporated areas to commissioners courts with the expertise coming out of the attorney general's office."

Houston's Republican Sen. Walter Mengden Jr. said information he has seen from other states, particularly Oklahoma and New Mexico, shows rates are higher now than before regulatory commissions were created while

Admitting that rural residents have a problem, he said, "If there is some way to give them recourse, then I am going to be for that."

Publicly, industry spokesmen are not so much opposed to statewide regulation as they are in favor of local control.

"All government ought to be local," says M. L. Vaughn, Southeast Division manager for Community Public Service Co.

"I believe city councils would prefer to deal eyeball-to-eyeball with the guy who lives down the street," adds Craig McNeese, director of public affairs for Houston Lighting & Power Co.

PROBABLY MORE indicative of the real fears utility companies have of a state regulatory body is expressed by McNeese.

"It is impossible to predict in advance who would be on the commission," he said.

They are apparently afraid a strong state commission would become a monster like the one in New York which held Consolidated Edison Co. to a 5.2 per cent rate of return in 1969. The Texas Municipal League suggests that situation was a direct cause of power brownouts and shortages in the East.

Some city officials are also afraid a state commission would be one-sided in favor of the industry it is set up to regulate.

"IN SOME STATES, utility commissions are controlled by those people who control the utilities," warns City Atty. Jack Mulvihill of Missouri City.

For an example of how a state regulatory body might operate in Texas, one need look no farther than Austin, home base of the state Railroad Commission.

"The Railroad Commission is what everybody points to as indicative of what a regulatory commission should not be," declares Dr. Jack Hopper, an Austin rate consultant familiar with the commission.

Like the powerful insurance and land offices, the Railroad Commission functions largely beyond the public view.

Consequently, commissioners serve until they die in office, seek another state post, get involved in a rare public furor—such as the veterans land scandal of 1955 or the more recent treasure hunting controversy—or become an officer in one of the firms they regulate.

WITH THE SINGLE exception of Olin Calhoun's election to the post vacated by Lon Smith in 1940, Texas governors have filled vacancies on the commission. No incumbent has ever been defeated for re-election.

The commission has also



RON CLOWER

been accused of being too close to the industry it oversees, as is witnessed by the "job well done" advertisement in the 1974 Texas Almanac, paid for by the Texas Producers and Royalty Owners Association and the International Association of Well Drilling Contractors.

Last year, when Frances "Sissy" Farenthold and House Speaker Price Daniel Jr. began making noises like candidates for the commission, industry heads sounded out State Sen. H. J. "Doc" Blanchard of Lubbock as a possible candidate to replace the lesser known Mack Wallace, a freshman commissioner.

Wallace, it should be noted, was newly appointed by Gov.

Dolph Briscoe to replace Byron Tunnell, who resigned his commission seat to become vice president of governmental affairs for Tenneco, Inc.

Yet supporters of the body point to its relatively unblemished 83-year history as evidence that it functions in the public interest.

"IT IS ONE OF the most efficient regulating agencies I know of," says a veteran wire service reporter who has covered the commission for more than 25 years.

Commissions in other states may be overly consumer-oriented, to the detriment of utility service, points out State Sen. Edgar Mouton of Lafayette, La.

"The only defect (in Louisiana's Public Service Commission), some say, is that the commission is so all-powerful in establishing rates for the public good that sometimes they drag their feet on rate increases. When they do that, it deters the public utility from proper expansion," Mouton said.

Fears that a state commission would become a political body would also have to be allayed.

LOUISIANA'S HUEY "Kingfish" Long used the formerly staid Railroad Commission in that state as a stepping stone to the governorship and a senatorial seat, waylaying AT&T and Standard Oil of New Jersey on his way.



WALTER MENGDEN JR.

To counter some of the problems, states like Indiana and Maryland have established "utility ombudsmen" separate from the commission to represent consumer interests.

Other alternatives have found favor among Texas advocates of rate regulation:

● Texas City proposed a plan recently for a state advisory agency to help smaller cities conduct rate studies on a cost-share basis.

● The Texas Municipal League favors a local option system under which cities would choose whether to regulate rates themselves or let a state commission handle the chores.

● Some proposals, like former State Sen. Charles Wilson's Telephone Commission bill of 1971, would regulate only telephone utilities.

● Gov. Dolph Briscoe recently suggested having the Railroad Commission take on electric utility regulation and leave telephone rates to cities.

● Others such as State Sen. Ron Clower would create a body similar to the Railroad Commission which would govern rural rates and service and serve as an appellate body for cities.

● Bills have also been proposed to strengthen and clarify the statutory authority of cities to set local rates.

Whatever direction is chosen, the long-standing battle for utility regulation reform is gaining new impetus.

Inflation, growing corporate power and a loss of confidence in the present system are causing consumer leaders to push for a new method—any Method—of controlling the cost of utility service.

"I have lived in other states with utility commissions," explains Joe Firtle, Seabrook city councilman and chairman of Concerned Cities for Utility Regulation (CONCUR), "and a bad one would be better than what we have now."

Texas utility firms among most profitable

Utilities: Who governs/part 4

BY JAKE HENSHAW
and DAVE PRECHT
Post Reporters

While Texas electric utility companies claim they generate dependable, low-cost power for the consumer, they also generate some of the highest profits in the nation.

Federal Power Commission statistics for 1971 (the latest available) indicate the 11 Texas-based power companies had an average rate of return of 8.97 per cent—higher than any other state.

Only one company, Dallas Power and Light Co., had a rate of return that year (6.90) lower than the national average of 7.30 per cent.

The Texas average per cent of return on common equity was 15.5 per cent in 1971, while the average for firms

throughout the nation was 11.8 per cent that year, the Texas Public Interest Research Group (Tex-PIRG) revealed last year.

"THE AVERAGE price people pay for electricity in Texas is below the national average," said Bill Aston, vice president of DP&L, shortly after the Tex-PIRG study was released.

"For example, as of January, 1972, 1,000 kilowatt hours of power cost Dallas users \$15, compared to \$26 in Boston and \$30 in New York, both of which have the state regulatory system the consumer group advocates.

"There are many other factors involved that this group failed to consider or mention," Aston said in speaking for DP&L and its parent com-



pany, Texas Utilities Inc.

However, New York and Boston power companies use fuel oil, coal, nuclear power or natural gas from Louisiana and Texas to run their generators—fuels significantly higher in cost than the home-grown natural gas the Texas companies employ.

And electric prices in Texas are higher than those in some states.

PROFITABILITY OF TEXAS ELECTRIC UTILITIES

Company	Rate of Return (%)	Return on Common Equity—(%)	Common Equity Per Cent Of Capitalization
Central Power & Light	9.74	16.2	41.9
Community Public Service	8.39	14.4	33.5
Dallas Power & Light	6.90	12.8	36.4
El Paso Electric	9.68	17.1	39.1
Houston Lighting & Power	9.82	15.5	41.0
Southwestern Electric Power	9.32	15.5	40.7
Southwestern Electric Service	8.25	14.1	31.9
Southwestern Public Service	8.57	16.8	33.2
Texas Electric Service	9.17	16.1	38.2
Texas Power & Light	9.40	16.3	37.8
West Texas Utilities	9.47	15.8	45.8
STATE AVERAGES			
TEXAS	8.97	15.5	38.1
ARKANSAS	7.76	11.3	30.6
CALIFORNIA	6.81	10.9	35.1
LOUISIANA	6.81	11.8	33.5
MASSACHUSETTS	6.92	9.2	67.6
NEW MEXICO	8.55	12.5	40.1
NEW YORK	6.88	11.3	40.7
OKLAHOMA	8.28	14.9	38.5
NATIONAL AVERAGE	7.30	11.8	

Source: Federal Power Commission 1971 reports.

IN CALIFORNIA, for instance, where the cost of generating power is generally higher than in Texas, costs for 500 kilowatt hours range from \$9.37 in Sacramento to \$16.23 in the Los Angeles area. Houston Lighting & Power Co. charges its Houston customers \$12.29 for the same amount of power.

The upshot of the Tex-PIRG report is that if Texas electric utilities were held to a rate of return no higher than the national average, residential electric bills in Texas would be reduced an average of \$14 a year.

Power leaders dispute the validity of comparisons of rates of return among the states.

Craig McNeese, director of public affairs for HL&P, says Federal Power Commission statistics can be misleading because of differing factors in determining rate bases.

THE STATISTICS "were calculated on a uniform basis" using information provided by the companies, the FPC says, adding that the commission, itself, does not attempt "to determine the reasonableness" of the rates of return.

Texas does not have the machinery to perform a thorough, independent rate analysis to determine whether the profit margins of the state's power companies are reasonable.

Texas law leaves it for the most part to poorly informed, part-time city councilmen to determine whether consumers in each of the 844 cities are paying a fair price for electricity.

Almost without exception, governments in smaller towns approve electric rate increases without even a cursory examination of rate base data.

"WHEN TEXAS Power & Light Co. recently announced increases in the 240 towns served by the company, not a

single city asked for the books. They all rolled over and played dead," recalls rate consultant Dr. Jack Hopper of Austin.

Although Article 1121 requires utility companies to file certain reports with the city governments in their area of operation, the case of Baird v. West Texas Utilities "virtually destroyed this protection as it held that only companies operating exclusively within the city were required to file," Tex-PIRG points out.

Evidence exists that electric companies could operate more efficiently if they spent more on research and development, argues the U. S. Senate's most vocal critic of the industry, Lee Metcalf of Montana.

IN A SPEECH to the Senate Jan. 26, 1973, he cited FPC data showing that the industry as a whole spent well over three times as much on advertising and sales promotion as it did on research and development.

HL&P spent \$4.49 million on advertising and sales in 1971, but only \$862,195 on research and development; Texas Electric Service Co. budgeted a sum for research and development equal to only 5.5 per cent of the \$5.5 million it spent on advertising, and the ratio was similar for Community Public Service, 1971 FPC reports show.

"TOTALLY ERRONEOUS. One hundred per cent inaccurate," was the response McNeese had for Metcalf's advertising and R&D statements.

He added that HL&P spent \$2.9 million last year for advertising and about \$6 million for R&D.

Asked about McNeese's charges, Vic Reinemer, a Senate researcher who obtains much of Metcalf's information, said, "All that the FPC does is print what the companies tell them."

McNeese also defends the relatively high profits of his and other utility companies.

"WE HAVE a triple-A rating—the highest, they get in the bond market," he said.

HL&P sold \$100 million in bonds at an effective interest rate of 8.027 per cent in January, more than half a per cent below the rate for bonds sold by Georgia Power Co., an A-rated firm, during the same month. Also in January the Tennessee Valley Authority and Baltimore Gas and Electric Co., both with triple-A ratings, sold bonds for 8.099 per cent and 8.21 per cent, respectively.

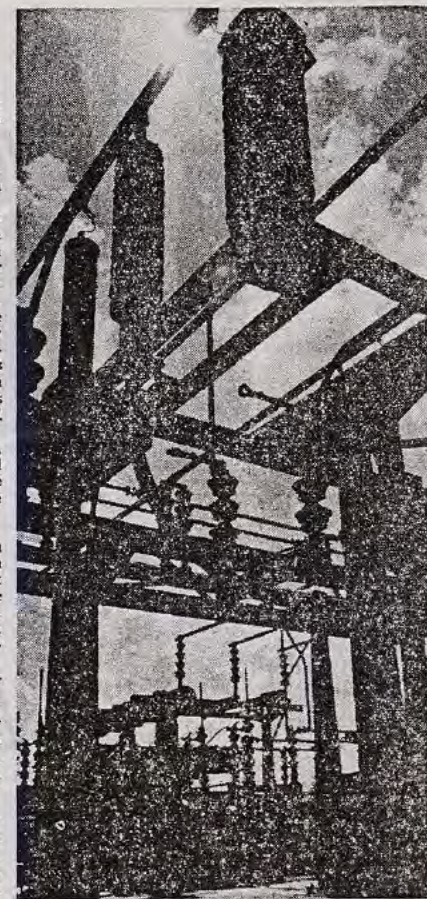
The saving in interest costs, McNeese indicated, is passed on to consumers because rates can be held down by the company.

"IN RATE proceedings in Texas, the rate of return must be adequate to attract ample capital but need not be beyond that," economist G. B. Reschenthaler noted in a 1969 Baylor Law Review article.

Texas independent power companies have not had difficulty attracting "ample capital." Nor have the ones in other states with rates of return as low as 4 and 5 per cent.

"There simply is no other enterprise with as little risk as electric utilities... No investor-owned electric utility (IOU) has failed for a generation or more, because of the extraordinary privileges bestowed upon IOUs by government," write Metcalf and Reinemer in their book, "Overcharge."

EXPANSIONS in facilities, made possible by the extra capital, enable Texas companies to avoid power brownouts and shortages that have plagued some eastern seaboard areas, agree McNeese and DP&L's Aston.



Utility generates low-cost power, high profit

—Post photo by Fred Bunch

ly free of those problems, with the exceptions of Austin and San Antonio where natural gas shortages led to power curtailment, so have most of the rest of the states served by utilities commissions.

The only valid criteria for determining whether Texas

unique system of local utility regulation is working are the costs to consumers and the quality of service, McNeese believes.

"The user has done mighty well under the existing situation," he declares.

NEXT: Gas and the Railroad Commission.

RR commission powerful on gas rates

By JAKE HENSHAW
and DAVE FRECHT

Post Reporters

It was a cold, expensive winter for Austin and San Antonio residents in 1972-73—even before the energy shortage became a full-blown crisis.

A real crisis existed in those two cities and other Texas communities fueled by Lo-Vaca Gathering Co., a wholly owned subsidiary of Coastal States Gas Co.

An interoffice memorandum from the company's marketing department to other department heads distributed some months later on May 10, 1973, may reveal the reason:

"Marketing policy with regard to solicitation of any 'contemplated Texas utility deal' is to wait until crisis develops."

The memo suggests this position because customers at that time considered fuel oil as a poor substitute for natural gas and "once they are in trouble" the supply of fuel

Please see related
stories/page 18B

provided by the company "should enhance Coastal's image while at the same time allow the Gas Department to obtain quid pro quo."

"It is marketing's desire that whatever is done should be done in the best interest of Coastal States Gas Co."

When it curtailed gas supplies to San Antonio, Austin and Corpus Christi that winter, costing San Antonio about \$1.5 million for 65 days worth of fuel oil, Lo-Vaca actually had run out of gas.

Utilities: Who governs?/part 5



MACK WALLACE

"But the reason is simply that they oversold and over-promoted their product," charges Austin attorney Lou McCreary.

McCreary, who is basing most of his campaign for state representative this year on revamping utility regulation (specifically gas utility) believes the Railroad Commission shirked its responsibilities in handling the controversial Lo-Vaca case.

"They merely slapped Lo-Vaca's hands," he complains of the Sept. 27, 1973, order requiring Austin, San Antonio and other customers to pay the company the cost of gas plus five cents per 1,000 cubic feet.

Seeking to have their 20-year, fixed-price contracts upheld, the customers filed suit in 33rd District Court charg-

ing the commission's action was "unreasonable, arbitrary and capricious."

The commission claimed it did not have jurisdiction but the district court disagreed. The case is now being appealed.

While it may not be "another Sharpstown scandal," as McCreary claims, the Lo-Vaca fiasco is certainly the most publicized case since a commission member resigned in 1963 after the disclosure that his taxable income from oil and gas dealings exceeded \$1.7 million during his tenure.

Although he was later nobilitated by a Travis County grand jury, the incident did point up the potential for conflict of interest by members of so powerful a body.

The commission was created in 1891 to regulate railroads in their heyday.

Increased responsibility for other common carriers, in-



cluding transportation, commercial motor vehicles, pipelines and then conservation of oil and gas, led to stormy hearings, court cases and even martial law once in the East Texas Field in the 1930s.

Today the commission has consolidated its power to regulate over one-third of the



JIM LANGDON

oil and gas in the U. S.

"It is our duty . . . to administer the conservation laws of Texas so as to prevent avoidable waste . . . and to encourage drilling and production practices which will result in the greatest ultimate recovery of hydrocarbons," Commission Chairman Jim C. Langdon says.

The gas utilities division was on the sidelines throughout much of this stormy history until the Lo-Vaca case. But even this eight-man unit wields considerable power with responsibility to set gas rates in unincorporated areas, "gate rates" between pipeline and distribution companies and to hear appeals on the regulation of gas rates set by cities.

Saunders Gregg, vice president of United Gas Co., says this division has been "fair

and just," echoing the sentiments of converted oilmen about the commission as a whole.

The extent of its apparent effectiveness was more clearly expressed by W. E. Long of Houston Natural Gas.

"We would do anything except go to the Railroad Commission," he told the Alvin City Council in recent negotiation of a requested rate hike.

A comparison of gate rates around the country seems to support their contention. In Houston last July 1, the city gate rate for HNG was 41.8 cents per 1,000 cubic feet while the cost in most other major cities ranged from 48.24 in Pittsburgh to 56.91 in Newark, N.J.

But it was as low as 39.24 cents in San Francisco, even though 90 per cent of the gas comes from outside the state, and as high as \$3.61 in Boston.

The San Francisco rate is influenced by the disparity, decreasing recently, between interstate rates, regulated by the Federal Power Commission, and intrastate rates, regulated by the states.

"Natural gas prices have been kept artificially low because the FPC didn't let the price of gas rise to the point where it and the demand would level off," said a spokesman for United Texas Transmission Co., blaming the FPC for a key role in causing the current shortages by making gas a "super fuel."

The retail rate for Houston residents is a minimum charge of \$2 a month and from \$8.50 to \$8.90 for 6,000 cubic feet of gas, depending on the supplier.

Company	NATURAL GAS: Yardsticks of Management Performance			Return on Equity (%)			Return on Total Capital (%)		
	5-Year Ave.	Latest 12 Mos.	Industry Rank	5-Year Ave.	Latest 12 Mos.	Industry Rank	5-Year Ave.	Latest 12 Mos.	Industry Rank
Coastal States Gas	16.8	10.0	1	8.7	6.0	1			
Texas Eastern Trans	16.4	13.5	2	6.8	7.0	12			
Transco Companies	16.2	15.4	3	5.8	6.1	17			
Panhandle East Pipe	15.9	15.4	4	7.3	7.9	7			
So. Natural Resources	14.9	14.9	5	8.5	7.5	2			
Lone Star Gas	14.0	15.2	6	8.1	8.1	4			
Houston Natural Gas	13.8	12.5	7	7.1	7.4	9			
Tenneco	13.7	14.5	8	6.8	7.1	11			
No. Indiana Pub Serv	13.2	12.3	9	7.1	6.8	8			
Arkansas Louisiana Gas	12.9	12.9	10	8.1	8.0	3			

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A new rate increase that would cost Houston Natural Gas customers an additional 22 cents per 1,000 cubic feet was requested earlier this week by Houston Pipe Line Co., a subsidiary of HNG, under the "cost of gas" adjustment formula approved by the Railroad Commission.

Under that formula, the Houston gate rate has risen to 44.8 cents since last July.

California residents pay a minimum monthly charge of from \$1.38 in San Francisco to \$2.97 in Los Angeles. Seventy "therms" (6,666 cubic feet) of gas costs users in San Francisco \$7.43 while Los Angeles residents pay \$9.15, according to the Public Service Commission in that state.

But critics of the Railroad Commission point to different statistics. Five of the eight most profitable natural gas companies in the nation over the last five years were

Texas based, according to data in the Jan. 1 issue of Forbes Magazine.

The greatest problem of the gas utilities division, says its chief, Frank Youngblood, is unincorporated areas.

He says they are often unrepresented at rate hike hearings, even though companies are required to include hearing notices in monthly bills.

"It puts a hell of a burden on us," he said of the one-sided situation.

Some state leaders, notably Gov. Dolph Briscoe, have suggested endowing the powerful commission with even more regulatory duties. Commissioner Mack Wallace is not against the idea.

"Historically, the Railroad Commission has never asked for additional duties," he observed. "But we have assumed more responsibility when the legislature dictated so."

Chairman Langdon notes the commission now has its hands full with increased energy problems and would certainly need a larger staff to handle any additional duties.

Citing the failure of the commission to support Austin and San Antonio in the Lo-Vaca dispute, Sen. Lloyd Doggett led a narrowly successful fight to remove the agency from the state constitution.

He said he believes the commission would be less flexible if bound to a constitution.

Whatever the future holds for the historical commission, Wallace hopes it will uphold his theory of utility regulation: "To protect the weak from the strong."

NEXT: An overview—Promises, pitfalls and alternatives.



BILL MEIER



ED R. WATSON



R. REX BAILEY



LLOYD DOGGETT

3 legislators plan new attempts

By JAKE HENSHAW
And DAVE PRECHT
Post Reporters

Approximately 235 utility company lobbyists, including 66 representatives of telephone and electric companies, registered during the 63rd Legislature.

That is 54 more lobbyists than state senators and representatives.

Nine bills aimed at changing current utility regulation were introduced in the same session but with a singular lack of any coordinated effort to pass them.

Is it any wonder that all nine bills failed to pass last year?

To boot, the Texas Municipal League, which is strongly influenced by the few largest cities able to regulate utilities, opposed the bills.

Last year's lack of success was a repeat performance of every recent session but things may be a little different in 1975, when next the legislature meets. Already Sens. Ron Clower of Garland, Lloyd Doggett of Austin and Bill Meier of Euless, and Rep. Ed R. Watson of Deer Park have indicated they will

introduce far-reaching legislation on utility regulation.

Although Gov. Dolph Briscoe said recently he does not believe telephone utilities need statewide regulation, he did suggest that electric companies be placed under the control of the state Railroad Commission.

His opponent for the Democratic nomination for governor, Frances T. "Sissy" Farenthold, would have a state commission to handle all utility regulation.

Clower's Senate subcommittee on consumer affairs plans a series of hearings on utility regulation after the Constitutional Convention adjourns.

And Doggett adds, "I will make this my No. 1 legislative priority in the next legislature."

These proponents of improved regulation will have their work cut out for them.

When he was a state senator in 1971, U. S. Rep. Charles Wilson of Lufkin held a series of widely publicized hearings throughout the state and conducted an ambitious study of the utilities problem. But he still failed even to get his bill out of committee.

Wilson now complains privately that telephone lobbyists "got to" a senator who suddenly changed his vote after a weekend recess.

Clower had better success in the 63rd Legislature, but only barely. The Senate Human Resources Committee accepted his bill from his own subcommittee, then immediately refused to adopt it as the full committee's report.

He later failed in an attempt to have the Senate accept it on the floor as a minority report.

All other legislation last year either died in committee or was recalled by the sponsor.

The bills died largely because of a lack of coordination among sponsors as well as lobbyists' opposition, believes Dr. Jack Hopper, an Austin rate analyst who, in some cases, was the only favorable witness for the bills.

"Utility reformers were not able to generate much support for their bills either inside or outside the legislature," he said. "Most bills had only one sponsor, predominantly freshmen members.

"No coordination was vis-

ible between sponsoring legislators; members who introduced different commission bills hardly knew each other and seldom conferred. Not a single sponsor testified for any bill other than the one he introduced."

Prospective sponsors of bills in the 64th Legislature can look for broader public support, however.

Two new groups, CONCUR and its predecessor in League City, Citizens for Better Telephone Service, have begun massive letter-mailing campaigns to spread the movement to other parts of Texas.

A third group, the Texas Municipal League, which has traditionally opposed a state utilities commission, may be changing colors.

"Most bills in the past 10 years have embraced all utilities, so we would be subjecting ourselves to state regulation" on every front, Dick Brown, executive director of TML, says of the past opposition.

He favors a system under which cities would decide for themselves whether to regulate a utility company or to let a state body handle it for them.

Apparently cognizant of the problems cities are experiencing in rate disputes, TML has established an advisory to review rate increase applications and recommend whether further investigations should be undertaken.

Almost alone among the utility companies, General Telephone has been a sometime supporter of the state commission concept.

The firm funded a 1967 study which called for creation of such a body, and one of its representatives, Hubert Preston, testified on behalf of a bill to set up a commission last year.

General is "taking a neutral posture" now, but should a utilities commission bill be drafted in the next legislative session, "we will try to provide input to see that it will be fair to both the consumer and utility companies," said R. Rex Bailey, area general manager for the company.

"We live with utility commissions in other states in which we operate. We can live with it here."

Utility watchers comment

A nickel won't buy much any more, but in Louisiana, it will still pay for a call from a pay telephone. In Baytown and other areas of Texas, the service will soon rise from a dime to a quarter.

Even though telephone companies are losing money on Louisiana's nickel phone call, elected members of the state Public Service Commission aren't likely to permit an increase, political observers say. Doing so would damage their political stature.

The Arkansas Public Service Commission has forced Southwestern Bell Telephone Co. to tone down its sales pitch after a consumer group charged the company with "deceptive and discriminatory" practices. "Specifically, the phone company representatives would ask whether the customer preferred the 'basic white' telephone, which is more expensive than the basic black one."

— Fred Cowan, director
Arkansas Consumer Research League

"The experience of the utility commissions seems to indicate . . . that independence for them has characteristically meant a cultivation of a judicial attitude that left little room for vigorous protection of the consumer who . . . cannot readily pit his resources against those of a utility company."

— Dr. James W. Fesler, professor
Yale University

"It is to me simply astounding that the private utilities' side of a rate case is financed from consumer-paid operating expenses, but no provision is made through the rate structure for any similar financing of the consumers' side in the rate case."

— Dr. Edward Willett, professor
Northeastern University in Boston

The Public Service Co. of New Mexico is seeking a raise in electric rates that follows closely on the heels of an expensive advertising campaign telling consumers how to limit energy consumption. "It was kind of ridiculous because they said they were going to have to charge more for electricity because people were using less of it."

— Albuquerque newsmen

After electric bill increases of more than 50 per cent, some consumers in Jacksonville, Fla., as well as throughout the nation, are refusing to pay their bills. "There is definitely a tremendous consumer reaction. The increase in delinquent accounts is not astronomical, but it is up to about 5 per cent of our customers."

— Louis Winnard
Utility Industry spokesman

In Pennsylvania, a member of the legislature complained he was barred from the public utilities commission hearings on a gigantic rate increase and then denied a chance to look at the staff technical study. "Now where does that leave me?" he complained. "I have nobody to turn to."

— Utility Commission Study, 1972
Texas Municipal League

"The North Carolina Utilities Commission has denied the application of General Telephone Co. of the Southeast . . . to increase its rates and charges (because) of inefficient and inadequate service, unreasonable levels of investment and expense, and unsound management."

—Public Utilities Fortnightly
Dec. 20, 1973

"We are the regulatory agency in direct contact with the people and in contact with both the problems of the consumer and the utility company. Making certain the company is performing services valuable to the public and treating the public property and considerably — that is our major function . . .

"Our main purpose is to try to keep the federal government from completely screwing up the regulatory field . . .

"The gutless people in our profession are the ones who are appointed. Those of us who are elected are more willing to face up to responsibility."

—Charles Nesbitt, chairman
Oklahoma Corporation Commission

6 lawmakers give push to utility measure

Post State Capital Bureau

AUSTIN — Six Texas House members laid the groundwork Tuesday for creation of a committee to write a strong utility regulation bill before the 1975 legislative session.

The informal group assigned Reps. Ed Watson, D-Deer Park, and Latham Boone, D-Navasota, to recruit staff members for the project, estimated to cost \$1,875 a month for six months.

When the lawmakers return from the month-long Constitutional Convention recess, the six agreed, interested rep-

4/3
resentatives will be asked to OK the staff choices and split the costs from their House expense funds.

The group denied it was competing with any other formal legislative committee — including the Senate consumer. Affairs subcommittee and the House transportation subcommittee — that are investigating the need for utility regulation.

Comments by the regulation activists made it clear they did not entirely trust the normal procedures.

"The history of a lot of committees in my short time

here is that they come out with a report not a bill," Boone said. "We just want to be sure there's a bill."

Austin utility consultant Jack Hopper warned the lawmakers that they should not do away entirely with current local regulation procedures if they hope to pass a bill next session.

Houston, for example, should have the option to continue regulating local private utility fees or to turn the project over to the state he said.

The local regulatory procedures should be severely

tightened to require adversary proceedings to justify any rate increase endorsed by city councils, he said.

Without the local regulatory option, he said, "Houston, Dallas, San Antonio . . . will come up here and beat your brains out" on any state-level utility regulation bill.

He estimated that electric utility companies make excess profits of about \$100 million as a result of poor regulation in the state.

Watson warned that lawmakers should be wary of any regulation bills endorsed by the companies.

THE ALTERNATIVE TO INCREASING OUR PUBLIC UTILITY RATES IS UNACCEPTABLE

What is the alternative?

Not to raise rates would force a reduction in our growth as a city, which could have a severe impact on our economy, affecting every citizen.

In the process, Houston would forfeit federal funds, placing an even greater tax burden on property owners.



Houston must be able to finance existing and proposed capital improvements to our water system to ensure sufficient supply and pressure to our growing city. And, we must begin to convert from wells to surface water sources to halt ground sinking, which has reached serious proportions. A water rate increase of approximately 25 percent had been presented to City Council in August of last year, but was deferred. The matter must be dealt with now.

Additionally, the City is under pressure from the State. The Texas Water Quality Board has threatened to stop further

construction here, prohibiting the City from issuing building permits unless we clean up and improve our sewage disposal operations. This action would eliminate thousands of jobs and seriously affect our economy. Further, the federal government has conditioned \$75 million in financial assistance to Houston's sewage program upon the adoption of the sewer service rate increase.

We have but one alternative. We must accept the facts and take the steps necessary to maintain a healthy economy and an expanding community.



Information Bulletin/Office of the Mayor

CITY OF HOUSTON

WATER

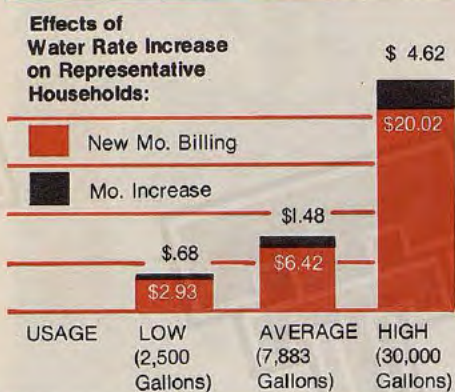


EXHIBIT 1

REASONS FOR THE CHANGE

As a result of the water rate increases, revenues generated by the water system will permit the issuance of \$25 million in revenue bonds for each of the next three years — 1974, 1975 and 1976. These bonds are necessary to finance the water lines and purification plants to provide water to Houston homes.

The new rates follow the recommendations of the City's engineering consultants and fiscal advisors who have studied the system's requirements intensively for the past year.

New capital expenditures in the water system are required for two basic reasons: 1) to provide for the

needs of a rapidly expanding city, avoiding supply shortages or critically low water pressures; and 2) to convert the system to surface water supplies to control land surface subsidence.

The improvement to the water system can continue to be financed by revenue bonds as an independent utility, with no drain on the General Fund which is supported by property taxes.

THE NEW WATER RATES

The proposed rates represent a 30 percent increase "across the board." The new minimum monthly billing is \$2.60 for the first

2000 gallons. Effects on customers at various representative consumption levels may be seen in Exhibit 1.

Multiple-dwelling units have in the past been treated strictly as bulk customers; charges have been based on readings of master meters. The new rates require that apartment owners pay a fair share for water usage; minimum charges will be based on the individual units within a complex.

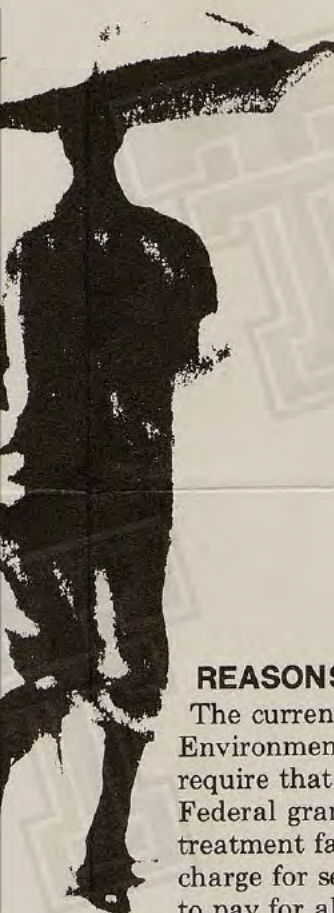
Industrial customers of the City of Houston who use untreated water have already experienced a 54 percent increase in water rates, effective August 23, 1973.



AVERAGE MONTHLY UTILITY BILLS

Based on consumption of 7,883 gallons per month

	0	1	2	3	4
HOUSTON OLD RATES					Water 4.94
HOUSTON NEW RATES					
DALLAS					Water
FT. WORTH					Water 5.1
Average of 14 Texas Cities					Water 4.95
Total Monthly Cost of Utilities DOLLARS PER MONTH					



SEWER

REASONS FOR CHANGE

The current regulations of the Environmental Protection Agency require that all recipients of Federal grants — 75% for treatment facilities — must levy a charge for sewer service adequate to pay for all maintenance and operating costs as well as system replacement costs. Unless we comply, we lose \$75 million in Federal funds. Our current sewer rates don't cover routine maintenance and operating costs, much less the financing of improvements.

Further, the Texas Water Quality Board has imposed

stringent requirements on the City to expand and improve its sewer system, to improve the level of treatment, and to accelerate its scheduled program for complying with statewide water quality standards. If we don't comply, the issuance of building permits will be prohibited.

For the next five years, more than \$175 million in improvements must be undertaken to meet these Federal and State requirements. Of this amount, about \$100 million, or \$20 million per year, must be financed directly by the City. The remaining \$75 million will be funded from Federal grants.

In order to avoid an intolerable strain on our property taxes, the City must make its sanitary sewer system self-supporting, and at the same time meet Federal and State regulations which require that increased charges be levied.

THE NEW SEWER RATES

The old rates for sanitary sewer service were based on water consumption — 75¢ for the first 9000 gallons, and 8¢ per 1000 gallons or less thereafter. The new rates establish a minimum charge of \$1.10 for the first 2000 gallons,

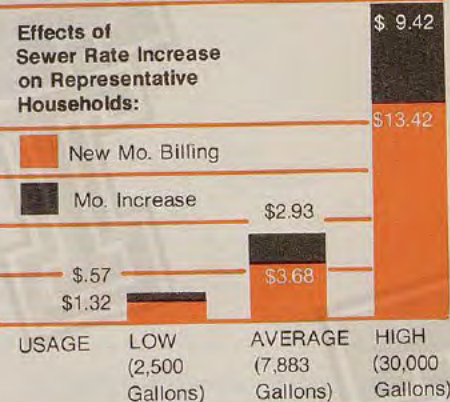


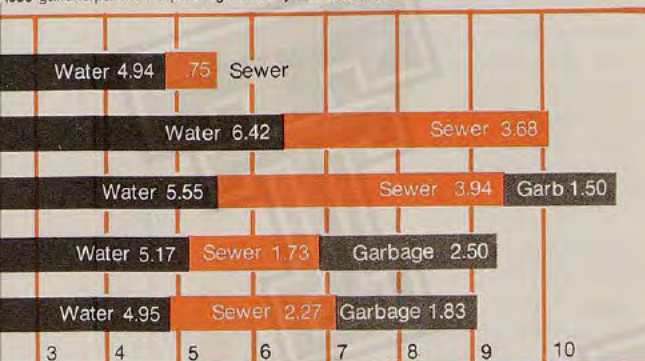
EXHIBIT 2

and 44¢ per 1000 gallons thereafter. The monthly billing and corresponding increases for the customer of various consumption levels are illustrated in Exhibit 2.

In accordance with new Federal regulations, industrial and certain commercial customers will now pay sewer charges based on the strength and characteristics of their individual wastes. They will, therefore, pay their appropriate share of treatment costs. Furthermore, they will be required to pay their share of the construction costs for treatment plants for which EPA grants are received.

MONTHLY UTILITY BILLS FOR 14 TEXAS CITIES

7,883 gallons per month (Average for City of Houston)



Utilities DOLLARS PER MONTH



Fred Hofheinz, Mayor of Houston

"I regret that it becomes the task of my Administration to assume the responsibility of increasing City utility rates. I know it will be a burden. But, unfortunately, the pressure has been building for an increase over the past five years. We have no choice at this time. To do otherwise would jeopardize the future of Houston and the prosperity of its citizens. I'm confident every Houstonian will accept these adjustments as a necessary part of living and working in a dynamic community such as ours."

OTHER QUESTIONS & ANSWERS

Areas of critically low water pressures were painfully evident in the summer of 1969. Is this condition likely to reoccur in the future?

If the City continues to construct improvements at the rate of approximately \$25 to \$30 million per year, as the new water rates allow, an adequate distribution network will be built throughout the City, so that low-pressure, "red water" problems and rationing can be avoided. This level of construction can be sustained only with the new rate structure.

What is the likelihood of additional rate increases in the near future?

The new rate structure should eliminate the need for any increase to the domestic customers for the next several years.

Is the subsidence problem being brought under control by reduced dependence on groundwater?

The measures now being taken by the City and by the channel industries, both of whom are converting to surface water, will

greatly reduce the rate and amount of future land sinking. The cost of this conversion is substantial not only to the City of Houston but also to the smaller municipalities in Southeast Harris County and to the major industries which now use groundwater.

Why a 30 percent increase instead of the 25 percent proposed only last August?

The issuance of new revenue bonds is regulated by the experienced net revenues generated by the system over the two preceding years. Because the recommended increase was not put into effect by the previous administration on September 1, the experienced 1973 net revenues were low. The 30 percent increase will permit new financing in the amount of \$25 million for each of the next three years.

Why does the City face such a "crash program" in providing new sanitary sewer system improvements? Has the City been delinquent in the past?

In spite of record expenditures for the sanitary system by the previous

Administration, the City must spend vast new sums because of (1) increasingly more stringent Federal and State regulations, and (2) a remarkable and healthy growth rate, particularly in high-density developments. The City of Houston is still the number one water polluter in this area. The State and Federal authorities insist that the city correct its sewage problems immediately.

Will the new sewer rates be adequate to finance these expenditures?

Yes. The new sewer rates will relieve the General Fund of existing debt service requirements, will cover all maintenance and operating costs, and will finance new debt at the rate of approximately \$20 million per year over the next three years.

How do the new City of Houston utility rates compare with Dallas and other Texas cities?

These comparisons are reflected in Exhibit 3; the total monthly utility charges for an average customer in Dallas amount to \$10.99 as compared to \$10.10 in Houston.

Local telephone rate regulation is largely a 'phantom'

By JAKE HENSHAW
and DAVE PRECHT
Post Reporters

If you are one of the approximately nine million Texans who do not live in Dallas or Houston, chances are good the price you pay for telephone service is determined largely by the telephone company.

Because of conflicting state statutes, too-small city budgets, an almost unbroken string of setbacks in court and other fallacies in the system, most cities have been largely unable to exercise their legal authority to control utility rates.

"Local regulation" is a phantom that exists largely in

the minds of the public relations department . . . U. S. Rep. Charles Wilson wrote in a report to the Texas Legislature on utility rates. "Only Houston and Dallas make even a token effort at regulation."

The result is a disparate set of telephone rates in the state's 844 cities.

Texas city rate averages are higher than the national average in every category, according to the report of the Interim Committee on Public Utility Commissions in 1971 when Wilson headed it as a state senator.

Wilson found that even in smaller exchanges containing fewer than 5,000 telephones, Texans paid 10 per cent more than the average American.

Statistics for 1973 show Houston's rates have increased from \$6.30 to \$7.35 a month, compared to a hike in Los Angeles from \$4.65 in 1969 to \$4.80 in 1973.

San Antonio's minimum residential charge went from \$6.40 to \$7.20, while San Diego residents currently pay \$4.80 rather than \$4.90 four years ago.

Profits have also distinguish the Bell system in this part of the country.

"Southwestern Bell has had the highest profitability of the 24 Bell companies in three of the five years (1967-71).

Southwestern Bell in Texas has been consistently and significantly above both Southwestern Bell as a whole and the entire nation," according

Utilities: Who governs?/part 3

to statistics of the Federal Power Commission in a study by the Texas Public Interest Research Group.

In late 1972 the Federal Communications Commission issued the "Ozark Plan," a new formula for "separating" telephone equipment used for local service from that employed in long distance calls.

California's Public Service Commission began using the plan in determining local service rates. As in other California cities, Los Angeles rates were reduced from \$5.75 to \$4.80 per month.

The Ozark Plan and how it works is virtually unknown in Texas cities.

Also in California and other states, telephone rates are basically uniform throughout the state. Not in Texas.

What you pay for telephone service here depends largely on where you live, rather than on how good the service is or how many telephones are within your calling scope.

A recent survey of the Texas Municipal League shows that Dallas and Houston residents pay \$7.33 and \$7.35 minimum monthly charges to call 1.2 million and 1.3 million phones, respectively.

Both cities have utility departments staffed with rate analysts and other utility specialists.

Smaller cities in the metropolitan areas sometimes pay

twice as much for the same service. Webster, for example, with a population of only 2,235 and a calling scope of 1.3 million phones, has a basic residential rate of \$14.50 a month.

Charges in the state range from \$3.50 a month at Malakoff in northeast Texas to \$16 in Groves near Port Arthur. Even when the cities are the same size and are served by the same phone companies, residents may pay different amounts.

Residents of La Joya in the Rio Grande Valley (population 1,217) pay \$13.20 a month compared to \$4.75 in Frankston (population 1,056) in northeast Texas.

Telephone rates often seem to have little relationship to the investments telephone companies have made in the towns and cities.

"It's not a simple problem," says R. Rex Bailey, area general manager for General Telephone. "The fact you're requesting a certain rate of return depends on the situation from city to city."

"For example, if a town is sparsely settled . . . you have a higher per-customer investment than in a densely populated town."

Ken Brasel of Southwestern Bell cites Los Angeles and Houston as good examples. The Houston central zone with 600,000 fewer telephones covers 1,288 square miles, he

says, while the principal Los Angeles zone includes 234 to 301 square miles with interzone charges for calls outside that area.

The disparity in rates across Texas, he says, represents a "regulatory lag."

"We have to be in desperate straits before we can get a rate increase."

Adds Bailey, "Our earnings for 1973 were the lowest in the 20-year history of General Telephone Co. of the Southwest" because of higher costs for everything.

The law permits city councils to establish a "fair return upon the value of property" needed to serve the city.

But it doesn't tell cities how to go about it, nor does it provide the poorer ones with a means of financing rate studies.

With the advent of extended metro service, a system which enables suburban telephone users to call toll-free to nearby metropolitan areas, a gap in regulatory authority of cities has been created.

Telephone companies now contend—and the courts have consistently supported their position—that cities cannot regulate telephone rates for services that extend beyond the city limits.

Alvin recently joined a growing list of Texas cities

when it lost a court battle over control of EMS rates with Southwestern Bell. Judge Paul Ferguson told city attorneys in February the Alvin City Council cannot regulate EMS rates for optional service.

Referring to a 1963 case on EMS rates involving the City of Carrollton, Ferguson declared:

"This court knows (the Carrollton decision) ignores logic." But he added he would follow the legal premise "until appellate courts make some clarification."

NEXT: The electric company.

TELEPHONE RATES IN TEXAS

CITY	ONE PARTY RESIDENTIAL MONTHLY PHONE RATE	1970 POPULATION	CALLING SCOPE	COMPANY
Houston	\$7.35	1.3 million	1.3 million	SWB
Dallas	7.33	844,400	1.2 million	SWB
Fort Worth	7.33	393,500	564,042	SWB
La Joya	13.20	1,217	50,872	SWB
Frankston	4.75	1,056	1,176	GSU
Odessa	4.75	80,300	69,854	SWB
Malakoff	3.50	2,000	1,476	GSU
San Diego	6.00	4,490	1,614	SWB
Groves	16.00	18,070	79,860	SWB
Webster	14.50	2,231	1.3 million	GSW

Key: SWB—Southwestern Bell

GSU—Gulf States-United Company

GSW—General Telephone Co. of the Southwest

SOURCE: "Municipal Telephone Rates in Texas Cities and Towns" by Texas Municipal League

TELEPHONE RATE COMPARISON

TEN MOST POPULOUS CITIES

CITY	CALLING SCOPE	MIN. MONTHLY CHARGE	LONG DISTANCE CHG. 140 MILE INITIAL 3 MIN	ADD ONE MIN.	RATE OF RETURN
New York	5,721,779	\$9.00	\$.94	\$.31	6.5 %
Chicago	2,624,084	6.25	.70	.23	7.7
Los Angeles	1,932,617	4.80	.75	.25	6.6
Philadelphia	1,774,100	6.90	.75	.22	7.9
Detroit	1,824,800	7.15	.72	.24	7.4
HOUSTON	1,375,009	7.35	.77	.26	8.3
Baltimore	1,230,321	8.90	.75	.25	7.8
DALLAS	1,124,260	7.33	.77	.26	8.3
Washington D.C.	2,509,921	8.85	—	—	6.4
Cleveland	1,357,787	7.85	.65	.21	5.7
TOP TEN					
AVERAGES	2,371,926	\$7.46	\$.76	\$.25	7.3

(Without Dallas and Houston)

Sources: Rate of Return from Bell Telephone System Balance Sheet of Federal Communications Commission December 1972

All Other Data from Exchange Service Telephone Rates, and Long Distance Message Telephone Rates (In effect June 30, 1973) National Association of Regulatory Utility Commissioners.

Unit formed for study of utilities

Post State Capital Bureau

AUSTIN —Three members of the House said Monday they are starting a six-month study of utility regulation in Texas and will pay the cost out of their expense funds.

Reps. Ed R. Watson, D-Deer Park; Latham Boone III, D-Navasota; and Wayne Peveto, D-Orange, have invited their fellow lawmakers to attend an organization meeting Tuesday afternoon following adjournment of the Constitutional Convention.

"For years there have been piecemeal, disorganized efforts in the legislature to reform our utility regulatory system," they said in a joint statement. "The growing problems of rising costs and poor service have generated strong public support for reform in 1975."

The statement projects the cost at between \$10,000 and \$20,000, to be supported by monthly contributions by participating legislators.

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J.W. Hunter

(D) 20 CENTS

Weighing the Facts

Utility-Rate Hearings Are Sometimes Lively And Always Complex

**Examiner Is the Key Man,
But His Word Isn't Law;
Many People Are Bitter**

What Would Mr. Bell Say?

By SANFORD L. JACOBS

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—Stewart C. Boschwitz calls to order another day of public hearings on New York Telephone Co.'s request for hundreds of millions of dollars a year more from its customers. Over 200 people are on hand. Most of them oppose the increase.

Some people wave placards: "Ma Bell Is an Expensive Mother." "AT&T Racism—Profit." "No More Increases for Billionaire Corporations."

Several dozen elderly people arrive late and must stand because all the seats are taken in the nondescript hearing room in the World Trade Center. A young man with a mustache like Stalin's yells out, "We demand the telephone company relinquish their seats for these people." The crowd cheers his suggestion. The telephone company, in the person of a dozen or so executives, remains seated and looks stonily at the antagonistic crowd.

Hard folding chairs are eventually brought in. "If this was a hearing for Bell Telephone people, those seats would have cushions, and there'd be cocktails," the man with the mustache shouts. His outburst brings more cheers. Mr. Boschwitz bangs his gavel for order.

Such goings-on aren't unusual at a utility-rate hearing. New York State's instruction manual for public service commission hearing examiners like Mr. Boschwitz warns: "A hearing is often the arena of conflict. There may be antagonism and hostility in the air."

Angered by Boosts

Hostility toward giant utility companies like New York Telephone, which is American Telephone & Telegraph Co.'s biggest phone unit, has grown in recent years as the companies seek to increase rates more frequently and by ever bigger sums. The companies' revenue needs have ballooned because inflation and soaring demand for their services have forced them to spend heavily on new facilities. To get the revenue, the companies seek to raise rates.

And as Mr. Boschwitz knows from presiding over as many as a dozen cases a year, consumers are speaking out bitterly against granting further increases. Right

now, for example, they are speaking out against an increase sought by Consolidated Edison, the electric company for New York City and Westchester County. Largely due to rising fuel costs, Con Edison's rates have already risen steeply. Its average customer in a private home with a lot of appliances paid an electric bill of \$79.68 in March, compared with \$32.74 in March 1972. New York Telephone's average customer paid \$21.30 last month, compared with \$18.60 in March 1971.

The price you pay for utilities isn't set by the marketplace. As licensed monopolies, utility companies like New York Telephone have to get government approval for their rates. State regulators control charges for intrastate service; the federal government controls them for interstate service.

Intra Is Big

For New York Telephone, the state rates are more important. Last year, state-controlled rates accounted for \$2.09 billion of the company's operating revenues, while interstate rates brought in \$750 million. Intrastate service accounted for \$304 million in profit, interstate service for \$135 million.

Regulators setting rates are guided by a basic principle of utility regulation. It is that a utility company is entitled to charge rates large enough to cover its operating costs and the costs of raising capital—including the payment of "reasonable" common-stock dividends—thus earning a "reasonable" return on the money it has invested in plant and equipment. That investment is known as the rate base. (New York Telephone's rate base for intrastate service amounted to \$4.88 billion at the end of 1973, and its interstate rate base totaled \$1.62 billion. It was earning 6.24% on its intrastate rate base, 8.32% on its interstate base.)

But calculating the rate base and determining what is a reasonable rate of return involves many complexities, and examiners like Mr. Boschwitz play a critical role. Like a judge, an examiner conducts hearings, questions witnesses, requests additional information from the parties involved, ponders a massive amount of material and finally renders a decision. His isn't the last word, however. The five public service commissioners appointed by New York's governor have the final say. But they rely heavily on the hearing examiner's decision. Even then, the case may not be closed. A utility that considers the decision unfair can go to court. Many times courts have awarded rate rises denied by regulators.

Two Christmases Ago

The New York Telephone case began a few days after Christmas 1972 when the company filed for a 15.1% rate increase. It also sought to double basic coin-phone calls to 20 cents, raise installation fees for both residential and business phones, and lift the message-unit rate for those customers who pay per-call in addition to paying a flat monthly charge. The company wanted to raise some rates immediately so as to generate \$217 million more in yearly revenue while the commission processed the case.

On Jan. 2, 1973, the temporary increase was denied by the commissioners, who said the company hadn't shown any dire need for it. The same day, Mr. Boschwitz was named to preside. Isadore Crade, the state's chief hearing examiner, says not all 14 examiners at the commission could handle such a complex case. "We have certain examiners we trust with an case that comes down the pike," he says. "Stewart Boschwitz is one of them."

Mr. Boschwitz, a thin, bespectacled man who now is 37 years old, came to the public service commission with an engineering de-

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Wait for it
4/2/54

Weighing the Facts: Utility-Rate Hearings Are Sometimes Lively

Continued From First Page

gree 12 years ago. For a few years he was one of the commission staffers who evaluated information submitted by utility companies in justification of rate requests. Then he became an examiner and traveled many miles on back-country roads learning his job in cases involving small bus companies. The cases were simple, he recalls; "there wasn't any way you could mess up."

The state pays Mr. Boschwitz, who lives outside Albany with his wife and two children, more than \$30,000 a year. He works hard earning it. His workday is supposed to run from 8:30 a.m. to 4:45 p.m., but he puts in a lot of overtime, which is tacked on to his vacation time.

Mr. Boschwitz says his primary aim in his work is to see that the public interest is served. Yet his decisions pretty much have to ignore most of the testimony from the public. "My decision has to be rationalized," he says. Which doesn't allow him to be influenced by such testimony as the following, given in the Buffalo phase of the phone-rate hearings:

From Mrs. Helen Mestler, a graying woman who got to the 10 a.m. hearing three hours early and sat five hours before her turn came: "A good name is rather to be chosen than great riches."

From Mildred Lucas, a blonde woman who identified herself by saying she wasn't on welfare: "The phone company already is overpaid. Service is lousy. If you complain that you can't get a dial tone, they answer, 'It's snowing.'"

From Eleanor Dorritie, representing the Center for United Labor Action, an active radical group that puts in long hours intervening in rate cases: "They're stealing away jobs with one hand and stealing away money through rate increases with the other."

From an elderly woman who said her husband was disabled: "If Alexander Graham Bell were here today, he'd say: 'God help us. I wanted something to help the people. Why can't the little guy have a break? Why can't we have \$5 a month more to go to the grocery store?'"

280 Pages a Day

Such testimony becomes written transcript at the rate of 40 pages an hour, 280 pages a day. Mr. Boschwitz says he tries to let everyone talk who wants to. Often he'll discuss things with the people who speak out. "I like to have a colloquy with as many people as I can," he says, "but not with the obviously belligerent ones; I found it doesn't pay."

It doesn't pay to have the public participate at all, a number of commission people say. "It's obvious the public doesn't understand what we're trying to do," a commission lawyer says. Another official says, "The public adds little of probative value. After the public hearings, we get down to the nitty-gritty of deciding the rate case."

Even Mr. Boschwitz, who says it isn't wasteful to have the public speak out, snapped at someone during the phone-rate hearings when he was asked why he didn't hold night hearings so that more working people could be heard. "I don't have to hear from everyone in the state to know they oppose the increase," Mr. Boschwitz said.

Everyone involved in the case knows that the public doesn't want to pay higher phone bills, but it might be against the public's interest to deny the increase, because the company might be put in such bad financial shape it couldn't provide adequate service.

The public interest, as the law defines it, is represented in this case by the commission staff. State law requires the staff to take an adversary position in major rate cases. The staff's job is to see that the company "gets only what it's entitled to," says David Fazzone, the commission attorney who argued the staff case. "We're trying to keep it down to a bare-bones minimum, to see there's the least fat on the pig."

Experts in This and That

To do that, the commission has experts in telephone operations, some of them former phone-company employees, as well as experts in finance, economics, statistics, engineering and utility rates. The staff people sift volumes of material filed in the case. They look for wasteful expenditures, which could inflate revenue requirements. When the staffers find such things, they recommend that the cost be borne by the stockholders, not by the customers.

Sometimes the staff unearths important facts tucked away in papers it has requested from the company. For example, New York Telephone said it wanted a \$306 million revenue increase. All the material it originally filed talked about \$306 million. The staff asked for detailed work papers on how the \$306 million was computed. It discovered that, actually, \$104.7 million was involved in the rate request. The \$98.7 million difference was the amount the company figured it would lose because higher rates would cut phone use. Based on present use, it said, it needed a \$104.7 million increase to net a \$306 million one. The staff argued that New York Telephone was way off base on this, and Mr. Boschwitz granted only \$12 million to cover a drop in use.

When the last hearing finally was held June 27, Mr. Boschwitz had conducted 36 hearings in 10 cities. Parties to the case had two weeks from the last hearing date to sub-

he reads some 15,000 pages of rate material a year.

While he depends on the staff members to develop information in areas he is interested in, Mr. Boschwitz keeps himself aloof from them. One day he refused to join Mr. Fazzone, the staff lawyer, for lunch with a newspaper reporter. "Stewart felt it wouldn't be proper," says Francis Rivett, the commission press officer. "It would have been like a trial judge having lunch with a prosecuting attorney who was arguing a case in his court."

"I have my independence, and that's a good thing for the commission and for me," Mr. Boschwitz says; only the record and the laws of utility-rate making should influence his decision. He says he doesn't consult with anyone about his ruling, though he lets Mr. Crade, the chief examiner, read it before it is issued, to be sure it is in good form.

Last Aug. 29, eight months after the case began, Mr. Boschwitz issued his recommended decision. He said New York Telephone was entitled to increases totaling \$217 million, including \$12 million to cover lower use. That ended Mr. Boschwitz's participation in the case. It was then up to the commissioners.

On Nov. 16 the commissioners announced the company could raise rates 15% to gain

Commission staffers hold divergent views of the decision. One says the commissioners "really bit the bullet and did the brave thing." But another says, "I'm bitterly disappointed. If you set rates on a cost-plus basis, there's no incentive to cut costs. If the dog catches the rabbit, he isn't going to race."

Setting rates major duty of council

"The most important regulatory activity conducted by a city is the setting of rates and earnings allowed to utility companies," says economist Dr. Jack Hopper, a frequent rate consultant for Texas cities.

In setting rates, the council must allow the company enough money to operate successfully but protect its citizens from excessive utility bills.

To discharge these duties, a city must consider: 1. The operating income and expenses of the utility company, 2. The fair value of the property used by the company to provide its service, and 3. The fair rate of return on this property.

The income and expense figures submitted by a company seeking a rate increase usually cover a "test year," and the company bases its need for higher rates on its operation during this year.

Operating statements submitted to Texas cities vary greatly. Most give some de-

tail on expenses but some show only a category of "local revenue" and maybe "miscellaneous revenue" under income.

The second factor is the most controversial. There is much argument over how to determine the fair value of a company's property. The simplest is to add up the original cost of a company's property, then subtract a certain amount for depreciation.

But companies usually oppose this method, claiming it does not take into account the increased value of equipment due to inflation.

Instead they prefer to use the replacement cost of the equipment if purchased at today's prices (a method called replacement cost new—RCN) with an adjustment for depreciation.

The Supreme Court of Texas has "for lack of any other criteria" decided that fair value is a "reasonable balance" between the two methods, resulting in a lot of confusion.

For one thing, the court did

not say what a "reasonable balance" is. As a result the Houston Natural Gas Corp. uses a 50-50 balance. Hopper has suggested it could be 55-45 or 60-40, but General Telephone Co. claims that only the replacement cost represents fair value.

Actually General Telephone uses a variation called "trended cost," which is tied to current economic conditions.

Secondly, the determination of replacement cost is complicated, expensive and time-consuming. Done properly, it involves actual property inspection by engineers.

But Tom Tyson, director of Houston's Public Service Department and a rate analyst, says it is not really necessary.

"After it (determination of RCN) we usually end up somewhere around gross book investment." The trick is to get this figure, which he says some companies won't volunteer.

The value of the property is important because it is the ba-

sis for determining the rate of return. And a fair return is the company's justification for higher rates.

The lower the rate of return, the better the company's case that it is making enough money to continue operation.

Thus a company prefers using the replacement cost method since it produces lower rate of return than the original cost method.

"The national and Texas criteria for utility regulation is a rate of return high enough, but no higher, to attract adequate capital to operate the business," according to Hopper.

"This criteria is measure by comparing earnings of other companies in the industry."

Tyson stresses that the rate thus "varies with time."

But he adds that this debate is really not significant for rate regulation.

"What we are really talking about," he says, "is the dollars that are necessary" for a company to operate.

No utility regulation seems costly

By JAKE HENSHAW
And DAVE PRECHT

Post Reporters

Last year at this time you probably paid a minimum

First of 6-part series

monthly phone bill in Houston of \$6.30. A resident of Los Angeles, with 600,000 more phones, paid only \$5.75.

Los Angeles' rates have since dropped to \$4.80 a month, while your minimum rate has gone up to \$7.35, ac-

cording to Federal Communications Commission statistics.

As a consumer of electricity, you pay an average of \$44 a year more than you should, based on the relative profitability of Texas utility companies, a study last year by the Texas Public Interest Research Group contends.

And, although Texas accounts for 38 per cent of the

Utilities: Who governs?

nation's natural gas production, consumers here pay nearly the same as some states which import the gas they use, much of it from Texas.

At the same time, telephone, electric and gas utilities operating in the state have consistently outranked others in the country in profits.

Texas is the only state in

the union that does not regulate telephone rates on a statewide basis and one of three which does not control electric rates.

The only semblance of electric and telephone utility regulation is handled by 844 cities, and all but two or three of the largest lack the expertise and resources to determine whether rate structures and service standards are fair and adequate.

Natural gas rate regulation is also initially handled by

Please see No/page 2A

No utility regulation seems costly to Texans

From page 1

city councils, but disputes between cities and companies may be appealed to the Texas Railroad Commission.

Remaining unregulated are long-distance intrastate phone rates, electric and phone service for the 2.25 million rural residents of Texas and commercial and industrial rates for electricity.

Rural customers of General Telephone Co. of the Southwest were recently shocked when a "rural rate additive," amounting to as much as \$38.65 a month for customers farthest away from urban exchanges, was tacked onto their phone bills.

Noting the anger of their country customers, General quickly announced drastic

cutbacks in the increases and made them retroactive through the date of the original rate increase.

Only last week, Rep. John Wilson, D-La Grange, reported the case of Everett Jamison to a special session of the House Transportation Committee in Austin.

General Telephone quoted Jamison a net charge of \$5,420. Wilson said, for ".58 of a mile of augmenting construction along an existing telephone line" to install a telephone in the retirement home he is building at Dripping Springs.

To get a telephone, Wilson said, Jamison would be charged \$8.75 a month for local service plus \$150.75 for one month and \$150.55 for the next 35 months.

"I don't like regulation,"

Jamison wrote in a letter to Wilson, "but, my God, if this is an example of free enterprise..."

Rural electric consumers also pay 75 cents a month more than city residents, but that cost is to defray extra expenses of power lines and other equipment needed to serve them, says Craig McNeese, public affairs director for Houston Lighting & Power Co.

Texas industrial and commercial electric rates, uncontrolled by any governmental body, sometimes affect residential rates, as in the proposed 5.39 per cent increase being sought by Community Public Service Co. in its Southeast Division.

"We're just passing those costs on to you," M. L. Waugh, CPS division man-

ager told the Texas City City Commission after HL&P increased its prices to CPS.

While telephone users pay comparatively more, they seem to get less for their money, recent studies indicate.

U.S. Rep. Charles Wilson of Lufkin, a former state senator, described the situation in his 1971 report to the 62nd Legislature on telephone utilities:

"Texans must pay consistently higher prices for both local service and long distance calls. They are deprived of advantages, such as reduced rates on intrastate calls and (operator assisted) intrastate calls made between 7 p.m. and 8 p.m., which are available to subscribers in many other states."

Illustrative of his point, a

three-minute, direct dial call to Texarkana, Tex., costs a Houston caller 99 cents compared to 85 cents for a similar call to Texarkana, Ark.

"Rural service is often inferior and rural subscribers must accept multiple party line service which utility commissions in other states have prohibited," Wilson's study determined.

Despite the apparent advantage of no statewide utility body to the industry, Carl H. Fulda, a University of Texas Law School professor, believes that a few utility companies suffer without one.

"Because the disproportion between the bargaining strength of Southwestern Bell and that of the independents may bring about one-sided settlements," a state utility

agency should be established, he wrote in a 1967 study of telephone regulation for the Texas Law Review.

For those and other reasons, grass roots movements have sprung up in the Houston area and across the state for creation of a utility commission.

For better or worse, at least several candidates for the 64th Legislature and one gubernatorial candidate have booked reservations on the band wagon for changes in utility regulation. At this early stage, 1975 appears to be the year Texas will have its best chance yet to join the rest of the nation in regulating utility monopolies.

NEXT: The city council as a regulatory agency.

Small cities at disadvantage in fighting companies

By JAKE HENSHAW
And DAVE PRECHT
Post Reporters



Most utility rates in Texas are regulated by a Realtor, a salesman, a construction foreman, a housewife and a farmer—fairly typical Texas city council.

Tonight, these five in their part-time role as the government of a city of 6,270 per-

sons, are to parcel out federal revenue sharing money, hear a complaint on street lighting, award a contract for a sewer line and consider a proposal to raise telephone rates 23 per cent.

The council chambers are unusually crowded because about 50 residents have come to oppose any rate increase

Utilities: Who governs?/part 2

unless accompanied by improved service. Another 30 members of the audience are telephone company employees.

The company's area general manager sits in the front row, flanked by a division manager, a company rate analyst, a public relations man and an attorney.

"I have some good news

and some bad news," the general manager says affably when his turn arrives on the agenda.

The good news, he says, is that his company has raised its investment in the city by 28 per cent in the last three years, increased the number of main stations 19 per cent and boosted the city's economy with a 20 per cent addition to its work force.

The bad news is that operating expenses rose 52 per

cent in that same period and the company's rate of return dropped to 4.5 per cent. The rate increase, which would raise an additional \$229,626 in revenue (and raise residential rates by \$3.50 a month), would get the company up to a 6.37 per cent return on investments, well below the legal limit.

The rate case provided by the utility company seems

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Small cities at disadvantage

From page 1

plausible, but councilmen can't accept a 23 per cent rate hike as reasonable, economically or politically.

The mayor warns, "We either accept this rate increase or we take them to court. And if we go to court, we spend \$50,000 or \$100,000, and they can still come right back the next week asking for another increase."

Two councilmen are ready to challenge the utility company in court. Two others side with the mayor. The fifth member, claiming he cannot justify this use of tax money, is briefly undecided.

He would rather spend the money on a garbage truck or front-end loader, something tangible, than risk it in a law suit, he says finally, casting his vote with the mayor.

With minor variations, this scenario has been repeated throughout the state as long as there have been city councils and utility companies in Texas.

Now many city fathers realize small cities are out-gunned in the fight to hold down utility prices and favor statewide utility regulation.

Few city councils understand the regulatory process,

believes Austin rate analyst Jack Hopper.

"The smallest cities seldom employ experts and attempt to deal with the companies on the basis of comparable rates, 'fair' increases or direct bargaining by the council.

"The result of this wide variation in practice is an uneven quality of regulation and a feeling of dissatisfaction among smaller city administrators," he notes.

A city the size of Houston can afford to employ people like Tom Tyson, director of utilities, to keep watch over utilities, and a staff of analysts.

The typical councilman, though, has no way of knowing whether information presented by the company is accurate.

A test year is selected by the utility firm for use in determining operating expenses and investments to establish a rate base.

But the time period is sometimes chosen arbitrarily to confuse cities, believes Garland Smith, the attorney who represented Weslaco in its 1969 court fight with General Telephone Co. of the Southwest.

"This (test year) renders it impossible for you to double check from their books or relate the operation of your city

to the other cities served by the utility system," he told the city council.

Ken Brasel of Southwestern Bell says his company prepares a test year on the basis of a different time period than the fiscal year to spread out the work load of company officials.

Nor will companies always provide information explaining the percentage of costs in cities.

Mark Chalker of Southwestern Bell recently told the Alvin City Council his company does not have earnings statements for extended metro service systems because the books are not kept that way.

"Could you provide one?" the city attorney asked.

"We could have one," he replied, "but we won't provide it."

Yet Houston's Tyson says Bell gives him "whatever we need."

M. L. Waugh, Southeast Division manager for Community Public Service Co., pinpoints the problem when he declares effective local regulation depends largely on "the integrity of the utility company."

That integrity can sometimes be challenged.

Last May, the Nassau Bay Telephone Co., in asking for a 40 per cent rate increase for

Nassau Bay residents, said the hike was necessary partly because the firm paid 48 per cent (the legal maximum) of its corporate profits in federal income tax.

But a consulting rate analyst found the company actually paid taxes of only 4 per cent.

Had the city not authorized a rate study and court challenge—at a cost to the 5,000 residents of \$25,000—the council would not likely have known about the discrepancy.

Ruling in the case last week, Dist. Judge Wyatt Heard held the rates set by the city council were too low, but he trimmed 85 cents off the \$4 monthly increase imposed by the telephone company.

For the most part, however, the local regulatory system is not working.

"Local utility regulation can only function if you have a legitimate supplier dealing in good faith with a well-managed city," is the way freshman Railroad Commissioner Mack Wallace sums it up.

It is an idealistic view, Wallace admits, and one that is becoming less applicable as the utility industry grows and city governments are saddled with other pressing duties.

NEXT: The telephone company.

Utilities Panel Pushed

Dallas Move Last Straw, Senator Says

By CAROLYN BARTA

Joe Nall's resignation as city public utilities director "drives the final nail in the coffin of telephone regulation in Texas," State Sen. Charles Wilson of Lufkin said here Thursday.

Wilson, chairman of a Senate interim committee to study feasibility of state regulation of utilities, pointed to Nall's resignation as a reason why the state should have a utilities regulatory commission.

"This is a very significant thing because Nall ran the only competent city regulatory agency in the state and because it shows that no big city can stand the pressure of the utility."

Wilson went on to say, at a press con-

ference at Hilton Inn, that Nall's resignation means not only that "local governments can't stand the heat" but also that "local regulation doesn't work."

Dallas and Houston, Wilson pointed out, are the only two cities in the state which have city regulatory departments for public utilities, to make recommendations on rate cases to City Councils based on professional analysis.

Fort Worth has one man, he said, while suburban communities in this area have no professional regulatory bodies.

Texas is the only state which does not have state regulation of telephone rates, Wilson said.

"I think there is some correlation,

since the Bell system makes more money here than anywhere except in Oklahoma. The consumers of Texas are being gouged and have been gouged."

Wilson and State Sen. Oscar Mauzy of Dallas co-sponsored legislation in the last session which would have established a state utilities regulatory commission. The legislation never got out of committee.

The main reason it was bottled up, Wilson feels, is because 58 telephone company lobbyists were in Austin to fight the bill.

In fact, Nall testified against it before a Senate committee.

Wilson confirmed that Nall previously had been an adversary on the state regulation issue.

"He testified regulation is more effective on the local level. But he had never been in serious disagreement with the telephone company. See what happened to him when he got into serious disagreement with the phone company?"

"Nall had the choice of keeping his integrity or keeping his job."

Wilson also charged that the public pays for the charitable contributions made by the phone company since they are charged off to the customers.

He said a private company doing this is fine, it's the American way, but it is different when a monopoly does it since the customer has no alternative to the service. Therefore citizens may find themselves supporting causes advocated by Bell which they do not favor without any other recourse.

Wilson is hopeful that enough public pressure will be brought on the Legislature in the next session to pass a state regulation law. He feels Nall's resignation will increase such support.

Under his proposal, a state commission would regulate only telephones "because the worst abuses in utilities are in the telephone company," he said.

SOUTHWESTERN BELL TELEPHONE COMPANY

████████████████████
AREA CODE 214
RIVERSIDE 7-5311

JOE B. PATTON
STAFF SUPERVISOR

September 4, 1970

Mrs. John Hunter
████████████████████

Dear Mrs. Hunter:

In addition to the information furnished with my letter of August 4, I am enclosing a reprint of a couple of articles that appeared in newspapers in the state regarding the proposed utility commission.

I hope they will shed some further light on the subject that might be helpful to you as you prepare your story.

Very truly yours,

Joe B. Patton

n1

Enc.

SOUTHWESTERN BELL TELEPHONE COMPANY

██████████, ██████████
AREA CODE 214
RIVERSIDE 7-5311

JOE B. PATTON
STAFF SUPERVISOR

August 24, 1970

Mrs. John Hunter
██████████

Dear Mrs. Hunter:

Enclosed is a copy of the testimony presented by Mr. Sam Holcomb, Assistant Vice President of Southwestern Bell Telephone Company, to the Senate State Affairs Committee during the 61st session of the Texas Legislature in 1969 as we discussed.

Although some of the rates are now changed, the basic facts are still the same, and the information would be good today with a little updating.

The testimony is a matter of public record, so there should be no problem with reproduction of the information.

If I may be of further assistance, please call on me.

Yours very truly,

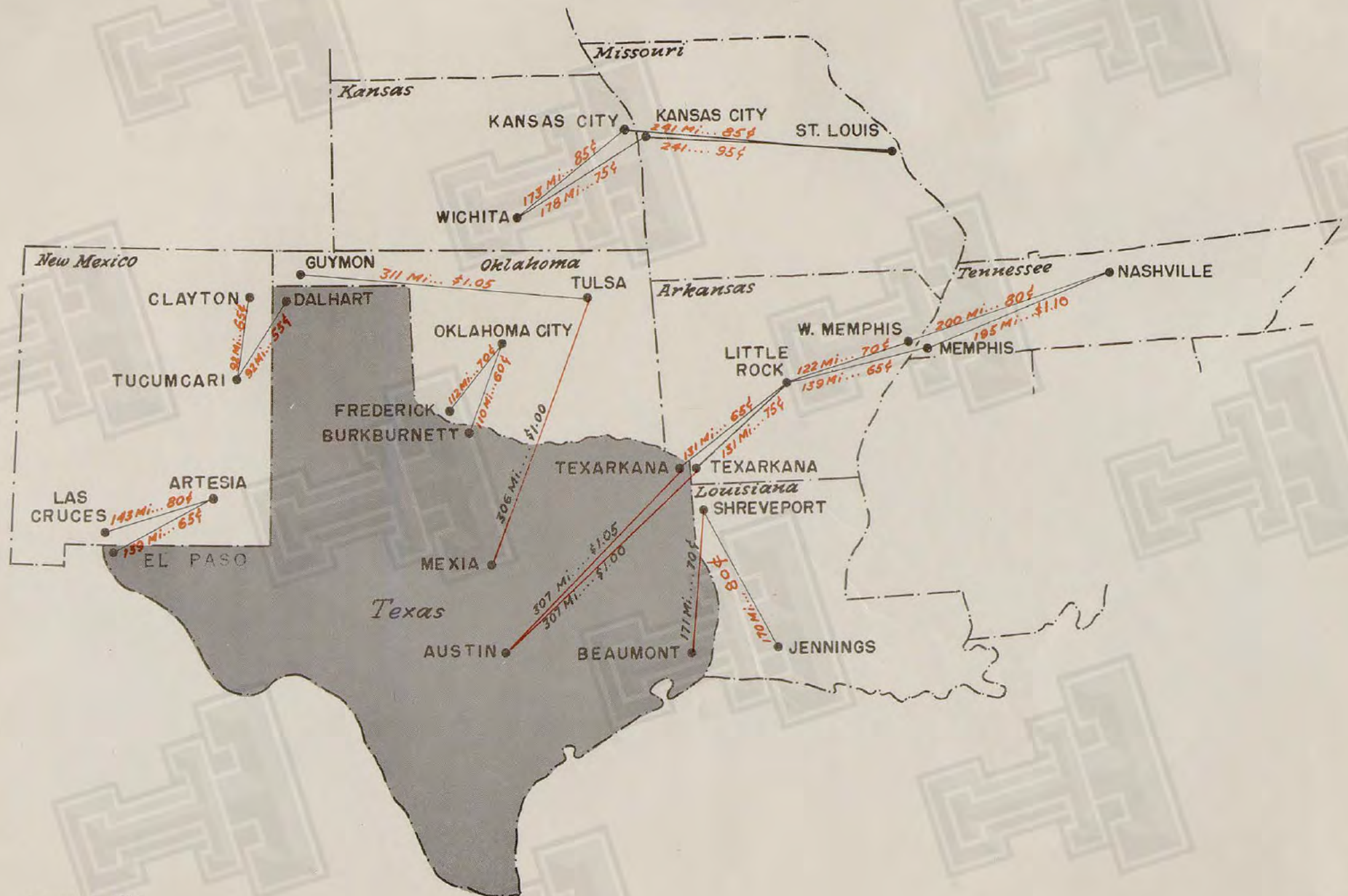
Joe B. Patton

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Enc.

LONG DISTANCE RATES

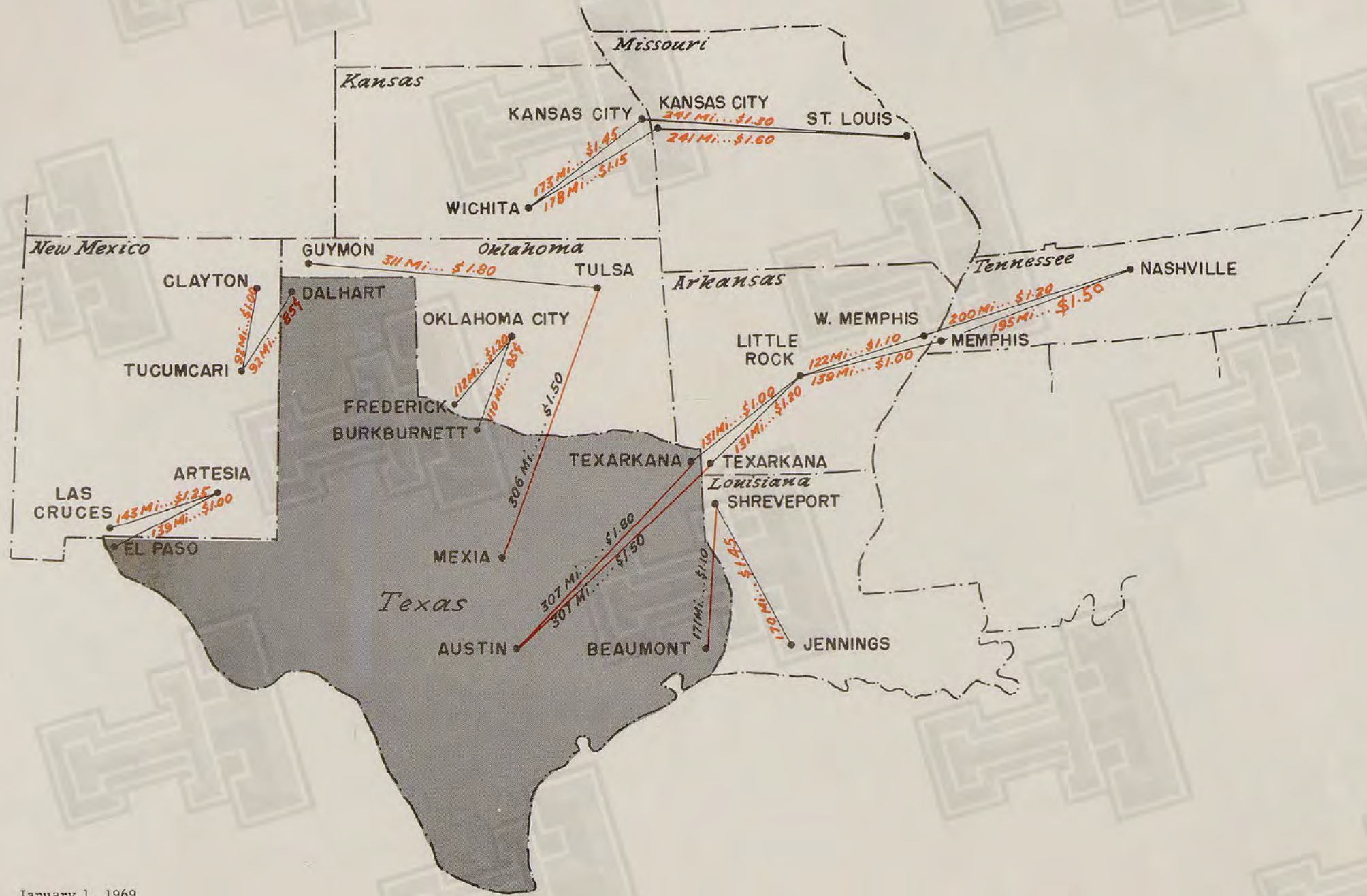
STATION TO STATION - 3 MINUTE DAY RATES



January 1, 1969

LONG DISTANCE RATES

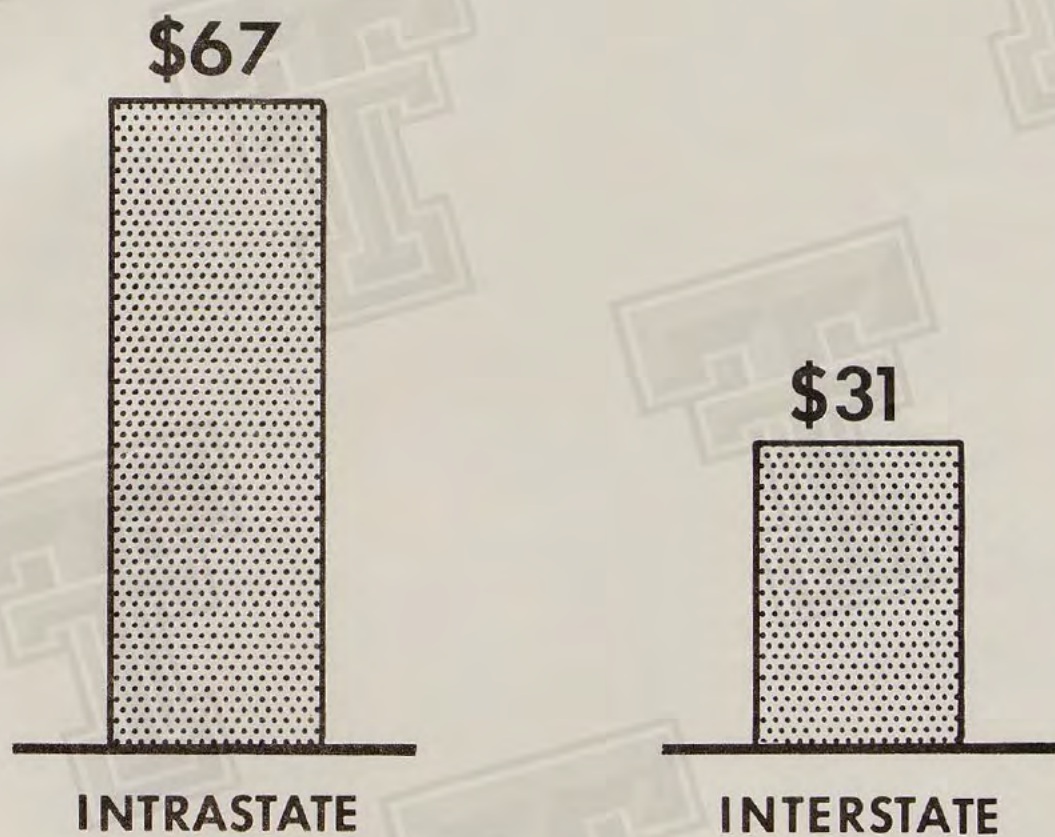
PERSON TO PERSON - 3 MINUTE DAY RATES



January 1, 1969

LONG DISTANCE CIRCUITS

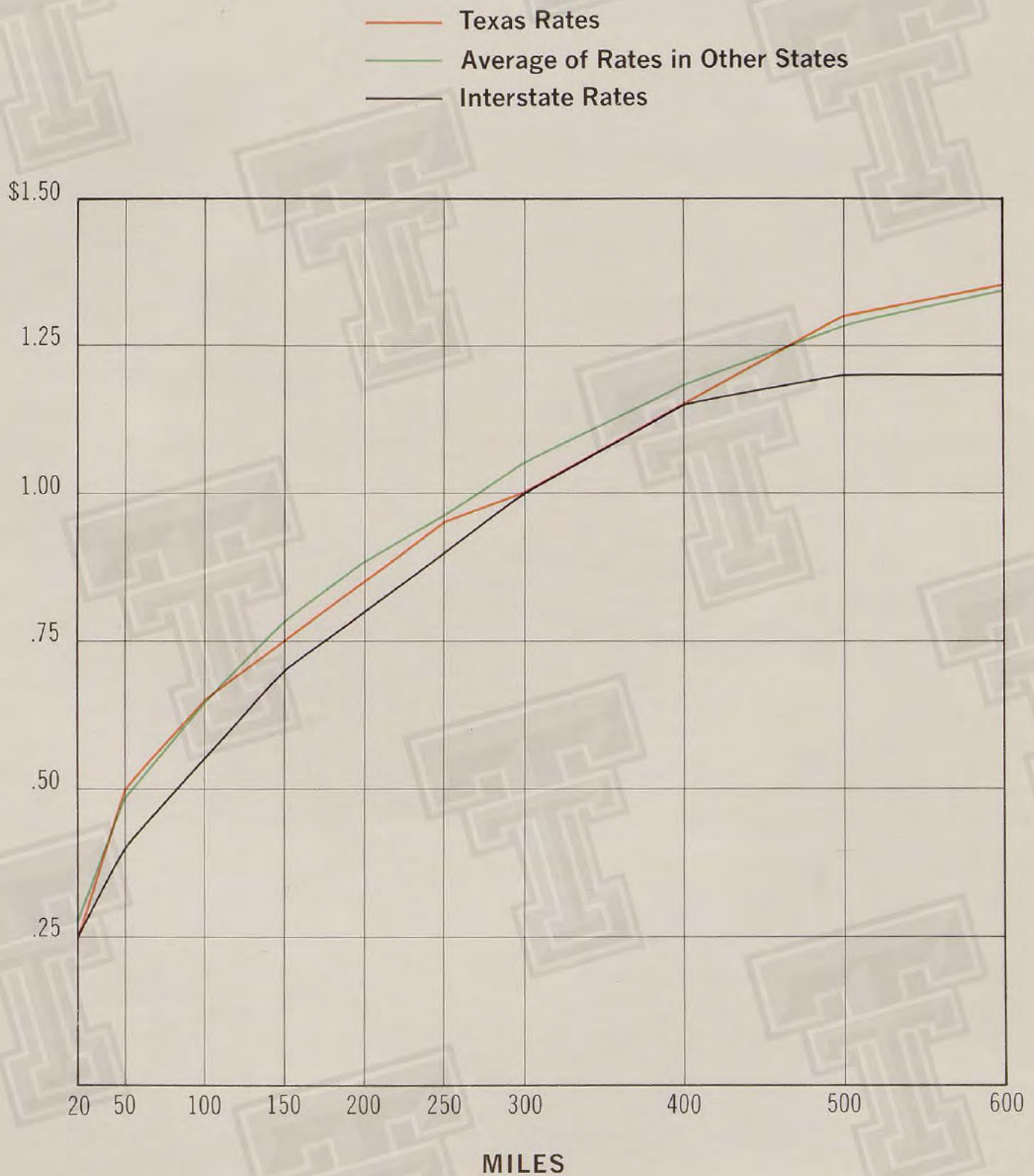
Average Cost Per Mile



This chart reflects the Cost Per Mile for Long Distance Circuits based on an average length of haul for Intrastate calls in Texas of 100 miles and for Interstate calls of 400 miles.

Long Distance Telephone Rates

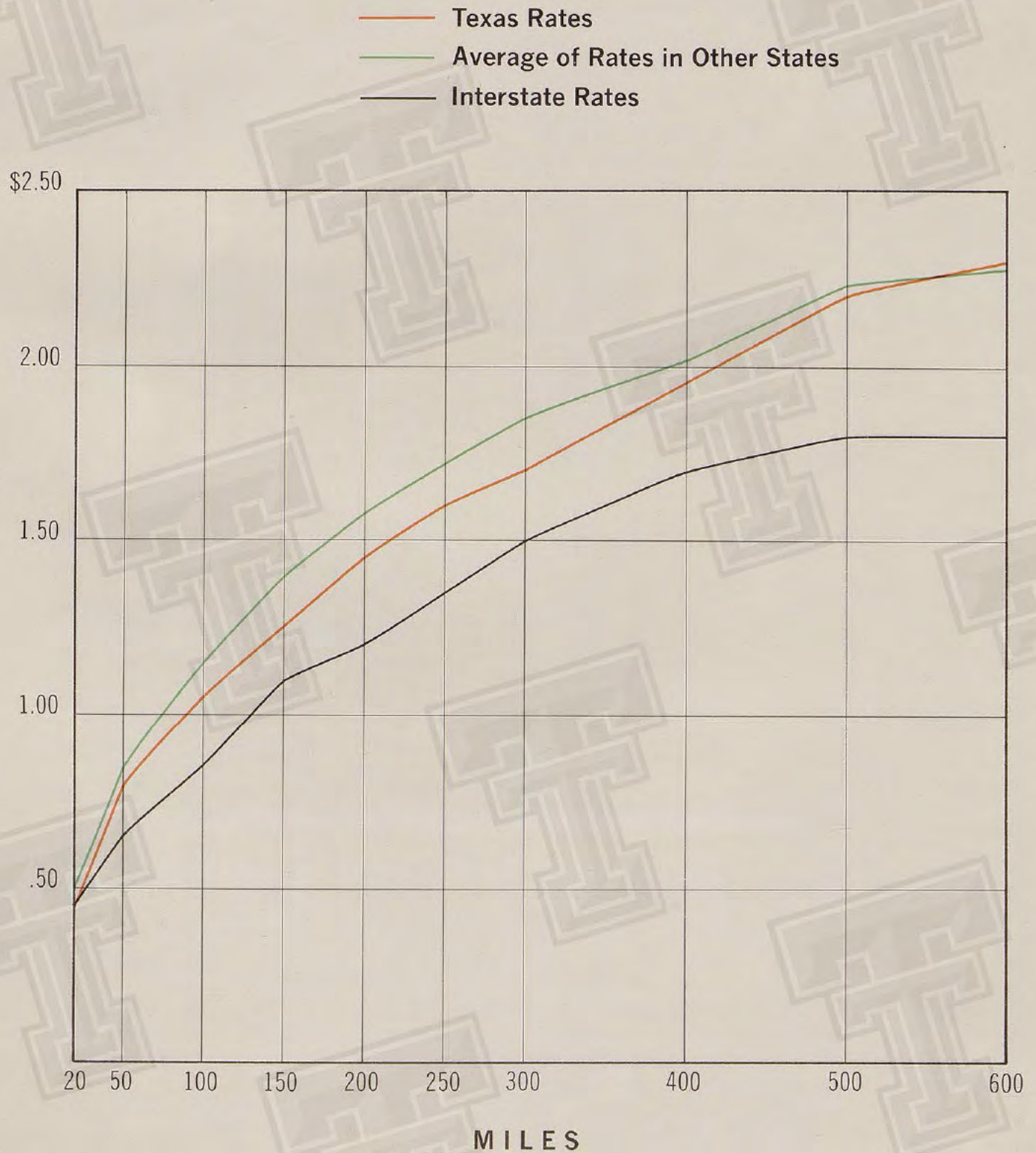
3 Minutes Day Station to Station



Rates in Effect January 1, 1969

Long Distance Telephone Rates

3 Minutes Day Person to Person



Rates in Effect January 1, 1969

MONTHLY RATES FOR LOCAL EXCHANGETELEPHONE SERVICE

<u>Exchange</u>	<u>Number of Telephones</u>	<u>Business One-Party</u>	<u>Residence</u>	
			<u>One-Party</u>	<u>Two-Party</u>
Dallas	743,000	\$16.50	\$5.80	\$4.70
Houston	950,000	16.50	5.90	4.85
Birmingham, Ala.	330,000	19.50	6.10	5.05
Phoenix, Ariz.	430,000	18.25	8.00	6.50
West Memphis, Ark.	338,000	16.50	6.70	5.40
Denver, Colo.	690,000	18.50	6.20	5.20
Atlanta, Ga.	825,000	19.00	6.50	5.50
Indianapolis, Ind.	570,000	18.15	6.80	5.25
Kansas City, Kan	745,000	17.25	7.00	5.25
Louisville, Ky.	390,000	18.00	6.35	5.20
New Orleans, La.	495,000	17.50	5.60	4.45
St. Louis, Mo.	967,000	17.95	6.65	5.15
Columbus, Ohio	530,000	16.55	5.50	4.40
Portland, Oregon	480,000	17.00	6.30	4.85
Memphis, Tenn.	340,000	18.00	6.05	5.05
Seattle, Wash.	700,000	18.00	6.45	5.30

MONTHLY RATES FOR LOCAL EXCHANGE
TELEPHONE SERVICE

<u>Exchange</u>	<u>Number of Telephones</u>	<u>Business One-Party</u>	<u>Residence</u>	
			<u>One-Party</u>	<u>Two-Party</u>
Amarillo	101,000	\$ 11.50	\$ 4.75	\$ 4.00
Austin	170,000	13.50	5.50	4.50
Corpus Christi	115,000	13.00	5.00	4.00
Little Rock, Ark.	144,000	15.00	6.45	5.15
Fort Wayne, Ind.	152,000	17.60	7.30	6.30
South Bend, Ind.	150,000	14.25	5.75	4.50
Topeka, Kan.	91,000	13.90	6.25	4.40
Shreveport, La.	138,000	15.00	4.75	4.05
Portland, Maine	80,000	17.70	6.95	5.90
Omaha, Neb.	282,000	16.00	6.20	4.85
Albuquerque, N. M.	166,000	16.80	6.75	5.50
Tulsa, Okla.	227,000	14.05	5.25	4.40
Greenville, S. C.	130,000	16.50	6.00	5.15

MONTHLY RATES FOR LOCAL EXCHANGE
TELEPHONE SERVICE

<u>Exchange</u>	<u>Number of Telephones</u>	<u>Business One-Party</u>	<u>Residence</u>	
			<u>One-Party</u>	<u>Two-Party</u>
Abilene	52,000	\$ 12.25	\$ 5.25	\$ 4.00
Longview	39,000	12.00	5.00	4.00
Midland	47,000	10.50	4.75	3.50
Odessa	53,000	10.50	4.75	3.65
Tyler	52,000	12.00	5.25	3.50
Gadsden, Ala.	37,924	14.00	5.00	4.10
Fort Smith, Ark.	40,000	14.25	6.20	4.90
Boise, Idaho	57,000	18.00	7.40	6.00
Lake Charles, La.	58,000	12.00	3.95	3.30
Santa Fe, N. M.	35,000	14.65	6.25	5.00
Lawton, Okla.	40,000	14.05	5.25	4.40
Sioux Falls, S. D.	50,000	15.45	7.25	5.50

MONTHLY RATES FOR LOCAL EXCHANGETELEPHONE SERVICE

<u>Exchange</u>	<u>Number of Telephones</u>	<u>Business One-Party</u>	<u>Residence</u>		<u>Rural Business</u>	<u>Rural Business</u>
			<u>One-Pty.</u>	<u>Two-Pty.</u>		
Bryan	22,000	\$12.00	\$6.00	\$ 5.00	\$ 7.00	\$ 5.75
Lufkin	17,000	11.00	5.50	4.50	8.50	4.50
Mineral Wells	16,000	11.00	5.25	4.25	8.50	4.00
Paris	17,000	12.00	5.75	4.25	9.00	4.00
Pocatello, Idaho	23,000	16.50	6.90	5.75	8.50	4.95
Augusta, Maine	21,000	15.70	6.70	5.65	6.50	4.85
Concord, N. H.	28,000	16.20	6.75	5.45	No	No
Arizona	15,000 - 65,000	15.50	7.00	5.75	8.75	5.00
Arkansas	17,000 - 36,000	13.50	5.95	4.65	8.25	3.90
Colorado	12,750 - 25,000	11.10	5.45	4.50	6.25	3.70
Kansas	17,000 - 30,000	12.70	5.80	4.40	7.25	4.00
Mass.	14,000 - 32,000	12.90	5.10	4.35	No	No
Miss.	12,000 - 30,000	12.40	5.35	4.60	5.35	3.75

June 30, 1968

MONTHLY RATES FOR LOCAL EXCHANGETELEPHONE SERVICE

<u>Exchange</u>	<u>Number of Telephones</u>	<u>Business One-Party</u>	<u>Residence</u>		<u>Rural Business</u>	<u>Rural Business</u>
			<u>One-Pty.</u>	<u>Two-Pty.</u>		
Floresville	3,100	\$ 10.50	\$ 6.50	\$ 5.50	\$ 7.50	\$ 6.00
Gordon	300	8.00	4.50	3.50	6.00	3.50
Meridian	800	8.25	4.50	4.00	6.00	3.75
Rockwall	2,400	10.50	5.50	4.25	7.50	4.00
Roscoe	1,000	8.00	4.75	4.00	6.00	3.75
Stamford	3,200	10.50	5.25	4.25	6.00	3.75
Vernon	8,800	11.00	5.00	4.25	8.50	4.00
West	1,500	8.50	4.75	4.00	6.00	3.75
Eureka Springs, Ark.	1,500	9.25	4.95	3.90	6.25	3.40
Beaver, Okla.	1,200	10.50	5.80	4.65	7.50	4.65
Santa Rosa, N. Mex.	1,300	9.85	4.35	3.40	5.60	2.90
Alabama	0 - 800	8.00	3.50	2.90	3.50	2.40
Arkansas	4,000 - 15,000	13.25	6.25	5.25	8.25	4.50
Idaho	400 - 1,000	11.25	5.65	4.75	7.00	4.20
Kansas	600 - 1,000	8.40	4.90	3.70	6.00	4.00
Montana	500 - 1,000	12.20	4.90	3.75	7.35	3.15
Nebraska	500 - 1,000	8.60	4.05	3.15	4.30	3.30
New Hampshire	800 - 1,800	11.10	5.30	4.30	6.35	3.60

June 30, 1968

LONG DISTANCE TELEPHONE RATES

Day Person to Person

3 Minutes

<u>Miles</u>	<u>Texas</u>	<u>Average of Other States</u>	<u>Interstate</u>
20	.45	.50	.45
50	.80	.85	.65
100	1.05	1.15	.85
150	1.25	1.40	1.10
200	1.45	1.58	1.20
250	1.60	1.72	1.35
300	1.70	1.85	1.50
400	1.95	2.02	1.70
500	2.20	2.24	1.80
600	2.30	2.28	1.80

Rates in Effect 1-1-69

LONG DISTANCE TELEPHONE RATES

Day Station to Station

3 Minutes

<u>Miles</u>	<u>Texas</u>	<u>Average of Other States</u>	<u>Interstate</u>
20	.25	.27	.25
50	.50	.48	.40
100	.65	.64	.55
150	.75	.78	.70
200	.85	.88	.80
250	.95	.96	.90
300	1.00	1.05	1.00
400	1.15	1.18	1.15
500	1.30	1.28	1.20
600	1.35	1.34	1.20

Rates in Effect 1-1-69

the Southwestern Bell Telephone Company and I am appearing in opposition

to Senate Bill No. 130.

My name is Sam Holcomb. I am an Assistant Vice President with the Southwestern Bell Telephone Company and I am appearing in opposition to Senate Bill No. 130.

I would like to talk first about the question of disparity between interstate and intrastate rates. By that I mean the difference between rates for calls that originate and terminate within Texas and the rates for calls that originate in Texas and terminate in another state.

It has been said that it costs more to call Texarkana, Texas from Austin than it does to call Texarkana, Arkansas from Austin. That is true. The three minute - day - station-to-station rate from Austin to Texarkana, Arkansas (a distance of 307 miles) is \$1.00 while the rate to Texarkana, Texas is \$1.05.

This chart shows, however, that similar disparities exist in other states which have statewide regulatory agencies.

In Arkansas, the day station-to-station rate from Little Rock to Texarkana, Arkansas (a distance of 131 miles) is 75¢ as compared with a 65¢ rate for calls from Little Rock to Texarkana, Texas.

In Louisiana a call from Shreveport to Jennings, 170 miles has a rate of 80¢ while a call from Shreveport to Beaumont, Texas (171 miles) has a rate of 70¢.

In Tennessee a 3 minute day station-to-station call from Nashville to Memphis, Tennessee (195 miles) has a rate of \$1.10 and the comparable rate from Nashville to West Memphis, Arkansas (a distance of 200 miles) is 80¢ or a difference of 30¢.

In Missouri the distance from St. Louis to Kansas City is 241 miles and the rate from St. Louis to Kansas City, Missouri is 95¢ while a call across the state border to Kansas City, Kansas has a rate of 85¢.

And in Kansas the intrastate rate from Wichita to Kansas City, Kansas is 85¢ as compared with a 75¢ rate to Kansas City, Missouri.

The situation in Oklahoma is no different. Tulsa to Guymon (311 miles) has a 3 minute day station-to-station rate of \$1.05 while a call from Tulsa to Mexia, Texas (a distance of 306 miles has a rate of \$1.00.

Another example in Oklahoma is that the rate for a call from Oklahoma City to Frederick, Oklahoma (112 miles) is 70¢ or ten cents more than the rate for a call from Oklahoma City to Burkburnett, Texas.

In New Mexico a call from Tucumcari to Clayton, a distance of 92 miles has a 65¢ rate as compared to a 55¢ rate for a call from Tucumcari to Dalhart, Texas, also a distance of 92 miles. And Artesia, New Mexico to Las Cruces (143 miles) has an 80¢ rate as compared with a 65¢ rate for a call from Artesia to El Paso, Texas.

These examples have referred to disparities in station-to-station rates. This chart shows that a comparable situation exists with reference to person-to-person calls.

A 3 minute day person-to-person call from Austin to Texarkana, Texas is \$1.80; whereas a call from Austin to Texarkana, Arkansas is \$1.50. In Arkansas a call from Little Rock to Texarkana, Arkansas is \$1.20 as compared to an interstate call from Little Rock to Texarkana, Texas of \$1.00. Likewise, the rate from Little Rock to Memphis, Tennessee is \$1.00 while the rate to West Memphis, Arkansas is \$1.10.

In Louisiana, a 3 minute day person-to-person call from Shreveport to Jennings, a distance of 170 miles is a \$1.45. A call from Shreveport to Beaumont, Texas at 171 miles has a rate of \$1.10. In Tennessee a call

from Nashville to Memphis, Tennessee is \$1.50; whereas a call to West Memphis, Arkansas is \$1.20.

In Missouri the person-to-person 3 minute day rate from St. Louis to Kansas City, Missouri is \$1.60; whereas the 3 minute day person-to-person rate to Kansas City, Kansas is \$1.30. In Kansas, Wichita to Kansas City has a rate of \$1.45; whereas the rate to Kansas City, Missouri is \$1.15.

Again, in Oklahoma the Tulsa to Guymon person-to-person day rate is \$1.80; whereas the rate to Mexia, Texas from Tulsa is \$1.50.

In New Mexico calls from Tucumcari to Clayton on a person-to-person basis are \$1.00; whereas calls from Tucumcari to Dalhart, Texas are 85¢. And from Artesia to Las Cruces, New Mexico, a person-to-person 3 minute call is \$1.25; whereas a call from Artesia to El Paso, Texas is \$1.00.

There are many, many other examples I could cite in the states referred to or in other states in the nation; however, these should be sufficient to show that the disparity that exists in Texas between intra and interstate rates is also present in states having a statewide regulatory agency.

The question then is one of why this disparity exists:

One way to analyze and discuss this question is to talk about it in terms of two separate systems -- an Intrastate System and an Interstate System.

The Federal Communications Commission regulates the rates for all interstate long distance service and approves a rate schedule which will produce the revenue required to support the interstate system. That rate schedule is not designed to provide the revenues required to support the total long distance business. Therefore, separate intrastate schedules

must be developed to produce the revenues required to support the long distance system within the state.

As a result of this jurisdictional feature, there are, in effect, two separate long distance systems and each has characteristics which contribute to this disparity in rates I have been talking about. A look at some of these characteristics will show why the rates for long distance calls at various distances may be different for calls within the state as compared with calls that go beyond the state's boundaries.

First, let me make it clear that I am not suggesting that there are two physically separate telephone systems -- one for long distance within the state and another for calls from one state to another. As you know much of the same equipment and facilities are used for both. The point is that the federal laws require separating the long distance system into an intrastate system and an interstate system and further require that such separation be made generally on the basis of usage.

One basic requirement of an adequate communications system is that it be available when needed or wanted. To meet this requirement it is necessary to make long distance telephone service available around the clock even to and from remote and sparsely populated areas regardless of profitability and usage. Because of limited usage of such facilities for interstate calling a very high per cent of the plant and expenses required for providing such service remains in the intrastate system which bears the burden of small volumes, calls of relatively short distances, and the smaller size and more elementary circuitry.

On the other hand, the interstate system of long distance is a large and sophisticated network which meets the needs of the business

community in interstate commerce, governmental administration, defense activities, and social communications in a constantly shrinking world.

This system enjoys the benefits of scale that accrue from large volumes, great distances, and the use of electronic and microwave equipment.

The interstate rate schedule is based on the total interstate business in the United States and the factors influencing the determination of appropriate rates are based on the nationwide averages. The factors affecting the rate schedule in Texas are based on Texas factors alone. The nationwide average distance of an interstate call is slightly over 400 miles while the average intrastate call in Texas is about 100 miles.

Although cost of circuits is only one element of cost of providing long distance service, this chart shows how different costs contribute to the disparity between intrastate and interstate rates. The average cost per mile of intrastate circuits in Texas is \$67 whereas the average cost per mile of an interstate long distance circuit is \$31. It is obvious that the rate required to recoup the circuit component cost is less for an interstate call than for one wholly within Texas.

Comparisons of other factors - volumes, distances, and type of facilities used all support the fact that the disparity between intrastate and interstate rates is logical and justifiable. The intrastate system has proportionately more short haul calls than the interstate system has and also has a higher proportion of circuits devoted primarily to thinly traveled routes than the interstate system.

On the other hand, the factors which permit economies of scale in the interstate system - large volumes, great distances, and the use of the electronic and microwave facilities are also present in some degree in the

heavily traveled routes within the state; (Dallas-Houston; Fort Worth-Austin; San Antonio-Dallas, etc.) and have served to reduce the difference between Texas rates and interstate rates.

The disparity between intrastate and interstate rates is not unique in Texas as I have previously shown. It exists generally in the other states in the United States as demonstrated by these charts:

3 Minute - Station-To-Station Compared with Other States

3 Minute - Person-To-Person Compared with Other States

3 Minute - Station-To-Station Compared with Adjoining States

So far, I've been talking about the disparity between inter and intrastate rates for long distance service. What about rates for local telephone service?

I have another series of charts here which illustrate that Texas rates set by local municipal governments compare favorably with those in other states in which there is statewide regulation.

Chart CR-1

The rates for local exchange service in Houston, Texas' largest city, are less than rates in numerous cities around the country. For example, Atlanta, Denver and St. Louis all have higher rates than Houston.

Chart CR-2

Rates in Texas cities like Amarillo and Austin are lower than those in many cities of comparable size in other states. One party residence service in Austin is almost a dollar less than the comparable rate in Little Rock, the capital city of Arkansas

Chart CR-3

Smaller cities like Abilene and Odessa also enjoy lower rates than many other cities of comparable size. The business one party rate in Odessa is almost \$4.00 per month less than the Fort Smith, Arkansas rate.

Chart CR-4

Many cities of comparable size in other states having statewide regulation have higher rates than Bryan and Paris.

Chart CR-5

And the same is generally true of our smaller towns like Meridian, Roscoe and West.

In the interest of time I have had to limit the number of examples shown. There are many other comparisons which could be made to illustrate that the rates for local telephone service in Texas, rates that are regulated by the various municipalities, compare very favorably as far as the rate payer is concerned with rates in states having a statewide regulatory agency.

It has been said that Texas has the "sorriest telephone service in the United States." I don't believe it!

Last year, our customers in Texas placed over 9 1/2 billion calls. It would be unreasonable to expect that this volume of business could be handled with no failures and no complaints, but a very high per cent is handled in a completely satisfactory manner.

We have many measurements that we use to rate the quality of our service on a day to day basis. These same measurements are used by other Bell System companies and comparisons between companies

between states, and between cities are drawn frequently, and the competition within the system to excel in quality of service is very keen. In fact we work hard continually to improve the quality of our service.

These measurements, I'm sure, would mean little to you, but here are some yardsticks that will refute the statement that telephone service in Texas is the sorriest in the United States:

1. On the average, our customer's telephone is out of service less often than once every four years.
2. Eighty-five per cent of all phones in trouble are restored to service in less than three hours after they are reported.
3. 90% of the customers calling repair service get an answer in less than 10 seconds.
4. Ninety per cent of the calls to the long distance operator are answered in 10 seconds or less. The average wait is only 4 1/2 seconds.
5. Last year our long distance operators handled 138 million long distance calls with less than 1/10 of 1% error --- customers were cut off or interrupted only once out of every 3000 calls.
6. Information operators handled 643,000 calls a day in 1968, and on the average completed their calls in about a half minute.
7. Ninety per cent of requests for new service or changes in existing service are fulfilled on the day the customer wanted the service.

There are many (other) facts I could quote to show that Texans have good telephone service, but these should serve to prove the point. In

many respects, the Southwestern Bell Company in Texas surpasses all its sister companies and states in the quality of service it provides.

Mr. Chairman, I believe I have demonstrated that the disparity between intrastate and interstate long distance rates is not peculiar to Texas. It exists in states having statewide regulation and in many states the disparity is greater than it is in Texas.

I believe, too, these facts should serve to prove that rates for telephone service in Texas for both local and long distance service compare favorably with the rates customers pay in other states in the United States.

I'm pretty sure that the quality of telephone service in Texas, taken as a whole, is not exceeded anywhere else in the world.

I said to begin with that I would speak in opposition to the bill. What I have shown is that telephone rates and service in Texas compare very favorably with rates and service in other states having statewide regulatory agencies and that the various municipalities in Texas have done a good job of regulating the telephone industry in this state.

The end result of this regulation has been good telephone service to the public at rates which are as low or lower than those in many of the other states in the nation. Since this is true, why should the taxpayers in Texas be burdened with the added expense of another regulatory agency.

Thank you very much. If you have any questions I'll be happy to try to answer them.

LEAGUE OF WOMEN VOTERS OF DALLAS

The Texas Executive - State Boards and Commissions - VOTER insert, December 1970

PUBLIC UTILITIES IN TEXAS

After the adoption of a continued study of Boards and Commissions under the Executive Study at the League of Women Voters State Convention in the spring of 1970, considerable interest was expressed in knowing more about a State Board that Texas did not have - one to regulate Public Utilities on a state-wide basis. Senator Charles Wilson of Lufkin had introduced a bill creating such a commission in the previous legislature but it had died in sub-committee. An interim study committee was authorized, however, and Senator Wilson has indicated that he will introduce a new bill for state-wide regulation of Telephone Companies. The Democratic party platform has called for the creation of a Public Utilities Commission.

WHAT IS A PUBLIC UTILITY?

There are innumerable definitions of what constitutes a public utility. "Public utilities are industries, properties, or corporations that furnish recognized public services through private business organizations. Their public character results from two basic conditions: they are essential to practically all industry, business, and community life, and their monopoly positions; normally any particular service within a given territory is provided through a single business agency without direct competition.

Utility monopoly has resulted from two characteristics - one physical and one financial. As a physical matter, having two or more gas or water mains, telephone and electric services covering identical areas would be impractical and chaotic. From the financial standpoint, in the development of an individual utility concern or system, the large investment necessary for plant and equipment makes it advantageous to include as large a service area as possible in one organization. ¹

Four duties are common to public utility industries: 1. the duty to serve all comers, 2. the duty to render adequate service, 3. the duty to serve at regular rates, and 4. the duty to serve without discrimination. The right of entry into the industry is controlled by public authority by means of a franchise. ²

In Texas, the legislature has dealt with the subject in three areas - statutes on public utilities, statutes authorizing municipal regulation of public utilities and statutes on taxation and franchise. The statutes define "public utilities" including telegraph, telephone, water gas, electricity, sewerage, and sometimes transportation facilities as those "relied on by the public essential to present day society." ³ For our purposes, we will concentrate on those utilities providing telephone, gas, and electricity services.

TELEPHONE In 1960 there were 5 major companies operating in Texas and 125 smaller ones. Of these, 22 were cooperatives.* Some companies have as few as 46 phone connections. These can be overlapping service areas. Some residents in the Houston area must subscribe to three different companies to avoid long distance calls to their neighbors. All privately owned companies are regulated by the Federal Communications System on interstate calls and by individual municipalities on services within the cities. ⁴

*Cooperatives are defined as a corporation operating on a non profit basis for the mutual benefit of its members and patrons. Art. 528c Vernons Anno. Civ. Stat.

NATURAL GAS There were 76 gas companies in Texas in 1960. Production is regulated by the Texas Railroad Commission. The Federal Power Commission regulates transmission across state lines and sales for resale in interstate commerce. The Railroad Commission has jurisdiction over transmission at the intrastate level and original jurisdiction over rates in unincorporated areas and at the city gate. Local municipalities have powers to regulate rates, services, and distribution within the city and to grant franchises to gas companies.⁵

ELECTRICITY In contrast to the large number of telephone and gas companies, there are only 15 privately owned electric companies operating within the state and several of these are owned by a holding company.⁶ There are also 50 publicly owned plants, mostly municipally owned plus 84 rural electric cooperatives. The electrical industry in Texas is regulated on two governmental levels. The Federal Power Commission on all interstate transmission, and by local cities for production, transmission and sale within city limits. Cooperatives are subject to Article 1528b Vernons Anno. Civ. Stat. to serve members only, to operate on a non-profit basis, and rates set to cover expenses etc.⁷

THE REGULATION OF PUBLIC UTILITIES

For Texas as well as for other states and the Federal Government, the regulation of public utilities is a perpetual problem, the most difficult of which is the setting of rates for services rendered. The standards to be used in rate setting are extremely important. Profit allowed is usually computed as a percentage of the worth of the company's physical plant used in providing the service. Different regulatory bodies use various methods to determine this worth which is called the "rate base". Most state regulatory commissions take what the companies originally paid for their equipment, and then subtract part of that for depreciation. This method is called "original cost less depreciation" rate base. About a dozen states use the "fair value" rate base which computes the company's physical plant - not on what it cost, but on what it is supposed to be worth. Texas statutes say cities that regulate utilities must not set rates "which will yield more than a fair return upon the fair value of the property used and useful in rendering its service to the public, but which return in no event shall ever exceed 8 percent per annum."⁸ The key questions in determining rates are what is the "fair value" of the equipment, what is a fair return on it, and what rates will it take to produce that return. Also, each locality must determine what portion of the physical plant is used for local service.⁹

Texas is one of the few states that has no state-wide regulatory body for public utilities. Here, each municipality, whether of 500 or 500,000 people, must award individual franchises for each utility and is responsible for rates and degrees of service. In practice, some municipalities such as Highland and University Park¹⁵ accept whatever rate is approved by Dallas. This is not necessarily true of other suburban communities, necessitating expenses by each community and each utility. Irving, Garland, and Carrollton in the Dallas area, are served by companies other than Southwestern Bell.

Texas Power & Light Co. does not serve the city of Dallas but does serve many surrounding towns - DeSoto, Farmers' Branch, Garland, Irving, Mesquite, etc.

PUBLIC UTILITY REGULATION IN DALLAS

Dallas is fortunate in having the resources to provide for a comprehensive department to supervise utilities. The City Charter gives the local government the right under state law to issue franchises to private companies to provide general services including heat, light, power, telephone service, etc. At present, franchises are in effect for electricity, gas, and telephone service plus taxi service. The Charter also provides for a Supervisor of Public Utilities to determine and regulate rates and fares and to prescribe the kinds and degree of service to be provided. The final determination of franchises to be issued and rates to be charged rests with the City Council.

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SUGGESTIONS FOR CHANGE

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Footnotes

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3. Article 1108-Ch.10, Title 28,32
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4. Public Utilities in Texas Op cit..pg. 12
5. Ibid, pg. 13
6. Lee Metcalf and Vic Reinemer, Overcharge, David McKay Co., Inc. New York
1967, pg. 22
7. Public Utilities in Texas op cit. pg. 14
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11. Michael V. Adams, Wilson Concentrating on Ma Bell, The Texas Observer,
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12. Clifton McCleskey, The Government and Politics of Texas, 2nd Edition pg.399
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14. John Bauer, Ph. D., Updating Public Utility Regulation, Public Administra
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Hunter

The Texas Executive - State Boards and Commissions - VOTER insert, December 1970

PUBLIC UTILITIES IN TEXAS

After the adoption of a continued study of Boards and Commissions under the Executive Study at the League of Women Voters State Convention in the spring of 1970, considerable interest was expressed in knowing more about a State Board that Texas did not have - one to regulate Public Utilities on a state-wide basis. Senator Charles Wilson of Lufkin had introduced a bill creating such a commission in the previous legislature but it had died in sub-committee. An interim study committee was authorized, however, and Senator Wilson has indicated that he will introduce a new bill for state-wide regulation of Telephone Companies. The Democratic party platform has called for the creation of a Public Utilities Commission.

WHAT IS A PUBLIC UTILITY?

There are innumerable definitions of what constitutes a public utility. "Public utilities are industries, properties, or corporations that furnish recognized public services through private business organizations. Their public character results from two basic conditions: they are essential to practically all industry, business, and community life, and their monopoly positions; normally any particular service within a given territory is provided through a single business agency without direct competition.

Utility monopoly has resulted from two characteristics - one physical and one financial. As a physical matter, having two or more gas or water mains, telephone and electric services covering identical areas would be impractical and chaotic. From the financial standpoint, in the development of an individual utility concern or system, the large investment necessary for plant and equipment makes it advantageous to include as large a service area as possible in one organization. ¹

Four duties are common to public utility industries: 1. the duty to serve all comers, 2. the duty to render adequate service, 3. the duty to serve at regular rates, and 4. the duty to serve without discrimination. The right of entry into the industry is controlled by public authority by means of a franchise. ²

In Texas, the legislature has dealt with the subject in three areas - statutes on public utilities, statutes authorizing municipal regulation of public utilities and statutes on taxation and franchise. The statutes define "public utilities" including telegraph, telephone, water gas, electricity, sewerage, and sometimes transportation facilities as those "relied on by the public essential to present day society." ³ For our purposes, we will concentrate on those utilities providing telephone, gas, and electricity services.

TELEPHONE In 1960 there were 5 major companies operating in Texas and 125 smaller ones. Of these, 22 were cooperatives.* Some companies have as few as 46 phone connections. These can be overlapping service areas. Some residents in the Houston area must subscribe to three different companies to avoid long distance calls to their neighbors. All privately owned companies are regulated by the Federal Communications System on interstate calls and by individual municipalities on services within the cities. ⁴

*Cooperatives are defined as a corporation operating on a non profit basis for the mutual benefit of its members and patrons. Art. 528c Vernons Anno. Civ. Stat.

NATURAL GAS There were 76 gas companies in Texas in 1960. Production is regulated by the Texas Railroad Commission. The Federal Power Commission regulates transmission across state lines and sales for resale in interstate commerce. The Railroad Commission has jurisdiction over transmission at the intrastate level and original jurisdiction over rates in unincorporated areas and at the city gate. Local municipalities have powers to regulate rates, services, and distribution within the city and to grant franchises to gas companies.⁵

ELECTRICITY In contrast to the large number of telephone and gas companies, there are only 15 privately owned electric companies operating within the state and several of these are owned by a holding company.⁶ There are also 50 publicly owned plants, mostly municipally owned plus 84 rural electric cooperatives. The electrical industry in Texas is regulated on two governmental levels. The Federal Power Commission on all interstate transmission, and by local cities for production, transmission and sale within city limits. Cooperatives are subject to Article 1528b Vernons Anno. Civ. Stat. to serve members only, to operate on a non-profit basis, and rates set to cover expenses etc.⁷

THE REGULATION OF PUBLIC UTILITIES

For Texas as well as for other states and the Federal Government, the regulation of public utilities is a perpetual problem, the most difficult of which is the setting of rates for services rendered. The standards to be used in rate setting are extremely important. Profit allowed is usually computed as a percentage of the worth of the company's physical plant used in providing the service. Different regulatory bodies use various methods to determine this worth which is called the "rate base". Most state regulatory commissions take what the companies originally paid for their equipment, and then subtract part of that for depreciation. This method is called "original cost less depreciation" rate base. About a dozen states use the "fair value" rate base which computes the company's physical plant - not on what it cost, but on what it is supposed to be worth. Texas statutes say cities that regulate utilities must not set rates "which will yield more than a fair return upon the fair value of the property used and useful in rendering its service to the public, but which return in no event shall ever exceed 8 percent per annum."⁸ The key questions in determining rates are what is the "fair value" of the equipment, what is a fair return on it, and what rates will it take to produce that return. Also, each locality must determine what portion of the physical plant is used for local service.⁹

Texas is one of the few states that has no state-wide regulatory body for public utilities. Here, each municipality, whether of 500 or 500,000 people, must award individual franchises for each utility and is responsible for rates and degrees of service. In practice, some municipalities such as Highland and University Park¹⁵ accept whatever rate is approved by Dallas. This is not necessarily true of other suburban communities, necessitating expenses by each community and each utility. Irving, Garland, and Carrollton in the Dallas area, are served by companies other than Southwestern Bell.

Texas Power & Light Co. does not serve the city of Dallas but does serve many surrounding towns - DeSoto, Farmers' Branch, Garland, Irving, Mesquite, etc.

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