BELL TELEPHONE CASE RESUMED

Company's Evidence Concluded—Municipalities to be Heard Later

Evidence in support of the Bell Telephone Company's application for an increase of 20% in rates was received before the Dominion Board of Railway Commissioners, sitting in Ottawa, on January 8th.

Mr. Lawrence MacFarlane, K.C., opened the case for the Bell Telephone Company, and Mr. C. F. Sise, vice-president and general manager, was the first witness called. In addition to Mr. MacFarlane, the company was represented by Mr. Glyn Osler, K.C., and Mr. B. P. Fitzpatrick. Officials of the company present were E. Palm, controller; P. A. McFarlane, engineer; H. E. Scott, general superintendent traffic department; W. H. Winter, general plant superintendent; O. E. Stanton, divisional plant superintendent, and J. E. MacPherson, local manager at Ottawa.

Evidence of Higher Costs

Mr. Sise stated that the application was based upon the advance in operating costs due to higher wages, more expensive materials, and a general increase in everything that contributed to the running of a telephone system. He tabled a number of statements comparing operating costs prevailing at present with those prevailing before the war and a year ago. The statement covering costs of material showed that there had been an increase of $872,469 in the price of the principal materials used in the construction and maintenance of the plant, based upon the quantities used in 1917, when compared with 1913. The percentage increase, according to the statement, was more than 62. The gross operating revenue of the company in 1913 was $8,397,463, and in 1917 it had grown to $11,179,162. The operating expenses increased from $3,214,564 in 1913 to $4,545,328 in 1917, and the annual cost of maintenance from $1,549,978 to 1,595,366. Taxes increased from $190,648 in 1913 to $422,427 in 1917. The increase in total expenses, comparing the year 1913 with 1917, was $2,397,930, the figures being $9,033,121 in 1917 and $6,635,191 in 1913. The net operating revenue in 1913 according to the statement, was $1,762,272 and in 1917 $2,146,040.

Mr. Sise, in submitting his figures, emphasized the point that the company was merely asking for such increases in tolls as would re-establish a fair rate of return, taking into account the increased cost of furnishing service to the public.

An increase of more than 50 per cent. in the wages of all employees was a great factor in the increased cost of operation, said Mr. Sise. In some classes of labor the increase ran as high as seventy per cent. Costs of materials had also advanced tremendously in the five war years. With regard to the increased cost of labor, Mr. Sise explained that the McAdoo award had greatly affected labor conditions among telephone employees. The company had to pay more wages.

Mr. Sise produced statements covering increases in taxes and embracing a large number of cities and towns of Ontario and Quebec. All cities, he said, had been forced to increase their tax rates.

"But," said Sir Henry Drayton in looking over the statement, "this merely shows the increase in tax rates. Your assessment is not shown. It may have dropped even though the tax rate advanced."

Lawrence MacFarlane, K.C., representing the Bell Telephone Company, said he would have a statement of assessment on the company's property prepared and submitted to the board.

Comparative figures of telephone expenses and revenue in November, 1917, and in the same month of 1918, which counsel stated had been verified by Price, Waterhouse & Co., were submitted by Mr. Sise.

An increase of 20 per cent. in exchange revenue, Mr. Sise said, was expected to yield $1,200,000 in the new revenue. He emphasized that in the reconstruction period there would be a comparative diminution in telephone business. A great many private exchanges were being taken out, owing to the cessation of munitions work and of military activities.

New Moving Charges

As a basis for calculation of the proposed new moving charges, 17,979 moves of telephones were studied at irregular periods during 1917. New revenue from the proposed moving charges was estimated at:—

Inside moves	$ 44,980
Outside moves	158,673
Total	$203,653

From this 10 per cent. would have to be deducted for expected reduction in moves owing to the new rates.

With the exception of a charge for the installation of a long-distance transmitter, Bell Telephone rates had not been changed for thirty years.

The stated book value of the company's property was based on actual cost. There had since been no revaluation. In regard to assertions of over-capitalization, he said that the company has issued $18,000,000 of stock and $11,000,000 of bonds, while its assets were worth over $50,000,000.

"Telephone users and not the shareholders have reaped the profits," Mr. Sise declared. Had the company capitalized its property at its real value, the shareholders would have been entitled to a large bonus. Part of the common stock was issued at 125, and Mr. Sise did not know of any other company in Canada except the C.P.R. which had issued common stock at a premium.

The need for additional revenue was urgent. Otherwise the company would not be able to meet its dividends, or even its expenses.

E. Palm, comptroller of the Bell Telephone Company, stated that, although the par value of the company's stock had increased, the book value had not. He explained how the figures given in the printed statements filed had been arrived at.

W. H. Winter, general plant superintendent for the Bell Telephone Company, was called at the afternoon session. He said that 600 of the company's best men had enlisted for the war, with the result that the plant had not been maintained in the condition the company would have liked. It had, however, been maintained in a fairly creditable manner.

Municipalities Oppose

I. S. Fairty, representing Toronto and Hamilton, argued that the company's application for increased rates should be rejected, or at least held over for a year. On the company's own statement, the application, he thought, would not be justified. He emphasized that the company had set aside extraordinarily large amounts for depreciation. In 1918, he said, after paying bond interest, 8 per cent. on common stock, and meeting all charges, the company had an undivided profit of about a quarter of a million dollars. During the war period, on its own showing, the company had heaped up $1,200,000 of undivided profit. During the same period depreciation reserves had increased from upwards of $4,000,000 to upwards of $12,000,000.

The company, before the war, never made any voluntary attempt to reduce its rates, although it had so much money that it "found a half million dollars accidentally."

Mr. Fairty argued that with the close of war prices of materials and labor would fall. Further, the company's common stock was regarded by the stock market as a gilt-edged security and was quoted around 130.

Sir Henry Drayton remarked that the price at which a stock was quoted on the market might also mean that interested people were able to maintain it at a certain level.

Should Surplus be Used?

Mr. Fairty said that the company had heaped up a surplus during the war years and this should be used, if necessary, to offset increased expenses, before rates were raised.

"In other words," said Mr. MacFarlane, "you think we should wait until we are ruined before we ask for an increase in rates."

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