3/

FINANCIAL PERFORMANCE

of the

PRINCIPAL CANADIAN

TELEPHONE COMPANIES

Review of 1975 and Outlook for 1976

(1)

FINANCIAL PERFORMANCE
of the
PRINCIPAL CANADIAN
TELEPHONE COMPANIES
Review of 1975 and Outlook for 1976

Economic Policy and Statistics Branch
March 1976

TABLE OF CONTENTS

LIST OF TABLES

1. THE ECONOMY

(1) Review of 1975

(a) Output and Final Demand

An upturn in aggregate economic activity took place during the latter part of 1975. Real GNP renewed its growth in the second quarter of the year, although the fourth quarter was weaker than the previous two. Nevertheless, real GNP increased by only 0.2 per cent for the year. Although substantial increases were recorded in residential construction and personal consumption in the second half of the year, most of these increases were offset by the continuing business inventory liquidation and deterioration in the foreign trade balance.

Personal expenditure on consumer goods and services recorded its smallest real growth since 1970. For the year, the largest real increase was in the expenditure on semi-durable goods. Spending on durables, especially automobiles, picked up in the latter part of the year.

One of the major sources of weakness in 1975 was the external sector. The balance of trade in goods and services worsened by $3.3 billion resulting from a 3 per cent rise in exports coupled with an 11 per cent rise in imports.

Total gross fixed capital formation grew at a much slower rate than that experienced in the two previous years, mainly because of the decline in residential construction in early 1975. However, the residential construction component picked up later in the year, with the annual rate of housing starts in December reaching a record high.

Government revenues grew by 7.7 per cent in 1975, the lowest rate of increase in several years, resulting from lower tax rates and the slowdown in business activity. The growth of expenditures during the same period was 20.0 per cent. Particularly sharp increases were recorded in transfer payments to persons and in current expenditures on goods and services. As a result the government sector registered a deficit of $4.6 billion in 1975.

(b) Labour Force

The labour force rose quite rapidly, about 3.75 per cent, in 1975. In contrast employment grew by only 1.8 per cent compared with 4.3 per cent in 1974. Consequently, the rate of unemployment rose to an average 7.1 per cent from 5.4 per cent a year earlier.

(c) Inflation

Inflation continued, but moderated slightly toward the end of the year as evidenced by the increase in the consumer price index. In December 1975 the consumer price index stood 9.5 per cent above its December 1974 level, the first occasion in nearly two years that any twelve-month change in the CPI has registered less than 10 per cent.

(d) Monetary Developments

Following some moderation in money supply growth in early 1975, the accelerated rise in the latter part of the year was very similar to the pattern that had prevailed for some time. Money supply increased at an 18 per cent annual rate in the last quarter, in response, it is believed, to the banking system's liquidity problems caused by the postal strike. After rising in the wake of the September bank rate increase, interest rates remained fairly stable in the latter part of the year. During the same period, U.S. interest rates declined appreciably, with the result that a large spread between Canadian and U.S. rates has developed.

(2) Outlook for 1976

(a) Output and Final Demand

A continuation of the slow economic recovery is generally expected through 1976. The latest forecasts of real GNP predict a growth rate of between 5 and 6 per cent for the year. The major growth sectors in the Canadian economy are likely to be housing and external trade.

It is predicted that consumption expenditures will probably rise by 4.5 to 5.5 per cent, with the strongest growth being in consumer durables. This projected increase is in line with the expected growth in disposable income. In the housing sector, the government's target of 235,000 starts in 1976 appears realistic if compared with the 231,000 starts in 1975.

Exports are expected to increase considerably faster than imports; this is consistent with the fact that Canada's major trading partners, the United States and Japan have also begun to recover from the 1974-75 recession, and that slow growth is anticipated in machinery and equipment spending, which has a large import content, in Canada.

One area about which there is a great deal of uncertainty is the capital investment sector of the economy. The government's survey of investment intentions for large corporations indicates a 14 per cent real increase in capital spending in 1976, compared with a increase in 1975 of 4.7 per cent in business investment on plant and equipment. However, most private analysts feel that this growth rate is overly optimistic, especially in view of the wide difference between the anticipated and actual figures for 1975.

Government spending is expected to increase in the coming fiscal year by 15 per cent, despite announced spending cuts. One area which has been advancing at a very sharp rate is government transfer payments. Although efforts at restraint will reduce the rate of growth of government spending, deficits are still expected to remain.

(b) Labour Force

Employment gains in the 2.3 to 3 per cent range are expected in 1976. This will exceed the performance in 1975 but with Canada's labour force continuing to expand in the order of 3 to 4 per cent annually, very little improvement in the rate of unemployment may be anticipated.

(c) Inflation

As for inflation, the immediate impact of the government's restraint package is expected to be fairly limited. Considerations external to the anti-inflation programme will exert the dominant influence on the economy during the first part of 1976. Upward price pressure can be expected from removal of various provincial price freezes, and from large increases in municipal taxes. Energy prices will also be on the rise. For the year, average consumer price increases in the range of 9 to 10 per cent are expected.

(d) Monetary Developments

The widening interest rate differential between Canada and the U.S. has resulted in a northward flow of funds with the result that the Canadian dollar has climbed to above par with the U.S. unit in March 1976.

With regard to money supply, the most realistic assumption seems to be a very mild restriction on growth for the time being. It is expected that short and long term interest rates will gradually rise throughout 1976 in an environment of strengthening economic activity and a conservative approach to the expansion of the money supply.

(2) MAJOR CANADIAN TELEPHONE CARRIERS

(1) Operating Revenues, Expenses, Profits and Rate of Return

The recent financial performance of ten major telephone carriers* has outpaced the growth of the main Canadian economic indicators. This is illustrated in Table 1, which compares growth rates in total operating revenues, expenses and profits for these ten carriers with the gross national product, corporate profits before taxes, and the consumer and wholesale price indexes.

Table 1 - Major Canadian Telephone Carriers
Growth Rates in Operating Statistics
Compared with Aggregate Economic Activity

YEAR	TELEPHONE CARRIERS			AGGREGATE ACTIVITY			
	Operating Revenues %	Operating Expenses %	Operating Profits %	GNP %	Profits Before Taxes %	Consumer Price Index %	Wholesale Price Index %
1972	11.7	11.6	11.8	11.4	19.2	4.8	7.0
1973	13.4	14.4	11.3	15.9	34.4	7.5	21.5
1974	14.6	17.5	7.9	17.0	27.2	10.9	22.4
1975	16.8	20.8	9.0	9.9	-2.9	10.8	6.5

As the table reveals, operating revenues in the telephone industry have kept pace in recent years with general economic activity and, in 1975, surpassed it. Operating expenses for the telephone carriers have continued to escalate in the past year. Nevertheless, the profit performance of the carriers improved in 1975 compared with 1974 and was definitely better than the general record of corporate profits in the Canadian economy.

* Ten major telephone carriers are used throughout this section to highlight industry trends compared with general economic conditions. The companies are: Alberta Government Telephones, Bell Canada, British Columbia Telephone Company, Manitoba Telephone System, Maritime Telegraph and Telephone Company Limited, New Brunswick Telephone Company Limited, Newfoundland Telephone Company Limited, Northern Telephone Limited, Quebec Telephone, and Saskatchewan Telecommunications

It is of interest to compare recent rates of return on total average capitalization for the privately owned systems under consideration. Most companies experienced increases in the actual rate of return during 1975. However, in general the actual returns have remained below the levels authorized by the respective regulatory agencies (See Tables 7 and 13).

Table 2 - Rate of Return on Total Average Capitalization
Privately Owned Telephone Companies - 1972-1975

	1972	1973	1974	1975
B. C. Telephone	7.8	7.7	7.9	8.6
Bell Canada	7.8	7.9	8.0	8.5
Northern Telephone	8.7	7.9	7.5	7.1
Quebec Telephône	8.7	9.3	9.2	9.7
New Brunswick Telephone	8.9	8.8	8.4	9.2
Maritime Telegraph and Telephone	8.7	8.6	8.4	9.0
Newfoundland Telephone	9.5	9.2	10.0	10.3

(2) Construction Expenditures

Construction expenditures in the telephone sector represent approximately 4 per cent of aggregate capital formation in the Canadian economy. Table 3 compares recent construction expenditures in the telephone industry with aggregate activity as measured by gross fixed capital formation.

Table 3 - Construction Expenditures for Major Telephone Carriers Compared with Aggregate Capital Formation in Canada

Year	TELEPHONE CARRIERS		AGGREGATE ACTIVITY	
	Construction Expenditures	Growth	Aggregate Capital Formation	Growth
	$ million	%	% million	%
1971	794.2	12.8	20,128.0	13.3
1972	867.9	9.3	22,508.0	11.8
1973	1,011.8	16.6	26,987.0	19.9
1974	1,424.3	40.8	32,900.0	21.9
1975	1,545.0*	8.5	37,329.0	13.5

* Includes estimate of Alberta Government Telephones 1975 construction expenditures.

As the table shows, in 1975, the telephone companies experienced a considerable slowdown in the growth rate of construction expenditures from the unusually high level experienced in 1974. Similarly, aggregate capital formation expanded at a slower rate in 1975 compared with 1974.

(3) Labour Force

Whereas, in 1974, the growth rate in the telephone company labour force was double the national expansion in employment opportunities, in 1975 the situation was reversed with national employment continuing to increase, although slowly, while the number of employees in the major telephone companies actually declined. The decrease, however, was confined to three companies only: Bell Canada, B.C. Telephone Company and Newfoundland Telephone Company. Table 4 compares telephone employment growth with aggregate activity for recent years.

Table 4 - Growth of Telephone Labour Force
Compared with National Labour Force

YEAR	TELEPHONE COMPANIES		AGGREGATE ACTIVITY	
	Employees	Growth	National Employment	Growth
	thousands	%	thousands	%
1972	74.4	4.6	8439	3.1
1973	80.0	7.5	8759	5.2
1974	86.8	8.5	9137	4.3
1975	85.1*	- 2.0	9308	1.9

* Includes estimate of Alberta Government Telephones employees.

3 BELL CANADA

(1) Operating Revenues Expenses, Profits and Rate of Return - Review of 1975

Following the trend of the last few years, in 1975 the growth in Bell Canada's operating expenses continued to outpace the growth in operating revenues. However, the divergence in the two rates decreased from 1974 with the net result that operating profits were up 14.2 per cent in 1975, compared to 1974 growth of 7.6 per cent. Recent growth rates for Bell operating statistics are compared with the average annual growth over the period 1968-1974 in Table 5.

Table 5 - Operating Revenues, Expenses and Profits
Bell Canada - Annual Percentage Growth Rates

YEAR	Operating Revenues	Operating Expenses*	Net Operating Revenues
1972	10.5	10.8	9.9
1973	13.3	14.3	11.2
1974	12.9	15.4	7.6
1975	15.7	16.3	14.2
Average 1968 to 1974	11.2	12.3	9.1

* Operating expenses include taxes other than corporate income taxes

A review of Bell's quarterly operating figures reveals that whereas the rate of growth of operating revenues picked up in the last six months of 1975, the expansion in operating expenses dropped to 11.3 per cent compared with a 21.8 per cent growth in the first half of the year. The net result was an advance in operating profits of 30.6 per cent in the latter half of the year, in contrast with a 2.6 per cent decrease for the first six months.

Looking at operating expenses, a Bell Canada official stated that the Company carried out a cost-cutting program following the CTC decision in July which allowed only 50 per cent of the interim rate relief requested. The cutbacks were made by reducing the personnel by about 1,000 eliminating all overtime, cutting back on urban as well as rural operations, and by responding more slowly to service demands. There is some evidence that these actions brought about a reduction in the level of service to the Company's customers.

The unexpected cutback in Bell's operating expenses is reflected in the comparison of DOC's econometric forecast for 1975 with the actual operating results reported by Bell Canada. Table 6 makes the comparison.

Table 6 - DOC Forecast and Actual Results
Bell Canada - 1975

	DOC Forecast	Actual Results	Forecasting Error
	$ million	$ million	%
Local Revenue	872.0	878.3	- 0.7
Toll Revenue	754.0	753.6	0.0
Miscellaneous Revenue	32.7	34.0	- 3.8
Total Operating Revenue	1658.7	1665.9	- 0.4
Total Operating Expenses	1193.8	1175.7	1.5
Net Operating Revenue	464.9	490.2	- 5.2

The model performed quite well from a forecasting perspective. The underestimation of operating profits is mainly a result of the over-estimation of operating expenses.

The resultant operating profit is a primary factor in determining the Company's rate of return on total average capitalization, which is defined as the ratio of after-tax income plus debt service charges to total average invested capital. Table 7 compares Bell's actual rate of return with the allowable level established by the regulatory authority for the last six years.

Table 7 - Comparison of Actual with Allowable Rate of Return on Total Average Capitalization
Bell Canada - 1970-1975

YEAR	Actual Rate of Return %	CTC Decision Date	Allowable Rate of Return %
1970	7.2	Dec 1970	7.5
1971	7.4		
1972	7.8	May 1972	7.8 - 8.2
1973	7.9	Jun 1973	8.2
1974	8.0	Sep 1974	8.6 - 9.1
1975	8.5	Dec 1975	8.6 - 9.1

In its most recent rate application, Bell did not seek an increase in the permissible range of the rate of return. Bell estimated that the rate of return for 1976 would be 8.4 per cent, assuming all the rate increases proposed were approved. This would be below the low end of the permissible range of returns and below the 1975 rate of return. These figures are based on Bell's projection of net operating profit, which is slightly higher than the figure in the DOC forecasting model. Thus it is to be expected that Bell's rate of return for 1976 will continue to fall below the permissible range.

(2) Forecast for 1976

For 1976, the DOC econometric model forecasts the following operating results for Bell Canada. While the results have not been adjusted to reflect the effect of the rate revisions which became effective January 1, 1976, the econometric forecast picks up the cumulative effect of annual rate awards in recent years; this trend influence will account for a substantial portion of the revenues generated by the revised rates.

Table 8 - Operating Revenues, Expenses and Profits
Bell Canada - Forecast for 1976

	$ Million	Annual Change
	$	%
Local Revenue	1001.3	14.0
Toll Revenue	902.1	19.7
Miscellaneous Revenue	46.5	36.8
Total Operating Revenues	1949.9	17.0
Total Operating Expense	1391.3	18.3
Net Operating Revenue	558.6	14.0

Local and toll revenues are forecast to advance steadily in 1976. A jump is expected in miscellaneous revenues because of alterations in corporate accounting procedures and the inclusion of some data communications revenues in this category.

The model forecasts an increase of 18.3 per cent in operating expenses, following the upward trend that has continued since 1970. The net result is forecast to be a 14.0 per cent increase in net operating revenue compared with the 1968-75 average annual advance of 9.8 per cent.

(3) Sources and Uses of Funds

Another useful view of the Company's financial performance can be gained by examining its sources and uses of funds. Sources of funds can be divided into two categories: funds from internal sources such as retained income, deferred income taxes, and depreciation; and funds from external sources such as stock issued and increases in debt. At the end of 1975, the ratio of funds from internal sources compared to funds from external sources stood at 1.07, compared to a ratio of 1.04 at the end of

1974. Both these ratios were down sharply from those of the immediately preceding years, indicating that the company is relying more heavily on external sources of financing than it has in the past.

In this regard, two recent actions are of interest. First, in October 1975 the Company offered for sale 5.25 million Northern Electric shares expecting to net $132.6 million to finance its own growth, since it judged that it was unable to issue common equity shares of its own. The sale of these shares reduced Bell Canada ownership in Northern Electric from 89 per cent to 69 per cent.

Second, in February 1976 Bell made an urgent request to the Anti-Inflation Board (AIB) to increase the dividend payable on common shares. In its submission, Bell argued that an increase in the dividend was necessary in order to persuade holders of convertible preferred shares to convert the outstanding shares and to persuade investors to exercise the Bell warrants which were attached to the Northern Electric shares issues. This request was subsequently denied by the AIB. These actions point out the continuing attempt by Bell Canada to raise money from external sources other than debt to finance its capital expenditures.

With regard to the Bell Canada sources and uses of funds, a comparison of three items is of interest - the ratio of funds from internal sources to funds from external sources, the initial annualized impact of recent rate awards with the CTC decision date, and the Company's construction expenditures and the annual percentage growth.

Table 9 - Comparison of Selected Items - Bell Canada 1972-1975

YEAR	Internal/External Funds	CTC Decision Date and Rate Award		Construction Expenditures	Growth
		$ million		$ million	%
1972	2.85	Jun	47.2	491.7	8.0
1973	2.48	Jul	22.5	536.0	9.0
1974	1.04	Sep	51.8	758.8	41.6
1975	1.07	Jul	32.5	783.0	3.2
		Dec	74.4		

As a result of the rate decision of July 28, 1975 which granted Bell only 50 per cent of the interim rate relief request, the Company cut back its planned 1975 construction program by about $33.4 million. Most of the reductions were concentrated in the outside plant portion of the construction program.

Bell estimates that in 1976 its construction expenditures will increase by about 16 per cent, to $940 million. The Company can be expected to draw upon its internal sources of funds as much as possible to finance these expenditures, and this implies further rate applications. In fact, it was stated during the most recent rate hearing that Bell may seek a further rate increase in 1976.

(4) Regulatory Developments

The May 30, 1975 rate application which requested revisions to the Company's tariffs of rates for service, equipment, and facilities was divided into two phases.

In the first phase the Company requested certain rate increases on an urgent interim basis which would produce $28 million of additional revenue in 1975. The decision on the first phase, dated July 28, 1975 allowed 50 per cent of the interim relief requested.

The second phase of the application requested approval of rates sufficient to produce revenues equivalent to the remaining 50 per cent of the interim phase as well as other rate revisions. The requests in this phase of the application were granted in full with two exceptions - a proposed discount on services for customers of age 65 and over was disallowed, and rate increases proposed in the primary residence category were reduced to offset the $5.2 million not granted in discounts. It is estimated that in 1976 the rate awards granted in the second phase will produce $74.4 million of additional revenue.

Table 10 covers Bell Canada rate applications and CTC decisions from 1958.

Table 10 - Rate Applications and Decisions
Bell Canada - 1958-1975

Date of Application	Requested Annualized Increase	CTC Decision Date	Effective Date of Rate Change	Approved Annualized Increase	Percentage of Request Granted
	$ million			$ million	%
Jun 1958	17.0	Oct 1958	Nov 1958	16.9	98
Dec 1968	83.6	Sep 1969	Oct 1969	27.5	33
Jun 1970	30.0	Dec 1970	Jan 1971	22.5	75
Nov 1971	78.1	May 1972	Jun 1972	47.2	60
Nov 1972	36.0	Mar 1973	Jul 1973	22.5	63
Aug 1973	51.8	Sep 1974	Oct 1974	51.8	100
May 1975 I	65.0	Jul 1975	Aug 1975	32.5	50
II	74.4	Dec 1975	Jan 1976	74.4	100

4 BRITISH COLUMBIA TELEPHONE COMPANY

(1) Operating Revenues, Expenses, Profits and Rate of Return - Review of 1975

In 1975 for the first time in the last three years B.C. Tel experienced a rate of increase in operating expenses which was lower than the growth in operating revenues. During the year the Company's total operating revenues grew 19.1 per cent to a total of $344.3 million and operating expenses grew 17.5 per cent to $273.4 million. The resultant growth in net operating revenue is shown in Table 11 for 1975 and the last four years. Average annual growth rates in these operating statistics for the period 1968 - 1974 are included for comparison.

Table 11 - Operating Revenues, Expenses and Profits
B.C. Tel - Annual Percentage Growth Rates

YEAR	Operating Revenues	Operating Expenses	Net Operating Revenues
	%	%	%
1972	13.5	13.5	13.7
1973	13.1	14.5	7.8
1974	16.8	17.4	14.2
1975	19.1	17.5	25.7
Average 1968-1974	13.8	15.3	10.4

Looking more closely at 1975, it can be observed that whereas operating revenues were outpaced by expenses during the first half of the year, in the third and fourth quarters growth in operating revenues overtook operating expenses.

Among the factors contributing to the increase in revenues in the second half of the year were the interim rate relief granted effective

August 1, 1975, the six week postal strike of late 1975 and the increases in both interprovincial and Canada-U.S. long distance rates. The net effect was to increase the rate of growth of B.C. Tel operating profit from 11.8 per cent in the first half of the year to 37.7 per cent in the last six months of 1975. Table 12 compares the DOC 1975 forecast with actual operating results reported by B.C. Tel.

Table 12 - DOC Forecast and Actual Results
B.C. Tel - 1975

	DOC Forecast	Actual Results	Forecast Error
	$ million	$ million	%
Local Revenue	146.4	147.9	-1.0
Toll Revenue	180.7	186.0	-2.8
Miscellaneous Revenue	11.1	10.4	6.7
Total Operating Revenue	338.2	344.3	-1.8
Total Operating Expenses	270.1	273.4	-1.2
Net Operating Revenue	68.1	70.9	-3.9

The strong advance in toll revenues, which was discussed above, was the main factor behind the underestimation of net operating revenue. On the whole, the model continued to be an effective forecasting tool.

As discussed in the Bell Canada section, the resultant operating profit from year to year is a primary factor in the determination of the rate of return on total average capitalization. Table 13 compares B.C. Tel actual performance with the allowable rate of return as established by the regulatory agency since 1970.

Table 13 - Comparison of Actual with Allowable Rate of Return
on Total Average Capitalization
B.C. Tel - 1970-1975

YEAR	Actual Rate of Return	CTC Decision Date	Allowable Rate of Return
	%		%
1970	7.0	Dec 1970	7.5
1971	7.4		
1972	7.8	May 1972	7.8 - 8.2
1973	7.7	June 1973	8.2
1974	7.9	Sept 1974	8.6 - 9.1
1975	8.6	Nov 1975	9.5 - 10.0

In its rate application of March 1975, B.C. Tel projected that the rate of return on total average invested capital for 1976 would be 9.3 per cent if the rate increases requested were granted in full. Since the full amount of the award was not granted, it is likely that the rate of return will continue to be below the allowable level in 1976.

(2) Forecast for 1976

For 1976, the DOC econometric model forecasts operating results for B.C. Tel taking into account the rate revisions approved in 1975, all of which were in effect by January 1, 1976. Table 14 presents the results in both absolute dollar terms and growth rates over the actual 1975 figures.

Table 14 - Operating Revenues, Expenses and Profits
B.C. Tel - Forecast for 1976

	Million	Annual Change
	$	%
Local Revenue	177.3	19.9
Toll Revenue	226.6	21.8
Miscellaneous Revenue	15.3	47.1
Total Operating Revenue	419.2	21.8
Total Operating Expenses	330.0	20.7
Net Operating Revenue	89.2	25.8

The growth in operating revenues is in line with results achieved in 1975. Operating expenses are projected to increase by some 20.7 per cent in 1976, equivalent to 78.7 cents for every dollar of forecasted revenue in 1976, compared to 79.4 cents in 1975. Thus, net operating revenues are forecast to advance at a rate of 25.8 per cent compared with the 1968-75 average annual growth rate of 13.8 per cent.

(3) <u>B.C. Tel Sources and Uses of Funds</u>

Table 15 shows the same three selected items that were compared in the case of Bell Canada.

Table 15 - Comparison of Selected Items - B.C. Tel 1972-1975

YEAR	Internal/External Funds	CTC Decision Date and Rate Award		Construction Expenditures*	Growth
		$ million		$ million	%
1972	1.10	***		129.5	17.8
1973	.93	***		164.0	26.6
1974	.71	***		198.4	21.0
1974**	.76	***		144.3	
1975**	.96	Jan	15.3	156.9	8.7
		Jul	23.7		
		Nov	25.2		

* Consolidated with Okanagan Telephone Co.

** 9 months ending Sep 30

*** No rate applications or awards in these years

As Table 15 shows, in recent years B.C. Tel has relied more heavily on external capital markets than has Bell Canada. B.C. Tel stated at the September, 1975 hearings that the magnitude of the construction program was a central fact underlying the need for rate increases to augment internal sources of funds, and to attract external capital through improved earnings. It is of interest to note, that subsequent to the granting of the latest rate awards, the Company issued first mortgage bonds in the amount of $25 million. As a result of this issue, the 1975 internal/external ratio will decline from the September 30 figure.

(4) Regulatory Developments

On March 17, 1975, B.C. Tel filed an application with the Canadian Transport Commission seeking approval of proposed rate increases amounting to 19.8 per cent for most services of the Company. The proposed rate revisions were designed to produce an increase in revenues of approximately $50 million in the full year 1976.

On May 14, 1975 the Company filed another application proposing, as an urgent interim measure, a rate revision generally of one-half the revision applied for in the March application. The decision on this second application was delivered in July in which the CTC approved the rate increases requested effective August 1, 1975.

The decision on the first rate application was announced on November 3, 1975. The CTC approved all the rate revisions which had been requested, excluding those which had already been granted on an interim basis, except for a proposed discount for customers aged 65 and over. However, the dollar amount of the award was subsequently reduced by $6.7 million to conform with the pre-tax net profit margin guideline of the Anti-Inflation Program.

Table 16 outlines the past awards and their initial annualized effect on B.C. Tel.

Table 16 - Rate Applications and Decisions
B.C. Tel - 1958-1975

Date of Application	Requested Annualized Increase	CTC Decision Date	Effective Date of Rate Change	Approved Annualized Increase	Percentage of Request Granted
	$ million			$ million	%
May 1958	4.0	Jul 1958	Aug 1958	1.3	33
Sep 1958	5.8	Dec 1958	Jan 1959	5.2	91
Feb 1971	17.1	Jul 1971	Sep 1971	9.4	55
Mar 1974	15.3	Jan 1975	Feb 1975	15.3	100
Mar 1975	23.7	Nov 1975	Jan 1976	17.0	72
May 1975 (interim)	25.2	Jul 1975	Aug 1975	25.2	100

In the decision, the Commission also raised the permissible rate of return on total average capitalization to between 9.5 and 10 per cent. Since B.C. Tel estimates that its rate of return will be below the lower end of this range in 1976, and in view of the Anti-Inflation Board roll-back, it is judged that the Company may bring forward to mid-1976 the date at which further rate relief will be requested.

5 CONCLUSIONS

The foregoing review of the major telephone companies leads to the following broad conclusions with particular reference to Bell Canada and and B.C. Tel:

(1) During 1975 operating profit margins improved from the 1974 level with the advance in operating expenses more than compensated for the increase in operating revenues due to such factors as rate increases and the mail strike. In addition, the companies took special measures such as decreasing staff to hold costs down.

(2) There was considerable curtailment in the rate of expansion of construction expenditures during 1975 but this is expected to be only temporary. B.C. Tel has announced that it plans a record $311 million construction program in 1976, an increase of 35 per cent from the 1975 figure and Bell has stated that its 1976 construction expenditures will grow by 16 per cent to $940 million.

(3) In view of the need to attract capital and to augment internal funds for financing the construction programs and meeting increased expenses, the federally regulated companies may consider further rate revisions in 1976.