Department of Communications
Ministère des Communications

FINANCIAL PERFORMANCE of the PRINCIPAL CANADIAN TELEPHONE COMPANIES

An Assessment and Outlook

ECONOMIC POLICY AND STATISTICS BRANCH

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An Assessment and Outlook

Economic Policy Division

The data and information used in the preparation of this assessment was obtained from publicly available sources and not from any provincial government or agency.

INTRODUCTION

The Economic Policy and Statistics Branch is planning a semi-annual assessment of the financial performance of the major Canadian telephone companies. This report is the first of the series, the second is scheduled for the end of 1975.

The first section reviews the performance of the ten largest telephone companies in Canada as an industry group during the period 1970-74 with particular reference to the latter. Selected industry trends are compared with general economic conditions. The second and third sections examine the performance of Bell Canada and the British Columbia Telephone Company (B.C. Tel) in the recent years.

Broadly speaking, this overview of the major Canadian telephone companies points to three important trends. First, operating profit margins were greatly eroded in 1974. Second, the growth in telephone construction expenditures in 1974 showed surprising strength and in the case of several companies outpaced aggregate capital formation in Canada; notwithstanding the weakening profit picture noted above. Third, most of the major telephone companies in Canada are likely to request general rate revisions during 1975 in order to increase the internal sources of funds and also to facilitate further issues of debt and preferred stock in the external capital markets.

With regard to the third point, the two federally regulated telephone companies, Bell Canada and B.C. Tel, filed rate applications with the Canadian Transport Commission on 17 March, and 30 May, 1975 respectively.

In both cases, the companies requested *urgent interim* rate increases pending results of their general rate applications. Requesting interim relief is a traditional mechanism to shorten the regulatory lag and, given the prevailing economic climate, the companies have a particular interest in any measure which will reduce both the regulatory lag and the frequency of hearings.

1 MAJOR CANADIAN TELEPHONE COMPANIES

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

The ten largest Canadian telephone companies* are used throughout this section to highlight industry trends compared with general economic conditions. Table 1 compares recent growth rates in total operating revenues, expenses and profits for these ten companies with the gross national product, corporate profits before taxes, and the consumer and wholesale price indexes.

Table 1. - Major Telephone Companies - Growth Rates in Operating Statistics Compared with Aggregate Economic Activity

Year	Telephone Companies			Aggregate Activity			
	Operating Revenues	Operating Expenses	Operating Profits	G.N.P.	Corporate Profits Before Taxes	Consumer Price Index	Wholesale Price Index
	%	%	%	%	%	%	%
1971	9.7	11.5	5.9	8.9	13.0	2.9	1.2
1972	11.7	11.6	11.8	10.9	20.7	4.8	7.0
1973	13.4	14.4	11.3	14.9	36.2	7.6	21.5
1974	14.6	17.5	7.9	17.3	30.0	10.9	21.6

Based on this statistical overview, some general observations can be made. First, operating revenues in the telephone industry have generally kept pace in recent years with general economic activity as measured by G.N.P.

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* These companies include: British Columbia Telephone Company, Alberta Government Telephones, Saskatchewan Telecommunications, Manitoba Telephone System, Bell Canada, Northern Telephone Limited, Quebec-Telephone, The New Brunswick Telephone Company Limited, Maritime Telegraph and Telephone Company Limited, and Newfoundland Telephone Company Limited.

Second, operating expenses for the ten companies have been reflecting the pervasive pattern of inflation prevalent in the economy over the past two years. With the growth of expenses outpacing revenues the growth in operating profits for the ten companies decelerated in 1974 as was the case for corporate profits before tax in general.

From a regulatory perspective, it is worth noting recent rates of return on total average capitalization for the privately owned telephone systems in our sample. Any increases observed in the following table have been modest and generally the actual returns have remained below the levels authorized by the respective regulatory agencies.

Table 2. - Rate of Return on Total Average Capitalization - Privately Owned Telephone Companies - 1971-1974

	1971	1972	1973	1974
B.C. Telephone	7.4	7.8	7.7	7.9
Bell Canada	7.4	7.8	7.9	8.0
Northern Telephone	7.5	8.7	7.9	7.5
Quebec Telephone	8.2	8.7	9.3	9.2
New Brunswick Telephone	8.6	8.9	8.8	8.4
Maritime Telephone and Telegraph	8.4	8.7	8.6	8.4
Newfoundland Telephone	9.1	9.5	9.2	10.0

As shown in Table 3, the growth in telephone construction expenditures paralleled the trend in aggregate capital formation for the period 1971-1973 but there was a sharp upturn in 1974 with several of the major telephone companies displaying an unusually large increase in their construction spending.*

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

Year	Telephone Companies		Aggregate Activity	
	Construction Expenditures	Growth	Aggregate Capital Formation	Growth
	$ million	%	$ million	%
1970	703.9		18,015.0	
1971	794.2	12.8	20,394.0	13.3
1972	867.9	9.3	22,508.0	10.3
1973	1011.8	16.6	26,502.0	17.8
1974	1416.0	39.9	32,274.0	21.9

In a similar fashion, the telephone companies have had a healthy growth in their total labour force with the 1974 rate virtually double the aggregate expansion in employment opportunities. As shown in the following table, this contrast between the industry and aggregate economic trends suggests that telephone company activity tends to be resistant to more general recessionary forces.

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* These companies included: Bell Canada, Sask Tel, Maritime Tel and Tel, Alberta Government Tel and Newfoundland Tel.

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

Year	Telephone Companies		Aggregate Activity	
	Telephone Companies Employees	Growth	National Employment	Growth
	1000s	%	1000s	%
1970	69.8		7,879	
1971	71.1	1.9	8,079	2.5
1972	74.4	4.6	8,329	3.1
1973	80.0	7.5	8,759	5.2
1974	86.8	8.5	9,137	4.3

(2) Sources of Capital Funds

Another perspective on the performance of these ten companies can be gained by looking at their sources of funds. Drawing upon the DOC working paper* a ratio for all ten companies was calculated by taking total net sources of funds from operations (eg. internal funds) over total external sources of funds. The results are shown in Table 5.

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* Department of Communications, Financial Statistics on Canadian Telecommunications Common Carriers, 1973

Table 5. - Major Canadian Telephone Companies - Bi-annual Ratios of Internal versus External Sources of Funds

	1968	1970	1972	1974
B.C. Tel	2.16	1.07	1.13	0.71
Alberta Govt Tel	0.97	0.54	0.97	0.59
Saskatchewan Tel	1.91	3.39	3.70	0.77
Manitoba Tel	0.65	1.25	1.61	n.a.
Bell Canada	1.39	1.57	2.85	1.04
Northern Tel	0.76	0.79	3.00	n.a.
Quebec Tel	0.61	1.94	2.27	1.11
N.B. Tel	1.72	1.17	2.26	n.a.
Maritime Tel and Tel	1.06	1.14	0.99	0.47
Newfoundland Tel	0.78	1.06	0.83	0.30

Intercompany comparisons would be subject to many caveats but it is instructive to observe that most telephone companies have been experiencing a drop in this ratio from high points in the early seventies. This trend suggests that these companies, generally speaking, have become more dependent on external capital markets.

Given the present characteristics and state of capital markets, this pattern in the sourcing of funds implies that telephone companies in the near-term will be relatively more dependent on external issues of debt capital, with some prospect for preferred stock issues, than on internal sources of funds. Moreover, this declining ratio suggests that the telephone companies will be introducing more general rate applications in an effort to increase the internal sources of funds and to make the earnings picture more attractive for prospective purchasers of debt or equity issues.

2 BELL CANADA

(1) Operating Revenues, Expenses, Profits and Rate of Return: Forecast for 1975

During 1974 Bell Canada's total operating revenues grew 12.9 per cent to a total of $1440.1 million; operating expenses increased 15.8 per cent over the same period for a total of $927.7 million. The resultant annual growth in operating profits (total operating revenues minus total operating expenses) is shown in Table 6 for 1974 and the last four years. For purposes of comparison, the average annual growth in these operating statistics for the period 1965-1973 is included in this table.

Table 6. - Bell Canada Operating Revenues, Expenses and Profits - Annual Percentage Rates of Growth

Year	Operating Revenues	Operating Expenses	Operating Profits
	%	%	%
1971	8.8	10.6	5.8
1972	10.5	11.4	8.9
1973	13.3	12.5	14.8
1974	12.9	15.8	8.1
Average 1965-1973	10.1	10.1	10.1

Looking more closely at 1974, it can be observed that Bell Canada's operating revenues and expenses kept pace with each other during the first two quarters of the year. However, the two rates of growth diverged in the second half of 1974 with the advance in revenues slowing somewhat while all major components of operating expenses displayed a marked increase in their rates of growth.

Bell Canada's performance in the last six months of 1974 reflected the general economic conditions in Canada as a whole. On the one hand, slower revenue growth for Bell Canada mirrored to some extent the general recession in economic activity; on the other hand, the upsurge in Bell's operating expenses was indicative of the pervasive inflationary conditions in the economy. The net effect was one of lowering the rate of growth in Bell's operating profits from 13.4 per cent during the first half of the year to 3.3 per cent in the last six months of 1974. The actual results of Bell Canada's first quarter of 1975 indicate this erosion of operating profits is continuing with revenue growth being outpaced by the advance in operating expense.

The recent accelerated increase in Bell's operating expenses shows up in the comparison of DOC's econometric forecast for 1974 with the actual operating results reported by Bell Canada. Table 7 makes this comparison.

Table 7. - DOC Forecast and Actual Results - Bell Canada 1974

	DOC Forecast	Actual Results	Forecasting Error
	$ million	$ million	%
Local Revenues	766.1	774.5	-1.1
Toll Revenues	643.6	637.7	+0.9
Miscellaneous Revenues	29.5	27.9	+5.7
Total Operating Revenues	1,439.2	1,440.1	-0.1
Total Operating Expenses	899.1	927.7	-3.1
Net Operating Profit	540.1	512.4	+5.4

From a forecasing perspective, the model performed quite satisfactorily but underestimation of operating expenses and the resultant overestimation of profits can be seen as a product of rather anomalous patterns of two-digit inflation being sustained throughout the economy in the recent past.

For 1975, the DOC econometric model forecasts the following operating results for Bell Canada without taking into account any possible rate revisions during the year.

Table 8. - Forecast of Revenues and Expenses - Bell Canada 1975

	Million $	Annual Change %
Local Revenues	872.5	12.7
Toll Revenues	745.3	16.9
Miscellaneous Revenues	33.3	19.4
Total Operating Revenues	1,651.1	14.7
Total Operating Expenses	1,096.1	18.2
Net Operating Profit	555.0	8.3

Local revenues are forecast to increase at 12.7 per cent. This steady advance will be influenced by the forecasted recovery in housing construction in Canada during 1975. A number of factors such as continuing uncertainty regarding postal service and, possibly, a growing substitution of communications for various modes of transportation because of their changing relative price structure suggest that toll revenues will be quite resistant to the weakness in business conditions. Hence, the model forecasts a growth of 16.9 per cent in toll revenues in 1975 compared with 18.8 and 15.5 per cent in 1973 and 1974 respectively.

Following an upward trend that started in 1970, operating expenses are foreseen to grow by 18.2 per cent in 1975. In the short run very little adjustment can be made in the volume of material and the size of the labour force. Wages are fixed by collective agreements and the Company's expenses will continue to be affected by inflationary pressures. The net result is forecast to be an 8.3 per cent increase in operating profits compared with the 1965-73 average annual advance of 10.1 per cent.

The resultant operating profit from year to year is a primary factor in the determination of Bell's rate of return on total average capitalization. It is instructive to compare Bell's actual performance with the allowable rate of return as established by the regulatory agency for the last five years.

Table 9. - Comparison of Actual with Allowable Rate of Return on Total Average Capitalization - Bell Canada 1970-1974

Year	Actual Rate of Return	Allowable Rate of Return in CTC Decision	
		Date	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

In its recent rate application of 30 May, 1975, Bell Canada forecasts a rate of return of 8.2 per cent for the year assuming no changes in tariffs, and a rate of return of 8.6 per cent if the full amount is granted by the regulatory commission as requested.

These figures are based on a company projection of net operating profit which is somewhat lower than the figure in the DOC forecasting model. However, even assuming the present rate applications are granted in full, it is not likely that Bell will end up with a rate of return in 1975 much above 8.6 per cent, the bottom limit of the range approved by the Commission in September, 1974. Hence, the basic pattern observed in the preceding table with the actual return falling at or below the allowable levels will likely continue into 1975.

(2) Bell Canada's Sources and Uses of Funds

Another useful perspective on the performance of Bell Canada is to evaluate the use of funds by the firm and the sources of financing. The prior section is relevant in that net operating profits form a primary component of the firm's internal funds coupled with the flow of funds from depreciation expenses and deferred income taxes.

It is instructive to compare three items over the last eight years in Table 10. First, a ratio calculated by taking total sources of funds from operations over total external sources of funds; second, an estimate of the initial annualized impact of recent rate awards with the CTC decision date; and third, the annual net construction expenditures of Bell Canada with the year to year percentage growth indicated.

Table 10. - Comparison of Selected Items for Bell Canada - 1967-1973

Year	Internal/External Funds	Rate Awards and CTC Decision Date	Net Construction Expenditures	Growth
		$ million	$ million	%
1967	1.70		303.2	
1968	1.39		329.7	8.7
1969	1.06	Nov. - 27.5	380.1	15.3
1970	1.57		388.4	2.2
1971	1.12	Jan. - 22.5	455.3	17.2
1972	2.85	June - 47.2	491.7	8.0
1973	2.48	July - 22.5	536.0	9.0
1974	1.04	Sept.- 51.8	758.8	41.6

It can be argued that Bell Canada's recent sequence of rate applications and awards have had a two-edged intent. On the one hand, Bell has made the case for higher rates and earnings in terms of their need to raise funds in the external capital market; on the other hand, the regular rate applications are a relatively inexpensive method of increasing the flow of internal funds. Judging from the ratio of internal to external funding in 1972 and 1973, rate awards have been a factor in decreasing Bell Canada's relative dependence on external capital. Last year, 1974, the ratio dropped sharply but this must be viewed in conjunction with an exceptional growth of 41.6 per cent in Bell's construction program. In contrast, the rate awards have not enabled Bell Canada to raise common equity capital with the exception of small amounts through employees' stock savings plans. The pattern of external funding over the past five years is shown in Table 11.

Table 11. - Percentage Distribution of External Sources of Funds
Bell Canada 1970-1974

SOURCE	1970	1971	1972	1973	1974
Debt	56.6	59.2	96.9	73.7	73.4
Preferred Stock	37.4	38.9	0.0	24.0	25.2
Common Stock	6.0	1.9	3.1	2.3	1.4

In the near term, it is judged that Bell will be unable to raise funds through a common share issue and, therefore, the percentage of debt to total capitalization will continue to rise slowly. At the end of 1974 the debt/equity ratio stood at 48.6 per cent. Meanwhile, Bell Canada can be expected to augment its internal sources of funds as much as possible and this implies further rate applications. In fact, an announcement to this effect was made on 30 May, 1975. A few details of this application and a brief overview of the recent sequence of Bell rate cases are outlined in the following section.

(3) . Regulatory Developments - Bell Canada

In the rate application of 30 May, 1975, Bell Canada reiterates some well known themes. The company claims that the recent earnings trend and prospects for 1975 created a two-fold option. Either the construction program had to be cut in order to reduce the need for external financing or increased revenues had to be sought by means of an immediate rate application in order to sustain the construction plans *designed to provide for basic service*. The latter course was chosen. Actually, whether the company's construction plans are "designed to provide for basic service" is open to question. For instance, the modernization component in Bell's construction program accounted for 9.7 per cent of the total expenditures in 1970 and this percentage has steadily grown to a level in 1974 of 15.3 per cent.

Bell Canada in its current application requests immediate approval on an urgent interim basis of certain rate revisions to be effective on 1 August, 1975, designed to increase revenues in 1975 by about $28 million. A second phase of the application seeks approval of further rate changes to be implemented on 1 October, 1975 designed to produce an additional $10 million in revenues.

On an annualized basis the rate revisions, if in effect as of 1 January, 1975, would have generated approximately $102 million in additional revenue.

The proposed tariff changes (Schedule 1) designed to raise the interim relief of $28 million were included in the application of 30 May, 1975. Bell Canada draws attention to the fact that there is no proposed increase in primary residence main-telephone service, basic business main-telephone service, nor in the installation charges for these two basic service categories. With these exceptions, the proposed revisions in Schedule 1 cover the entire gamut of tariff categories.

Schedule 2 of the tariff revisions designed to produce the additional $10 million in revenues during 1975, if effective on 1 October, have been subsequently filed with the Commission. In essence, the proposed changes in Schedule 2 affect both the monthly and installation charges for basic residential and business service categories.

Table 12. - Rate Applications and Decisions - 1958-1974 - Bell Canada

Date of Rate 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	102.0				

Hearings with regard to Bell's current applications have already started. On 3 July, the Commission considered Bell's proposed change in the rate grouping system based on a count of *total telephone numbers* rather than the present system of *total telephones*. This new system which will exclude extension telephones in the total count of telephones in a particular exchange area was approved by the Commission. The immediate impact of this new counting method on subscribers will be minimal with 1.2 per cent of users incurring higher charges and 0.3 per cent ending up with rate reductions. Secondly, on 7 July the Commission began hearing argument as to the need for *urgent interim* rate relief requested by Bell to be effective on 1 August, 1975.

3 B.C. TELEPHONE

(1) Operating Revenues, Expenses, Profits and Rate of Return - Review of 1974 and Forecast for 1975

In spite of a marked slowdown in the Canadian economy, operating revenues for B.C. grew more rapidly in 1974 (16.8 per cent) than in 1973 (13.1 per cent). This represented the highest rate of growth since 1965. In contrast, the more rapid advance in operating expenses during 1974 compared with previous years was consistent with the prevailing inflationary conditions. As a result of the revenue growth, B.C. Tel operating profits, contrary to the record of Bell Canada, moved ahead more rapidly in 1974 than in 1973. Recent growth rates for B.C. Tel operating statistics are compared with the average annual growth over the period 1965-73 in Table 13.

Table 13. - B.C. Tel Operating Revenues, Expenses and Profits - Annual Percentage Rates of Growth

Year	Operating Revenues	Operating Expenses*	Operating Profits
1971	14.2	13.2	18.0
1972	13.5	13.5	13.7
1973	13.1	14.5	7.8
1974	16.8	17.4	14.2
Average 1965-73	12.1	12.5	10.7

*Operating expenses include some tax payments

Revenue growth in B.C. Tel over the past two years has been marked by a particularly strong advance in toll revenues which peaked at a rate of 25 per cent in the second quarter of 1974. But, performance in the last two quarters of 1974 suggest there may be a definite weakness developing on the revenue side whereas operating expenses are maintaining a rate of increase which exceeds the experience of B.C. Tel in recent years.

The net effect of these recent trends was to lower the advance in operating profits to a rate of 8.8 per cent in the last half of 1974 from a rate of 21.3 per cent for the first six months. The results for the first quarter indicate that these trends, evident in the latter half of 1974, are continuing and therefore, operating profits for B.C. Tel are growing at a rate below the average in the period 1965-1973.

The DOC econometric model for B.C. Tel in 1974 performed well as can be seen in the following comparison in Table 14 of forecasted figures with actual results.

Table 14 - DOC Forecast and Actual Results - B.C. Tel 1974

	DOC Forecast	Actual Results	Forecasting Error
	$ million	$ million	%
Local Revenues	122.9	123.1	- 0.2
Toll Revenues	150.7	155.9	- 3.3
Miscellaneous Revenues	10.2	10.1	1.0
Total Operating Revenues	283.8	289.1	- 1.8
Operating Expenses	228.7	232.7	- 1.7
Operating Profits	55.1	56.4	- 2.3

As indicated earlier, toll revenues have been advancing strongly for B.C. Tel and the model displayed its highest average error for that category. Nevertheless, this particular error rate is still regarded as well within the bounds of reasonable accuracy and the model as a whole appears to be a good forecasting tool.

For 1975, this model forecasts a steady advance in local revenues of 10.5 per cent compared with the realized growth of 9.8 in 1974 and 10.4 in 1973. Toll revenues, by contrast, are not forecast to repeat their exceptional growth path of 1974 (23.0 per cent) but rather move ahead in 1975 at a rate of 14.1 per cent which is more in keeping with the levels of 1972 and 1973.

The resultant slower growth in total revenues is expected to moderate the advance of operating expenses to some extent and the critical forecasted result is a sharp drop in the growth of operating profits from the 1974 rate of 14.2 per cent to a mere 1.6 per cent. The forecast is shown in Table 15.

Table 15 - Forecast of Revenues and Expenses - B.C. Tel 1975

	$ million	Annual Change
		%
Local Revenues	136.1	10.5
Toll Revenues	178.0	14.1
Miscellaneous Revenues	12.9	27.7
Total Operating Revenues	327.0	13.1
Operating Expenses	269.7	15.9
Operating Profits	57.3	1.6

As noted in the discussion of Bell Canada's performance, the trends in operating revenues, expenses and the resultant operating profits come to be reflected in the annual rate of return on total average capitalization. Table 16 compares B.C. Tel's actual rate of return with the allowable rate as established by the Commission including the most recent decision of January, 1975.

Table 16 - Comparison of Actual with Allowable Rate of Return on Total Average Capitalization - B.C. Tel 1970-1974

Year	Actual Rate of Return	Allowable Rate of Return in CTC Decision	
		Date	Rate of Return
			%
1970	7.0	July	7.7
1971	7.4		
1972	7.8		
1973	7.7		
1974	7.9		
1975		Jan.	9.0 - 9.5

The DOC forecast of B.C. Tel's operating profits for 1975 suggests that the company will have difficulty in matching its 1974 rate of return during the present year. Of course, additional revenues which may be awarded as a result of the Company's most recent rate application of 17 March, 1975 would narrow this divergence between the actual and allowable rates of return to some extent.

(2) B.C. Tel's Sources and Uses of Funds

A review of B.C. Tel's sources and uses of funds indicates further warrant for the most recent rate application from a corporate financial perspective. The same three items chosen for comparison in the Bell Canada section are shown in Table 17, for B.C. Tel.

Table 17. - Comparison of Selected Items for B.C. Tel - 1967-1973

Year	Internal/External Funds	Rate Awards and CTC Decision Date	Net Construction Expenditures	Growth
		$ million	$ million	%
1967	1.58		66.0	
1968	2.19		68.5	3.8
1969	1.88		72.9	6.3
1970	1.06		92.8	27.3
1971	1.04	July - 9.4	110.0	18.6
1972	1.10		129.5	17.8
1973	0.93		164.0	26.6
1974	0.71		198.4	21.0
1975		Jan. - 15.3		

The contrast with Bell Canada is quite plain. Over the last eight years, B.C. Tel has become relatively more dependent on external capital markets with the proportion of internal versus external funding of their capital requirements moving steadily downward since 1968.

Unlike Bell, B.C. Tel chose not to make regular rate increase applications in recent years and this has, no doubt, been a factor in their growing dependence on external capital markets. This situation has developed during a period in which capital markets, particularly for common equity issues, have not been a dependable option for B.C. Tel's corporate financing. Meanwhile, construction expenditures since 1970 have been expanding at relatively high annual rates compared with Bell Canada, with last year being the one exception.

As noted earlier, the rather sharp drop in operating profits forecast for 1975 is sufficient to explain B.C. Tel's recent rate application, but it is arguable that the Company is concerned with reversing its increasing relative dependence on external capital sources and, therefore, B.C. Tel rate applications may become more frequent in the next few years.

(3) Regulatory Developments - B.C. Tel

On 16 January, 1975, the CTC announced its decision with respect to B.C. Tel's rate application submitted in March, 1974. The additional revenues requested were granted in full and it was estimated that the new rates would generate an extra $15.3 million in 1975. Subsequent reaction to this decision from the British Columbia government resulted in federal cabinet approval for an inquiry into the purchasing practices and certain other intercorporate relationships of B.C. Tel.

Meanwhile, on 17 March, 1975, the Company filed a new application for a 20 per cent increase in all intraprovincial rates. Table 18 includes this most recent application and highlights the initial annualized effect of rate applications and the eventual awards with regard to B.C. Tel in recent years.

The annualized impact of the 17 March, 1975 request was calculated by taking the DOC forecast for total operating revenues in 1975 and applying the 20 per cent across the board increase as requested by the company assuming the rates were to be effective 1 January, 1975.

Table 18. - Rate Applications and Decisions 1958-1975 - B.C. Tel

Date of Rate Application	Requested Annualized Increase	CTC Decision Date	Effective Date of Rate Change	Approved Annualized Increase	Perecentage of Request Granted
	$ million			$ million	%
May 1958	4.0	July 1958	Aug. 1958	1.3	33
Sep 1958	5.8	Dec. 1958	Jan. 1959	5.2	91
Feb 1971	17.1	July 1971	Sept. 1971	9.4	55
Mar 1974	15.3	Jan. 1975	Feb. 1975	15.3	100
Mar 1975	65.0				

More recently B.C. Tel has applied for urgent interim relief for approximately one-half of the total request set out in its March, 1975 application. Hearings in Vancouver by the CTC to consider such interim relief have been set for 17 July, 1975.

4 CONCLUSIONS

Four broad conclusions can be drawn regarding telephone company performance in 1974, with particular reference to Bell Canada and B.C. Tel:

1) *Operating profit margins were eroded during 1974 with normal revenue growth and rate increases being more than offset by the advance in operating expenses.*

2) *Despite the trends in operating profits, a number of telephone companies including Bell Canada carried out exceptionally large construction programs during 1974.*

3) *An analysis of the sources of funds indicates that most of the major telephone companies became relatively more dependent on external capital markets versus internal sources (eg. net operating profits, depreciation, deferred income tax) during 1974.*

4) *Regular and frequent applications for rate revisions on the part of Canadian telephone companies will likely continue in the near term. In this year, 1975, most of the major companies have either submitted applications already or have publicly stated plans to do so. This pattern means that both the companies and the whole regulatory process at both federal and provincial levels will continue to have considerable public visibility. This visibility may lead to increasing pressures on the federal regulatory agency to scrutinize the construction plans of the federal carriers in a more systematic fashion. Exceptional growth in Bell Canada's construction expenditures in 1974 concurrent with rate applications in both 1974 and 1975 offers grounds for closer regulatory attention.*