BRIEFS FILED IN PROPOSED KEYSTONE PROPERTY SALE

IN A BRIEF and proposed findings submitted to the Federal Communications Commission, October 31, by the New Jersey Bell Telephone Co., it was contended that the acquisition of the Keystone Telephone Co., Philadelphia, Pa., and its two subsidiaries in southern New Jersey by the New Jersey Bell—through the latter's purchase of the capital stock of the Imperial Securities Co., which controls the Keystone system—will be of advantage to telephone users and in the public interest through the elimination of duplicate service.

The only opposition came from Sears, Roebuck & Co. which stated it was not objecting to such a consolidation providing the business telephone rates and service continued as under the Keystone system, together with adequate compensation for its privately-owned PBX equipment.

The New Jersey Bell stressed that the consolidation of the physical properties of the Keystone and Bell companies will result in unified and comprehensive telephone service furnished by the Bell in New Jersey and Pennsylvania instead of the competitive present arrangement, with the state commissions and the FCC having complete regulation. All telephone users outside the present competitive area will have access to the Keystone telephones rather than only to the Bell telephones, and the expense of operating and maintaining duplicate telephone service and facilities will be eliminated.

It was further pointed out that service will be furnished under single and uniform rate schedules in each state, and "no increase in rates on account of the consolidation is contemplated on the part of the Bell companies." The charges of the majority of the Keystone subscribers for unified local service at the present Bell System rates would be less than the charges they now pay for duplicate service, it was stated.

The contentions of the New Jersey Bell were filed with the FCC by Frankland Briggs, vice president and general counsel; Frederick W. Nixon, and John B. King.

It was represented that courts and commissions have universally approved the elimination of duplicate telephone service, including some cases relating to the Keystone subsidiary in New Jersey, the Eastern Telephone & Telegraph Co. The brief stated that the New Jersey Bell was unquestionably able to acquire the stock of the Imperial Securities Co., and that the prices which are proposed to be paid for that stock and the plant of the Keystone system are "reasonable." The purchase price is $2,116,265 for the stock of Imperial Securities, a subsidiary of Theodore Gary & Co.

It was pointed out that the FCC, in approving the elimination of duplicate service on the part of the Pennsylvania Bell and the Pennsylvania Telephone Corp. at Johnstown in 1937, had stressed the benefits to the telephone user. The New Jersey Bell brief related that in the elimination of duplicate service much of the property purchased cannot be used by the purchasing companies and has to be retired from service. The "improvement of the service rendered to the public" is the controlling factor in the Keystone case, rather than the value of the property, it was stated.

The New Jersey Bell and the Pennsylvania Bell expressed themselves as willing *"to amortize through income rather than through operating expenses the cost of acquiring the Keystone system property not retained in service after the unification."*

A majority of the Keystone subscribers, both in Philadelphia and in New Jersey, would obtain an immediate financial advantage from the Keystone elimination, it was declared, paying less for unified service then they now do for the services of the two companies, over 9,000 out of the approximately 16,200 Keystone subscribers in the two states realizing a reduction in their total charges.

Of the remaining subscribers a large number would have their charges unchanged, and those who would have their costs increased consist principally of PBX subscribers with a large message usage. Only a few of this latter small group have complained, the brief added, because most of the large business users realize the benefit to be derived from unified service.

Scores of commission and court cases were cited to uphold the theory that competition between public utilities constituted a needless waste and excessive operating costs with injury to the public. The brief declared that competition in the case of telephone companies is particularly contrary to the public interest, not only due to the waste but because it imposes a nuisance and inconvenience on the public in making complete and comprehensive service impossible without subscribing

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to both competitive systems. Excerpts from leading public utilities textbooks, and from Pennsylvania and New Jersey commission cases, were quoted at length in the brief.

"It is estimated that Keystone system plant having a total reported book cost of approximately $18,500,000 would be retired from telephone service," the brief continued. "With the elimination of this duplicate plant there would be eliminated, obviously, the operating costs of maintaining it and providing for its depreciation. There would also be eliminated the necessity for duplicate commercial, accounting and other general corporate expenses."

"The portion of the public to which the Keystone system service is financially attractive," continued the brief, "consists of a relatively small group of business subscribers in the competitive area who have occasion to make large numbers of calls to the limited number of subscribers connected to the Keystone system. The service offers little appeal to the general telephone-using public."

In Philadelphia, Keystone offers local business service at flat rates to compete with the message rates of Pennsylvania Bell. In the competitive area in New Jersey, the flat rates of Eastern for local business service are somewhat lower than those of the applicant (New Jersey Bell).

Pennsylvania Bell has more than 465,000 telephones in Philadelphia and vicinity; Keystone has approximately 47,000. Applicant has approximately 37,000 telephones in the competitive area in New Jersey, and Eastern has about 5,000.

More than 60 per cent of Pennsylvania Bell telephones and 65 per cent of those of the applicant are residence stations. More than 98 per cent of the Keystone telephones, or in excess of 46,000, and approximately 74 per cent of Eastern's, or about 3,700, are business telephones. In addition, Keystone connects with approximately 5,900 business telephones owned by its subscribers in Pennsylvania.

The brief stated that notwithstanding the rates of the Keystone system, it has a minority not only of the total telephones but also of the business telephones in the competitive area. There are more than 180,000 Pennsylvania Bell business telephones in Philadelphia and vicinity, and almost 13,000 of the applicant in the New Jersey competitive area, or almost four times as many as those of the Keystone companies in each state.

After noting that the message use of business subscribers as a class is greater than that of residence subscribers, the brief stated that a comparatively large proportion of Keystone customers are subscribers to private branch exchange service—about 10,100 or 20 per cent of the total Keystone telephones in Philadelphia are used by 45 Keystone PBX subscribers, who own their own equipment in whole or in part.

The brief then brought out that although Keystone lost 2,900 customers between 1917 and 1940, it gained over 10,200 PBX stations and extension stations, and declared this fact shows a large number of messages used by Keystone subscribers obviously do not reach the large majority of telephone users who subscribe only to Bell service. While the Keystone system has catered to a special group of business customers, the New Jersey Bell and the Pennsylvania Bell have assumed the entire burden of rendering a complete telephone service in the competitive area, it was contended.

In its brief, Sears, Roebuck & Co. contended that the telephone service in Philadelphia would not be improved because Keystone had been operating a specialized service for business firms with all the latest technological advances, which it claimed were ahead of the Bell System. While the consolidation with the Bell of Pennsylvania will bring a rate increase based on the elimination of duplicate service, the Sears brief asserted that there was actually no duplication because 99 per cent of the Keystone traffic consists of business calls. Commendation was made of the special services offered by Keystone.

If the Keystone system is eliminated, Sears Roebuck declared, no means would be available for subscribers to secure such services. "The Bell System has not made communications services or equipment, reflecting technical advances, available to the public as promptly or as fully as the Keystone service," it was declared, "and has given no assurance to the public now served by Keystone or to the FCC that it will do so in the future."

If the Keystone service is eliminated, the cost to Sears Roebuck of replacing present unlimited service would be $10,000 annually and the total annual increased cost as a result of the change-over would be $18,700, the brief contended. The Bell has not offered a fair price for Sears' privately-owned equipment, it was stated, nor will it consent to connect its service with such PBX equipment unless owned by it.

The Sears Roebuck brief, filed by Alfred L. Wolf and Bernard Eskin, raised the final point that it was not in the interest of the public or national defense to eliminate a supplementary telephone system in a crowded community at this time.