

1 A. With the possible exception of the five month period when the Postmaster General's rates  
2 were in effect during 1919, the answer is no. From 1883 through 1916, the Company was  
3 not subject to any form of regulation that could have imposed the risk of loss on its  
4 customers. The Commission's 1916 order in the Company's first rate case did not impose  
5 the risk of loss on ratepayers. The first time the Commission asserted jurisdiction over the  
6 rates of Home Telephone and Telegraph Company of Spokane (HT&T-Spokane) was  
7 August 1, 1919.<sup>19</sup> The rates in effect August 1, 1919 through March 31, 1923 were never  
8 investigated or approved by the Commission. The statutes in effect made no specific  
9 provision for regulated companies to recover losses on assets. Moreover, during this  
10 period, the Commission employed a method of determining rate base and depreciation that  
11 did not create an opportunity for recovery of actual losses incurred. Finally, the Company  
12 operated during much of this period in the face of substantial competition and generated  
13 minimal returns. The regulatory scheme in effect during this period clearly left the risk of  
14 loss on all of the Company's asset on its investors.

15 **The Middle 60 Years - 1923 to 1984**

16 **Financial Burden**

17 **Q. DID THE COMMISSION'S MARCH 31, 1923 ORDER SHIFT TO RATEPAYERS**  
18 **THE FINANCIAL BURDEN OF THE COMPANY'S TELEPHONE SERVICE**  
19 **OPERATIONS?**

20 A. Yes. In ordering rates that the Commission had found to be sufficient (*see* Exhibit PEG-3,  
21 page 15) the Commission shifted the financial burden of telephone service operations from

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<sup>19</sup> In *State ex rel. Home Tel. & Tel. v. Superior Court*, 110 Wash. 396, 188 Pac. 404 (1920) the court held that until the commission acted in 1919 to supersede the franchise rates which Home Tel. Co. had accepted in Spokane in 1905, those rates remained the only lawful rates.