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THE TELEPHONE SERVICE

INTRODUCTION

In common with most telephone systems throughout the world the telephone system in British Guiana suffered throughout the war years (1939-1945) and for many years after the war from lack of capital for expansion and modernization which were so urgently required. In recent years, however, it has been possible to make capital available for this purpose and plans to replace the worn out system and to extend its scope, involving the provision of automatic switching equipment at all exchanges, have reached the stage where all the equipment has been purchased, the following buildings erected and most of their equipment installed

- (i) Telephone House, Georgetown which houses the Georgetown Exchange, a V.H.F. radio station, and the Administrative Offices, Stores, Workshop, Garage, Class Rooms, etc. for the whole system;
- (ii) Automatic exchanges with V.H.F. radio stations at Skeldon, Mahaicony, Atkinson, Bartica, Mackenzie, Jtuni, Kwakwani, Vreed-en-Hoop and Anna Regina;
- (iii) Automatic exchanges without V.H.F. radio stations at Benab, Rose Hall, Mahaica, Cove and John, Mon Repos, Diamond, Wales, Leonora, Tuschen and Suddie; and
- (iv) A temporary building housing a V.H.F. radio station at New Amsterdam.

2. A revision of the tariff for telephone rates was long overdue and Government decided that it was both appropriate and necessary to synchronise the introduction of a new tariff, more in keeping with present day costs and current methods of charge, with the opening of the largest and most important unit in the system, to wit, the Georgetown Automatic Exchange. Accordingly, a new tariff was approved by the Governor in Council and brought into force on 1st April, 1960. The rental for exclusive lines was reduced but provision was made for a call fee to be payable for local calls at automatic exchanges. Hitherto, the telephone rental had entitled subscribers to unlimited local calls without further charge; the new tariff, therefore, represented a fundamental change in the charging arrangements for telephone service. The old tariff had been out of line with costs for very many years and for this reason, if for no other, the revision could not be delayed any longer.

3. Within six months from the opening of the Georgetown Automatic Exchange 2333 new subscribers had been added to the Colony-wide system, and new applications are still being received. The engineers of the Posts and Telecommunications Department have been and still are making strenuous efforts to complete the installation of some of the other exchanges in the programme and to reduce the waiting lists of applicants for new service.

4. This demand for service took place against a background of public criticism of the new tariff. It was said by some that the new tariff had made telephone service too expensive, that the 5 cent charge for local calls was too high and would inhibit the free use of the telephone which had been habitual to all subscribers under the old system. Some critics asserted that it would have been

better to have increased the rental and omit the charge for local calls; others had expected to receive an allowance of free local calls.

5. The purpose of this "White Paper" is to explain the necessity for the programme of modernization of the telephone system, the scope of the programme and the capital expenditure involved, the reasons for the new tariff and Government's policy regarding the telephone service.

#### THE OLD SYSTEM

6. The old system consisted of eleven exchanges interconnected by a few **Jand-line** trunk circuits and 3 V.H.F. trunk channels. It afforded communication by H.F. radio with sixty-two inland stations, some operated by the Posts and Telecommunications Department, some by other Government Departments, and others by private enterprise. The V.H.F. radio links were operated between Georgetown, Mackenzie and Atkinson Field. Most of the equipment was very old and had long reached the end of its useful life.

In the absence of capital for extension of the exchanges, there had been no alternative but to overload them by arranging for subscribers to share exchange lines. Very large numbers of party-line installations had been connected. Early in 1960, the system as a whole consisted of 1533 exclusive exchange lines, 1125 party lines, and 2520 extensions, *i.e.* 5178 telephones; it had never been designed to cater for so many telephones, and because local calls were free there was a tendency for subscribers to allow others the free use of their telephones.

7. The cumulative effect of these conditions was that the operating and technical staffs were faced with a constant struggle to meet the requirements of subscribers and to keep the lines and exchanges in good working order. The demand for local calls was very much greater than the capacity of the system to handle speedily, and it was difficult to get through because subscribers' lines were constantly engaged. Trunk calls were subject to heavy delay and the speech quality was often very poor. The public demand for telephone service had greatly outgrown the system and the equipment was worn out and completely out-of-date. This most unsatisfactory state of affairs was a great handicap to public administration and to the commercial community in general. There were continual complaints from subscribers.

#### THE NEW SYSTEM

8. The original scheme for modernization of the telephone service was prepared in 1947 by Messrs. Preece, Cardew and Rider, Consulting Engineers, on the basis of proposals submitted by the then Engineer-in-Chief of the Post Office. The proposals envisaged an estimated total expenditure of \$2,250,000. In 1948, the Engineer-in-Chief prepared alternative proposals for Georgetown designed to enable a new telephone exchange, central telegraph office and associated offices to be housed in a new General Post Office building which was to be erected. The Consulting Engineers subsequently advised however that the proposed new General Post Office was unsuitably situated and unsuitable structurally for the accommodation of the new telephone exchange. In 1953, it was decided to seek a new site for the exchange and the building was eventually erected in Brickdam.

<sup>(1)</sup> The final scheme approved by Government made provision for a new 5,200 line automatic exchange in Georgetown, a 600 line automatic exchange in New Amsterdam and twenty-one new automatic exchanges of various sizes in towns and villages where public demand for telephone service was evident. Thus, exchanges were planned for Anna Regina, Suddie, Tuschen, Leonora, Vreed-en-Hoop, Wales, Bartica, Ituni, Kwakwani, Diamond, Atkinson, Mackenzie, Mon Repos, Cove and John, Mahaica, Mahaicony, Rosignol, Rose Hall, Port Mourant, Benab and Skeldon.

10. The total initial capacity of all the exchanges was to be 7,250 exclusive exchange lines. All the exchanges were to be capable of considerable expansion; for example, the Georgetown exchange with capacity for 5,200 lines initially, was to be extendable to 10,000 lines by the installation of further switching equipment. Similarly, the New Amsterdam exchange was to be extendable to 2,000 lines, the Mackenzie exchange to 1,000 lines, and all the other exchanges to 200

lines. Thus the system as a whole was to be capable of expansion from 7,250 lines to 16,800 lines by the investment of further capital in additional switching equipment. All the exchanges were to be equipped with meters for recording local calls - one meter for each exchange line.

11. The scheme also made provision for an entirely new trunk line system based upon eleven V.H.F. radio stations, supplementing and to some extent superseding the existing pole routes. Thus the physical obstacles to the erection and maintenance of pole routes in British Guiana (i.e. rivers and vast trackless areas of swamp, savannah and forest) were to be overcome by employing radio equipment to bridge distance and provide trunk telephone communication of high quality.

12. In the main towns it was decided to replace most of the pole routes by underground cable. Pole routes are a convenient and economical method of carrying telephone lines in an urban area when a telephone system is small, but a stage is reached in the development of a system when pole routes become unwieldy and uneconomic; it is necessary then to lay cables underground. To ensure that no component of the old system should be left to affect adversely the high quality of speech obtainable with the new equipment (i.e. new telephones, new cables and switching equipment) it was decided that the wires to subscribers' premises would all have to be replaced by new wires of better quality.

13. In line with modern developments elsewhere it was also decided to install equipment at the exchanges which would enable subscribers to dial short-distance trunk calls without the assistance of an operator. Plans were also made to provide a large number of public call offices throughout the Colony.

14. Thus, on the advice of the Engineer-in-Chief of the Post Office and of Messrs. Preece, Cardew and Rider, Consulting Engineers, Government approved a programme of expansion and modernization of the telephone system designed to afford quick and reliable telephone communication of high quality 24 hours a day all along the coast of the Colony from Charity to Skeldon and southwards from Georgetown *via* Atkinson to Bartica, Mackenzie, Ituni and Kwakwani. Communication with other points in the interior where radio stations exist was to continue to be established through a new central radio receiving station at Mon. Repos and a central transmitting station at Thomas Lands.

15. Although the first tentative steps in the planning of this programme were taken thirteen years ago, it was not until 1956/1957 that orders for the equipment could be placed. With the opening of the Georgetown Automatic Exchange and the installation of automatic equipment at many other exchanges, it can be said that the plans are now coming rapidly to fruition.

16. During the past decade important technical developments have taken place in the field of telecommunications, e.g. the widespread use of V.H.F. radio systems; the phenomenal expansion of subscriber dialling of trunk calls not only within countries but also from country to country; and the laying of undersea telephone cables across the oceans. A vast improvement in speech quality is obtainable with modern telecommunications equipment. The programme decided upon by Government and now in process of implementation ensures that British Guiana will not be left behind in these developments. Telephone communication within the Colony and to other countries will be of far higher quality and efficiency than was possible before.

#### THE CAPITAL COST

17. It has already been mentioned that the original proposals prepared in 1947 envisaged total expenditure on the new system of \$2,250,000. Six years later, in 1953, when the Consulting Engineers again investigated the Colony's requirements, the Engineer-in-Chief of the Post Office prepared a development plan more in keeping with modern standards and requirements than were the 1947 proposals and estimated to cost \$4,802,772. Two years later this figure was revised upward to \$7,000,000. The reasons will appear later. At the present time, five years after this plan was finalised, and costed, it is known that the total cost will be about \$9,653,491, i.e. \$2,653,491 more than was anticipated in 1955.

18. This remarkable increase in the capital expenditure on the programme is due to the variability of the bases upon which the component parts of the programme were costed in 1953. In the past decade equipment costs have been

nsmo at an average of more than 10% per annum. At the end of 1957, the cumulative effect of under-estimating and of rising prices was that the value of overseas indents placed for plant in connection with the programme was almost equal to the 1955 estimate of \$7,000,000 for the whole programme. To cater for this situation and meet the cost of buildings, installation of equipment, laying of cables, etc., it has been necessary to increase the financial provision.

19. Taking into account the revised estimate of expenditure quoted above, viz: \$9,653,491 and the probable value of that part of the telephone system which existed before the commencement of the present programme and will remain in use after the programme is finished, it seems reasonable to assume that the new capital valuation of the whole system will be approximately \$10,000,000. It must be appreciated that in a scheme of such magnitude and complexity, which takes years to complete, there are factors entirely beyond the control of those responsible for the preparation of estimates which continually affect those estimates and militate against their reliability. Such factors are the cost of imported equipment (which is dependent upon the world prices of metals and the rising cost of labour); shipping rates; delays in the delivery of equipment; the continually rising cost of local construction (labour and materials); unforeseen contingencies necessitating variations in original designs; delays occasioned by unseasonable weather, labour disputes, etc. The Telephone Rehabilitation Programme has been affected by every one of these factors, and it must be pointed out that even if there had been no omissions in the original estimates the final cost would have been the same.

#### TELEPHONE SERVICE FINANCE.

20. It is Government's view that the finances of the telecommunications services (indeed, of the Post Office as a whole) should be placed on a sounder basis than has been the case in the past, that is to say that after credit for free services has been taken into account, the system should be self-supporting and should pay for itself over the period of its estimated life.

21. Telecommunications revenue is entered in the departmental accounts under the following headings - telephones, telegraphs, radio licences and electrical inspections. Thus it is possible to quote telephone revenue separately and to say how much of it is cash revenue and how much represents the service rendered to Government Departments without charge. The expenditure accounts, on the other hand, do not show separate figures for telegraphs, telephones, radio licences, etc., and it follows that a direct comparison cannot be made between telephone revenue and telephone expenditure. However, when comparison is made between telecommunications revenue as a whole and telecommunications expenditure as a whole, it is clear that there has been a sizeable deficit for many years; a deficit varying between 13% and 27% of the total revenue.

22. The revenue and expenditure figures for 1955 and 1958 will serve to illustrate this:

Year	Revenue	Expenditure	Deficit
1955	\$609,784	\$842,277	\$232,493 (27.6%)
	(including free services)		
1958	\$783,964	\$901,511	\$117,547 (13.04%)

23. In view of the inability of the Post Office to satisfy the demand for telephones in recent years, it had been accepted that the Telecommunications accounts would continue to show a deficit pending replacement of old equipment and the provision of an improved standard of service, and that until these changes had been made any attempt to increase the tariff would be inopportune. Further, the expenditure accounts do not at present include such items as (a) interest charges on capital investment, (b) amortisation of capital, (c) municipal taxes, (d) pension liability, and so on, and it has been known that had these items been included in the accounts the deficits would have been larger. If the telecommunications services are to pay for themselves in future, these factors must be taken into account.

24. It is observed that the telephone service itself attracts at least 60% of the total telecommunications revenue, and that the other revenue sub-heads, viz: telegraphs, radio licences, electrical inspections, etc., are comparatively small.

It follows that if the gap between telecommunications revenue and expenditure is to be closed we must look largely to the telephone service to bring this about.

25. As stated above, it is the Government's view, that the telecommunications services must be made to pay for themselves and that Government itself must pay for the use it makes of them for its own purposes. Accordingly, it is Government's intention that the Post Office, which like all other Government Departments keeps accounts for Treasury purposes, should also construct a commercial account for its services so that the results or its trading activities and the state of its finances can be presented in the form adopted by commercial organizations and made available for public scrutiny. Underlying this intention is the Government's concern that Post Office tariffs (in this "White Paper" we are concerned only with the telephone service tariff) should be fixed at a level commensurate with the costs of providing the services, and that as soon as it is possible to do so the Post Office should be able to demonstrate that it is paying its way.

26. The impact of this policy upon the problem of the telephone service tariff can readily be demonstrated. The estimated annual expenditure on the Telecommunications and Electrical Inspector's Branch of the Post and Telecommunications Services when 10,000 telephones are in use, is -

	\$M. p.a.
(i) Interest on capital cost of Telephone System (5% p.a. on \$10 M)	0.50
(ii) Depreciation	0.17
(iii) Administration, operation, maintenance	0.85
(iv) Superannuation, etc., benefits	0.13
<b>TOTAL</b>	1.65

It should be pointed out that when 10,000 telephones are in use it may well be that the exchange line capacity of all the exchanges may not be fully utilised. But it is considered that the stage would then have been reached when revenue should equal expenditure.

The estimated annual revenue from all sources when 10,000 telephones are in use at the new rates, excluding revenue from local calls, is -

(v) From telegraphs, electrical inspections, etc. (current revenue)	0.28
(vi) From telephone trunk calls	0.27
(vii) From telephone rentals	0.58
<b>TOTAL</b>	1.13

Thus, if the telecommunications services are to pay their way when 10,000 telephones are in use (*ie* almost double the number in use at the beginning of March 1960) the revenue derived from local calls should be \$0.52m.

27. In later paragraphs of this "White Paper" attention will be drawn to some of the problems which had to be faced when the new telephone tariff was being devised, and explanations will be given of the figures used in the comparison of expenditure and revenue in the previous paragraph, but it seems appropriate at this stage to emphasize that from the figures set out the following broad conclusions can be drawn:

- (i) When a flat-rate tariff (*ie* a rental charge and no charge for local calls, as in the past) is superseded by a measured-rate tariff (*ie* a rental charge and a small charge for each local call as in the new tariff) the question whether the new tariff shows promise of meeting the revenue requirements cannot be answered until it has been in operation for a reasonable period of time;
- (ii) The retention of a flat-rate tariff would have necessitated increasing the rental charge by at least 66%. This would undoubtedly have



reduced the number of applications for telephones and placed an unfair burden on those subscribers who are only moderate users of the telephone; a measured-rate tariff is without doubt the fairest method of charging for telephone service;

- (iii) The annual telephone revenue required to cover costs is far higher than the revenue earned in the past, but as previously mentioned, it is not proposed to estimate for actual collection up to the required level until the number of telephones in use has been almost doubled (i.e. increased from 5,178 telephones in use early this year to 10,000 telephones); in this way the burden of higher annual costs will not be borne alone by the original subscribers but has been spread over almost double that number.

### TARIFF CONSIDERATIONS.

28. In the calculation of a telephone tariff the facts which must be taken into account are different from those which apply to the pricing of goods or services in most business undertakings. Most large business concerns require considerable capital for the erection of buildings and the installation of plant or equipment; so does a telephone service, but a telephone administration must also invest considerable additional capital in making connections (in cables and on pole routes) between telephone exchanges and subscribers' premises and between one exchange and another. A distribution system for telephones in an urban area while being similar to those for electricity and water is more complicated in that it is not simply a question of tapping the mains but rather the provision of a separate pair of wires between the exchange and each subscriber.

29. When the need for expansion arises and it becomes necessary to provide either new exchange equipment, or new cables, or both, substantial further capital investment is required. It follows that a telephone administration must try to attract the type of subscriber who will not only pay the rental but who will also use the telephone sufficiently frequently to bring to the administration (by way of charges for calls) enough revenue to meet whatever may be the cost of providing the service.

30. If the rental is very small large numbers of new subscribers may be expected to apply for service but when they have been connected they may make little use of the telephone, and the average revenue per line may drop to the level when income is insufficient to cover the recurrent cost of the system. On the other hand, if the tariff is too high it will hamper development because many potential subscribers will be unable to afford a telephone. A telephone tariff should be related to cost, but in the final analysis it is the use which the public makes of it that will determine whether or not the system will be self-supporting. It was with these considerations in mind that the problem of revising the telephone tariff was approached.

31. It has been stated above that Government is faced with the problem of collecting approximately \$1.37m. in telephone revenue at the time when the system is in fairly full use. It had been decided by the Government as far back as 1952 that when the new system came into operation, a local call charge should be introduced. This meant that telephone revenue would be collected in three directions, i.e. from Rentals, from Trunk Call charges and from Local Call charges.

32. From the outset it became apparent that the following considerations had to be given full weight :

- (i) that as a local call charge was to be introduced some concession, no matter how small had to be made by way of reduced rentals, or free calls, in order to minimise the possibility of old subscribers, especially residential ones, giving up their telephones and of potential subscribers being scared away; and
- (ii) that any increase in the rates for trunk calls would discourage the full use of the trunk service which it is hoped will play a very useful part in the development of the Country.

33. The average annual rental collected in respect of each telephone in use under the old system was \$60.00 approximately. It is not possible to forecast with

any degree of accuracy whether or not this average will be maintained as there is no means of knowing what will be the proportion of business to residential telephones, or the number of extensions, special services, etc. Assuming, however, that the proportions remain much the same as under the old system, the revenue from rentals when 10,000 telephones are in use would be approximately \$600,000 per annum if rental charges were not reduced. Any attempt to prepare detailed estimates of what will be the numbers in each category of subscriber at some future date might be misleading.

34. It was agreed after much discussion and careful thought that there should be no reduction in the rentals for business telephones but that residential telephones in Georgetown could be reduced from \$55.00 per annum to \$48 per annum. (This is equivalent to keeping the rental at \$55.00 p.a. and allowing 140 free calls p.a.). Opportunity was taken to fix the rental for business telephones in Georgetown at a figure which is evenly divisible into quarters by the subtraction of \$2.00 from the rate of \$110.00 p.a. On account of these reductions it was felt that there would be a slight reduction in the revenue from rentals and that the figure of \$600,000 referred to in the preceding paragraph might well be reduced to approximately \$580,000.

35. It may here be stated that the differential between the rentals of business and residential telephones has no foundations in ascertainable differences in cost of installation. It is a traditional feature of telephone tariffs in this Colony and elsewhere and was no doubt originally introduced to express the view that a telephone used for business purposes is of economic value to the subscriber whereas a residential telephone is used primarily for social purposes and is of little or no economic value to the subscriber. However, the view has been recently expressed that residential telephones are often of economic value to the commercial community.

36. The old tariff made provision also for a lower rental in New Amsterdam and in the rural areas than in Georgetown, i.e. \$110 for an exclusive line in a business in Georgetown, and \$85 elsewhere. Bearing in mind that the number of local subscribers (i.e. those connected to the same exchange) accessible to subscribers in New Amsterdam or in the rural areas by means of a local call is far less than in Georgetown, the value of the telephone to the subscriber in those areas is relatively less than it is to the subscriber in Georgetown. It was therefore decided to continue the practice of quoting lower rentals in those areas than in Georgetown.

37. Under the *old* tariff subscribers who asked for and were provided with desk-type telephones were charged an additional \$5 per annum. This was a relic of the days when desk-type telephones were a rarity. Since, nowadays, desk-type telephones are the standard type of instrument it was logical to cease making an extra charge for them. This has been done.

38. Also, under the old tariff there was provision for party-line service <sup>a-i.</sup> reduced rates. At the new automatic exchanges no equipment has been provided for party-lines (although it may be possible to do so in the years ahead). Accordingly, the new tariff makes no mention of them.

39. A very significant improvement introduced in the new tariff is the application of the new standard rentals to telephones within four miles of the exchanges. In the old tariff the standard rental was applicable only to telephones within two miles of Georgetown Exchange and one mile of other exchanges, special additional rental charges being made for telephones beyond these distances. The application of the standard rental to a much wider area was made possible in part because of the long-term economies to be derived from the widespread use of underground telephone cables in the urban areas.

40. The new trunk call tariff is basically the same as the former tariff but has been expressed in a new form which enables the charges for trunk calls to be expressed in multiples of 5 cents. This change has been made for two reasons-(i) technical facilities will soon be available by which renters will be able to dial certain trunk calls without the help of an operator, these calls being recorded automatically as so many 5 cent local call units, and (ii) the new coin boxes in the public call offices are designed to take only 5 cent, 10 cent, and 25 cent coins. When a trunk call is connected by an operator the minimum charge will be as for a duration of three minutes, whereas when a trunk call is dialled direct by a renter the charge will be assessed in 5 cent units according to the

actual amount of line-time used. The hours during which there will be reduced trunk call rates at night have been changed. The personal call fee is increased to 20 cents. Trunk calls from public call offices will be charged for at the normal trunk tariff plus 5 cents.

41. Prior to the introduction of the new system the number of trunk calls put through per annum approximated 200,000. The average revenue per call amounted to approximately \$1.00. It is anticipated that when the system is in full use the average number of trunk calls put through per annum will rise to 300,000. Owing to the fact that subscribers will often be able to make trunk calls without the help of an operator it is likely that the average revenue per call may drop slightly. The annual revenue from this source has been estimated at \$270,000 *i.e.* 300,000 calls at an average of 90 cents per call.

The charge for local calls from public call offices was fixed at 5 cents. It is appreciated that this may be considered to be too small a charge, but the next coin of higher value acceptable by the corn boxes, the 10 cent, was considered to be too high and a possible deterrent to the frequent use of call offices by the general public.

42. With the revenue from rentals and trunk calls estimated at \$580,000 and \$270,000 respectively, *p.a.* a total of \$850,000 *p.a.* from those two sources, there remained a sum of \$520,000 to be collected from local call charges, if the target of \$1,370,000 was to be achieved. The use which individual subscribers, both business and residential make of their telephones varies in a wide degree. It was felt that when 10,000 telephones are in use a reasonable estimate of the number of local calls per annum would be 12,000,000. The lowest charge per call to the nearest cent which would achieve the required annual revenue is 5 cents. If the estimate of the number of calls is reasonably accurate there would be a small excess, in the region of \$80,000 *p.a.* If on the other hand the estimate of calls proved to be too high the revenue would not fall below the required amount until the number of calls dropped below 10,400,000. The number of local calls put through the automatic exchanges for the first three months of operation of the new system (1st April to 30th June) was 1,619,910. This represents an average of approximately 9,400,000 *p.a.*, when 10,000 telephones are in use. The number of calls for the second three months (1st July to 30th September), however, was 2,213,316. When related to the increase in the number of subscribers during that quarter the average number of calls (assuming the same calling rate) when 10,000 telephones are in use will be 10,840,000 *p.a.* This represents an average of 2.9 calls per telephone per day. There is, nevertheless, no way of forecasting for certain whether the calling rate will continue to rise, or decrease or remain static.

43. The decision to charge for local calls at automatic exchanges was not made at the time the new tariff was being prepared; it was made eight years earlier. The Post Office recommended the adoption of this practice in November, 1951, and it was accepted by Government in February, 1952, for introduction when the new exchange were installed. The fee decided upon, *viz.* 5 cents, is comparable with the fee generally charged elsewhere for this service. Some critics of the new tariff felt that subscribers should have been given an allowance of free local calls; the Government felt that it would be preferable at the outset to reduce rentals. It should be repeated that the reduction is equivalent in value to 140 free calls per year in the case of the residential subscriber.

44. Having regard to the Government's intention, already stated, that the telephone service should be made to pay its way, the estimated annual expenditure when 10,000 telephones are in use was regarded provisionally as the revenue target when the new tariff was devised. Account was taken of the interest payable at 5% per annum on a capital investment of \$10m.; depreciation was provided for on a sinking fund basis assuming the useful life of telecommunications equipment to be 25 years and buildings 50 years; the annual cost of administration, operating and maintenance was estimated taking into account operating savings from the introduction of automatic exchanges and normal increases of technical staff following the enlargement of the system; and other charges such as pensions, municipal taxes, etc. In the revenue estimates it was necessary to forecast the development of the system and the extent to which subscribers will use it. It remains to be seen how soon the revenue target will be achieved, and how soon the new tariff can be reviewed.

45. It should perhaps be emphasised that there is no profit element in the calculations which have been made, and the suitability of the new tariff can only



be judged in the light of experience. In the management of a business such as telephone service where a great deal of capital must be invested to provide service for each subscriber and where a new tariff is being introduced to meet new conditions common prudence dictates that the tariff be fixed at the outset at a level calculated to bring in the required revenue and yet attract and retain sufficient subscribers to achieve that end. When the results of the present tariff can be clearly seen an opportunity can be taken if necessary to review the charges and effect reductions in order to attract and retain yet more subscribers. However, the present indications are that the tariff as it stands not retarding the progressively increasing use of the system,

46. It is Government's policy to expand the telephone service on an economic basis to the fullest extent of the public demand for this service.