

Decision No. 46510

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

CALIFORNIA FARM BUREAU FEDERATION,
a corporation,

Complainant,

vs.

Case No. 5289

PACIFIC TELEPHONE AND TELEGRAPH COMPANY,
a corporation, and the
ASSOCIATED TELEPHONE COMPANY, LTD.,

Defendants.

Appearances

For Complainant: J. J. Deuel and Edson Abel.

For Defendants: Marshall K. Taylor and
Albert M. Hart, for Associated
Telephone Company, Ltd.,
Dudley A. Zinke and Arthur T.
George, for The Pacific
Telephone and Telegraph Company.

Interested Parties: City of Fullerton by Walter B.
Chaffee; Westminster School
District by R. F. Harris.

Commission Staff: Walter B. Wessells, Supervising
Utilities Engineer.

O P I N I O N

The California Farm Bureau Federation on April 18, 1951, filed this formal complaint against The Pacific Telephone and Telegraph Company and Associated Telephone Company, Ltd., public utility corporations furnishing telephone service in Orange County, California, charging that the telephone service now being furnished and offered in Orange County by defendants is inadequate, unjust, inefficient, unreasonable, and contrary to public convenience and necessity, in that such service is furnished and offered only by and through 15 different telephone exchanges, among which telephone communications are subject to toll charges and unavoidable operating

delays. The California Farm Bureau Federation, hereinafter entitled Farm Bureau, maintains that the entire County of Orange is a business and social entity in which the commercial and personal relationships between such exchange areas, and the inhabitants thereof, are centralized within said county and that public convenience and necessity requires the elimination of said toll charges and operating delays, and the institution of extended telephone service in the county.

On May 22, 1951, The Pacific Telephone and Telegraph Company, hereinafter sometimes referred to as Pacific, filed its answer to the complaint, and in general denied the allegations of the complaint, admitting that telephone service in Orange County is furnished and offered through 15 different telephone exchanges, and that certain telephonic communications among said exchanges are subject to toll charges. In its answer, Pacific pointed out that on July 26, 1949, this Commission, in Paragraph 5 of its order in Decision No. 43145, ordered it to prepare and file reports on traffic analysis and revenue, expense and plant effects of introducing extended service in the Orange County area; together with recommendations thereon. Pacific conducted a survey, the results of which indicated that its plan for extended service was approved by telephone subscribers in Orange County, there being no expressed opposition, and the results of said survey were submitted to the Commission in February 1950. Pacific is willing to render extended service in Orange County, subject to the availability of critical materials and equipment, but first desires to reduce held applications to a more normal level, system-wide, before proceeding with the plan.

The Associated Telephone Company, Ltd., hereafter sometimes referred to as Associated, on May 22, 1951, filed its answer

to the complaint, stating that the best estimates indicate that a minimum of two years' time would be required for engineering and manufacture of facilities necessary to furnish extended service inasmuch as basic materials are in short supply and subject to federal controls. Associated has prepared a statement in response to a former request by this Commission regarding the estimated annual effects of offering extended service in Orange County. It claims that the institution of nonoptional extended service in its Orange County exchanges would result in a deficit during 1951 of \$214,598.81. It urged that any determination made by the Commission relative to the furnishing of such service to said exchanges must, of necessity, include consideration of provision for additional revenues in the form of increased rates to enable Associated to pay the additional expenses, and to yield a fair return on the greater investment necessary to furnish such extended service.

A public hearing was held in this proceeding at Santa Ana, California, on September 27, 1951, before Examiner Edwards with Commissioner Craemer participating. At the hearing eight witnesses were called to testify on behalf of the complainant, and eight on behalf of the defendants.

The witnesses for the complainant described the telephone service conditions in the county, and confirmed the allegations contained in the formal complaint filed by the Farm Bureau. This testimony was related to the desirability of extended service from the standpoint of convenience and a probable saving in cost to the average subscriber. The witnesses were willing to pay the increased cost of extended service providing it did not exceed the rates for extended service in other areas. Pacific had not made a study to determine the relative rates for offering extended service but had

studied certain trial rates. Associated indicated that the rates in its exchanges would probably have to be considerably above those in other areas.

Pacific's Study

Evidence introduced by Pacific confirmed the statements in its formal answer to the complaint. It showed that critical materials are not available at this time to install new stations to clear up the large number of held orders for new stations in the state and also start on a program of adding the necessary facilities to inaugurate extended service on a county-wide basis in Orange County. It did not feel justified in assigning all available materials to handle the extended service problem, and neglect the large number of held orders for new stations in other parts of its service area. Pacific's Exhibit No. 2 contained a report on the Orange County extended service study assuming the offering of such service to all customers with full dial operation, but the study did not reflect the revenue, investment and cost effect of furnishing extended service from connecting independent company exchanges to Pacific Company exchanges nor the cost which would be incurred by the independent company on account of increases in traffic from Pacific Company exchanges.

The Pacific Telephone and Telegraph Company serves 12 of the 15 exchanges in Orange County. A summary of the number of local

stations by exchanges and the trial rate increases for certain basic services under extended service studied by Pacific were:

Exchange	Stations in :	Trial Rate Increases				
		Local Service:		Business Service:		Residence Service
		Area 6/30/49:	1-party	2-party	1-party	2-party
Anaheim	6,762	\$3.50	\$2.50	\$0.75	\$0.75	\$0.50
Brea	915	5.75	3.75	1.25	.75	.50
Buena Park	1,242	5.75	3.75	1.25	.75	.50
Cypress*	6,762	6.00	3.25	1.00	.75	.50
Dana Point	263	1.75	1.50	.75	.50	.50
Fullerton	4,786	5.00	3.25	1.00	.75	.50
Garden Grove	1,657	5.75	3.75	1.25	.75	.50
Newport Beach	7,914	2.00	1.50	.75	.75	.50
Orange	4,318	3.50	2.50	.75	.75	.50
Placentia	1,100	4.25	3.00	1.00	.75	.50
San Clemente	646	1.25	1.00	.50	.25	.25
San Juan Capistrano	286	1.75	1.50	.75	.50	.50
Santa Ana	19,426	3.00	2.00	.75	.50	.25

* Proposed District Area of Anaheim Exchange.

This study showed an added net investment in plant of \$772,000, with resulting annual charges on added plant of \$139,000. The estimated savings in commercial, accounting and traffic expenses were \$330,000. The total annual cost effect to the company was a reduction of \$191,000. With this extended service the company estimated that the toll revenues would be reduced by \$644,000 and, therefore, exchange revenues would have to be increased by \$449,000.

At the present time eight of Pacific's exchanges in Orange County are dial and four are manual. The Fullerton exchange is programmed for conversion to dial in the first half of 1952. Full dial operation is available in all of the Associated Company's exchanges in Orange County.

Associated's Study

Associated introduced Exhibit No. 8 which contained the estimated results of offering an extended service in the three exchanges which it operates in Orange County. It computed an added net increase in plant investment of \$629,000 with an annual charge on added plant of \$120,000. It estimated that the amount receivable

from the Pacific Company would be decreased \$96,460 annually as a result of diminished toll revenues, which amount more than offsets the estimated savings in commercial accounting and traffic expenses of \$56,583 annually. In addition, Associated within its own exchanges will show a decreased annual toll revenue of \$194,566, necessitating increased exchange rates in the total amount of \$354,444 annually. In general, the company's position was that the rates would have to be considerably above the level of rates for comparable service in the adjoining County of Los Angeles, and would be so high as to make the desirability of extended service in its exchange areas questionable.

Associated operates the Huntington Beach, Laguna Beach and Westminster exchanges in Orange County. The number of stations in the local service area as of June 30, 1951, were:

<u>Exchange</u>	<u>Stations</u>
Huntington Beach	2,564
Laguna Beach	5,780
Westminster	1,507

The application of the Los Angeles extended area rates would produce added annual revenues of \$135,061 or roughly only 38% of the required increase of \$354,444 estimated as necessary. Thus, a total of \$3.65 per subscriber per month increase would result. This sharp increase Associated claims would produce uncommercial rates. Its study showed that the number of residence subscribers having five or fewer toll calls per month are 66.2% in Huntington Beach, 88.6% in Laguna Beach and 40.6% in Westminster. With such a large number of customers having so few toll calls, it contends that comparatively few would save money with the extended service rates as high as indicated by the study.

Associated estimated that it would take five years to complete fully the introduction of extended service with a normal available supply of the critical materials needed. Nevertheless,

the general position of the Associated Company was that so long as the company is reimbursed for its expense and given a fair return on the additional investment required, it would be happy to comply with any order the Commission sees fit to issue.

At the request of the Farm Bureau the Associated Company furnished a study covering the estimated annual effects of offering nonoptional extended service in Orange County only and not including extended service to adjacent exchanges in Los Angeles County. This study was introduced as Exhibit No. 9 by the complainant. It showed that exchange rates need be increased only \$173,325 annually in Orange County or roughly only one-half as much as would be the case if the adjacent Los Angeles exchanges were included in the plan.

Fullerton's Position

The witness for the City of Fullerton was concerned over the past rate increases to subscribers in Fullerton, and indicated that such increases were not proportionate over the state. He suggested priority be given to extended service because the increase in toll rates has caused hardship and expense in view of the natural expansion of people's interest in the county. This witness was willing to pay rates for extended service comparable to the rates in other communities which have extended service.

Conclusion

In reviewing this complaint and the evidence of record, we are of the opinion that the public desires extended service in Orange County provided the costs do not result in prohibitive rates. So far as we are able to determine at this time the proposal by The Pacific Telephone and Telegraph Company should not result in prohibitive rates, but it cannot be determined that they will be as low as in other extended service areas. The company should be authorized to proceed with its plan for extended service in

accordance with the availability of materials to complete the job. This plan is the same as was proposed by Pacific in its rate increase request, Application No. 32640, and authorized by Decision No. 46270 of this Commission dated October 8, 1951. The study presented by the Associated Telephone Company, Ltd. indicates that rates might be required which would be so high as not to be acceptable to the general public. Therefore, it appears desirable that additional study and further consideration be given with regard to extended service in Associated's exchange areas and that the extended area should be confined to Orange County.

It is our conclusion that an order should be issued requiring Pacific to proceed with the installation of extended service as contemplated by Exhibit No. 2 herein, except that the local service areas for such service should be limited to Orange County, subject to the availability of materials, and requiring a joint report on extended service by Pacific and Associated, or separate reports prepared after collaboration, at least six months prior to the introduction of extended service by Pacific.

O R D E R

Public hearing having been held in the above-entitled case, the matter having been submitted, and the Commission being fully advised,

IT IS HEREBY ORDERED as follows:

1. The Pacific Telephone and Telegraph Company shall proceed to introduce extended service in Orange County to all subscribers within its exchanges, with the local service areas limited to Orange County, as materials become available. The exact date for introduction of extended service shall be subject to a decline in held orders for new stations, system-wide, to a level considered normal, but for the purposes of engineering planning and plant rearrangements a tentative date not later than January 1, 1955, is specified.

- 2. The Pacific Telephone and Telegraph Company shall file semiannual progress reports beginning with a report as of January 1, 1952, such reports to be filed within sixty (60) days of the date thereof.
- 3. The Pacific Telephone and Telegraph Company and the Associated Telephone Company, Ltd., shall cooperate to jointly render a report, or to individually render reports, not less than six (6) months prior to the introduction of extended service by The Pacific Telephone and Telegraph Company, relating to the feasibility and costs of furnishing extended service in the Associated Company exchanges and to the adjacent Pacific exchanges, within Orange County only, under the conditions then pertaining.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 11th day of December, 1951.

R. T. [Signature]
President.

Justus F. [Signature]
Harold P. [Signature]

[Signature]
John L. [Signature]
Commissioners.