

ORIGINAL

Decision No. 48515

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

United Telephone Exchanges, Inc.,)
a non-profit trade association,)
Complainant,)
vs.)

Case No. 5400

The Pacific Telephone and Tele-)
graph Company, a corporation,)
Defendant.)

Telephone Answering Services of)
California, Inc., a non-profit)
trade association,)
Complainant,)

Case No. 5417

vs.)
The Pacific Telephone and Tele-)
graph Company, a corporation,)
Defendant.)

Appearances for complainants: Case 5400, Jack W. Hardy; Case 5417, Gordon, Knapp & Gill, by Hugh Gordon and C. T. Mess.

Appearances for defendant: Arthur T. George and Pillsbury, Madison & Sutro, by Noel Dyer.

Interested parties: Both cases, City of Los Angeles, by H. M. Kauffman and T. M. Chubb; Case 5400, Gordon, Knapp & Gill, by Hugh Gordon and C. T. Mess; Case 5417, Jack W. Hardy.

Other appearances: J. B. Balcomb, for the Commission staff.

O P I N I O N

These complaints were filed against The Pacific Telephone and Telegraph Company by associations representing opposing factions in the telephone answering service business. The United Telephone Exchanges, Inc., hereinafter referred to as United, filed its complaint on August 8, 1952 and its first amended complaint on September 30, 1952. The Telephone Answering Services of California, Inc.,

hereinafter referred to as TASC, filed its complaint on September 19, 1952. Answers by the defendant to the complaint and the first amended complaint, respectively, were filed on October 3, 1952 and October 20, 1952 in Case No. 5400, and on November 6, 1952 in Case No. 5417. Public hearings were held on these cases on a consolidated record in Los Angeles on December 29 and 30, 1952 and on February 5 and 6, 1953 before Commissioner Harold P. Huls and Examiner M. W. Edwards.

United's Position

In its original complaint United charged that the defendant has not kept pace with the growth of the State of California in the provision of adequate facilities for telephone answering service and in the establishment of a more equitable method of measurement on extension line mileage to answering boards. It also charged that the defendant is inconsistent in the application of its existing tariffs and equipment limitations as between the northern and southern areas of the state. It requested a tariff schedule for telephone answering service which included the features proposed in its complaint. United stated it was forced into being as a result of the defendant's position in its negotiation with TASC as representing the telephone answering service business.

At the hearing counsel for United pointed out that there were a substantial number of telephone answering services who were non-members of TASC who disagreed with the proposed tariff filing, Tariff No. 94-T, which TASC had worked out with the defendant and the defendant had filed under Advice Letter No. 5387. Following the filing of this complaint by United, the Commission ordered a suspension of the tariffs; thereafter the defendant, after further study, withdrew those tariffs and the suspension order was canceled.

TASC's Position

In its complaint TASC asks that the defendant be required to retain in its tariffs Schedule Cal. P.U.C. 94-T, Telephone

Answering Service, together with revisions of the general tariffs, filed August 11, 1952. Complainant stated that on the basis of past experiences it believes that it cannot now, or in the future, obtain equitable solutions to its requirements and its problems by further direct negotiation with the defendant and therefore presented the matter to the Commission for decision under Case No. 5417.

Defendant's Position

The Pacific Telephone and Telegraph Company, at the hearing, stated it is willing to file the tariffs requested by TASC except for those provisions that relate to mileage charges, desiring to retain the present basis of mileage charges. Counsel for United indicated it is now in full accord with the position defendant expressed at the hearing. Defendant maintained that the sole issue before the Commission concerns the matter of mileage charges and the manner in which such charges will be figured.

The present method of computing mileage charges for an outside extension line from a patron to the answering service switchboard is to measure the air-line distance between the patron and the switchboard and charge at the rate of \$2 for the first 1/4 mile, plus \$1 for each additional 1/4 mile. The method of charging requested by TASC is based on the distance from the defendant's central office in each exchange area to the answering service switchboard, using the rates of \$3 for the first 1/2 mile and \$1 for each additional 1/4 mile, or the current method, whichever results in lower charges to the patron.

United's Evidence

The United group provided testimony by seven witnesses. The principal points shown by these witnesses were:

1. The telephone answering business has shown a rapid growth under the existing rate structure.

2. Telephone answering services' offices have been located in areas where there was prospective business.

3. That adoption of the mileage measurement method proposed by TASC would require movement of many of their switchboards to locations within 1/4 to 1/2 mile of the central office if they desired to compete and stay in business. Besides the expense of moving, many claimed they would lose considerable money on their present lease obligations.

Counsel for United stated that adoption of the mileage basis proposed by TASC would create a monopoly and run the small operator out of business because he could not afford to move into the 1/2-mile circle around a central office where most of the TASC members are now located. Since the price of the extension line is a major factor in obtaining about 90 per cent of the business, the patrons would tend to switch over to those answering services located closest to the central office which would tend to concentrate the business in a few large concerns. One witness testified that it was the intention of TASC to eliminate the small operator. In order to eliminate the possibility of excessive mileage charges United proposed a \$6 maximum mileage charge to any subscriber.

TASC's Evidence

The TASC group provided testimony by 10 witnesses. The principal points made by these witnesses were:

1. Telephone answering service is vital to the health and welfare of the public and renders a valuable 24-hour service to physicians, dentists, actors and to emergency businesses, such as ambulance, garage and delivery services.

2. The air-line distance between the patron and the answering service switchboard has no relation to the amount of facilities that the telephone company must provide between its central office and the switchboard.

3. No patron would be penalized by a high mileage charge because he is located a long distance in an exchange area from the answering board, as the charge depends only on the distance from the central office to the answering switchboard.

4. The lower extension rate available to patrons under this method of charging would considerably increase business where mileage charges now are prohibitive.

5. Regardless of rate treatment, as these answering services grow in size they tend to move closer to the central office to obtain the cable facilities needed under today's limited availability of cable.

6. A large increase in telephone answering patrons provides extra revenue to the defendant telephone company over and above the increase in mileage revenue because these patrons use public coin-box telephones to call in to the answering service to obtain their calls and messages.

Defendant's Evidence

Defendant stated that it serves 200 cord-operated PBX switchboards in connection with answering service in the state. Approximately 10,400 lines terminate on these boards. The complainants in Case No. 5400 subscribe to 23 cord-operated boards with about 1,375 secretarial lines from different buildings terminated thereon. Those in Case No. 5417 subscribe to 46 systems with about 4,300 secretarial lines from different buildings terminated thereon.

Defendant desires that the mileage rate treatment presently applicable to lines extended to answering bureaus be continued on the present basis, that is, \$2 for first 1/4 mile and \$1 for each additional 1/4 mile or fraction thereof of air-line mileage, except that, where the answering bureau's service and the patrons' service are in the same building, there is no mileage charge. Underlying this desire is the fundamental principle that the telephone company

sells service and not facilities and that the treatment for similar service should be uniform for all customers under similar conditions. Defendant states that the present rate treatment is consonant with good engineering practice in that the effect on customers' charges is not a direct consideration in the engineering of central offices and outside plant.

Defendant contended that one of the factors considered in making rates is the value of service to the subscriber group in general and its relationship to other classes and grades of service in the light of the total revenue required. It showed that within the base rate area there is a uniform rate for exchange service whether or not a particular subscriber is located adjacent to the central office or at some distance from the same or another central office in the same exchange area. The facilities employed to serve different customers in any exchange area differ appreciably in length and cost and for that reason average serving conditions are used rather than precise arrangements in each individual case.

Some of the disadvantages to the plan proposed by TASC, as pointed out by the defendant, were that when quoting charges to applicants, including patrons of telephone answering bureaus, the defendant in many cases would need to make two measurements instead of one as at present in order to determine the charge most favorable to the applicant and that when plant rearrangements are made which necessitate transferring customers' lines to other central offices or when new central offices are established and lines are transferred, increases in charges for off-premises stations would result.

In closing argument, counsel for defendant stated that a very vital matter to consider is the impact of the rate structure on the over-all revenue requirements of the company and any substantial reduction in revenue must be seriously considered with relation to its effect upon the general public. Furthermore, he stated that this is a very valuable service and one which any patron would

reluctantly give up. He concluded by arguing that the proof does not show that the present tariffs are unreasonable.

Staff Investigation

Under date of January 12, 1953 the staff addressed a letter to the defendant, with copies to all parties, requesting information as to the costs of rendering the service and the revenue effect of the following rate proposal for each extension line from the central office to the answering service switchboard:

	<u>Per Month</u>
First 1/4 mile, or less, air line	\$ 3.00
Second 1/4 mile	.50
Additional 1/4 mile	.25

On January 20, 1953 the defendant replied to the staff's letter and stated that rates for the various classifications of services are not based primarily on the costs of providing such service. It did indicate that the revenue effects of such a rate proposal could be determined.

Subsequent to the hearings, pursuant to stipulation, the staff and the defendant's engineers summarized the statistical data which the defendant has obtained in a survey of the answering services with the following results:

: Location of Ans. : :Service Client with : :Respect to Ans. Serv. : : Switchboard :	:No. of : :Secyl. : :Lines : :OSEXL :	:Wtd. Avg. Air line Mileage 1/4 Miles :		
		: Patron to : : Answering : : Switchboard :	: Cent. Off. : : to Answering : : Switchboard :	: Cent. Off. : : to : : Cent. Off. :
A. In same central office area	8,630	2.850	2.816	0
B. In different central office area same district area	982	3.556	1.890	4.459
C. In different central office area and different district	352	7.554	2.832	10.122
D. In same building	3,325	*	*	*
Total	13,289			

* Vertical or horizontal mileage data in same building not available.

From these data the revenue effect of the various proposals may be determined. In general, the respective proposals would result in approximate annual revenue reductions of \$38,000 for United's request, \$100,000 for TASC's request and \$35,000 for the staff's suggestion.

Revenue Computation

Upon analysis of the foregoing statistical data, revenues under the present rates and a set of trial rates which will maintain defendant's revenues, may be summarized as follows:

Classification	Mileage: Miles	Monthly: Average: Rate	Number: of Patrons	Monthly: Revenue
<u>1. Present Rates (\$2.00 first quarter plus \$1.00 added quarters)</u>				
A	2.850	\$3.850	8,630	\$33,226
B	3.556	4.556	982	4,474
C	7.554	8.554	352	3,011
D	*	0.000	3,325	0
Total			13,289	40,711
<u>2. Trial Rates (\$2.75 first quarter plus \$0.25 added quarters)</u>				
A	2.816	3.204	8,630	27,651
B	6.349	4.087	982	4,013
C	12.954	5.739	352	2,020
D	*	2.250	3,325	7,481
Total			13,289	41,165

* Assumed less than $\frac{1}{4}$ mile.

It will be noted that under the trial rates, by assuming a charge of \$2.25 against the patrons in the same building as the answering bureau, the staff's suggested rate of \$3.00 for the first quarter mile will be lowered to \$2.75 and 50 cents for the second quarter mile will be lowered to 25 cents. Such trial rates result in an annual revenue increase to defendant of less than \$6,000 per year.

Discussion

Telephones which are served by answering services have a different use characteristic than the regular stations serving businesses that normally operate during the day hours and shut down at night. A similar situation exists with reference to telephones used by professional persons during the time their offices are closed or when they are away on business. Where all calls are answered regardless of the time of day or night, the customer obtains more value from the use of the telephone. It is concluded that the greater use and availability of the telephone to patrons of answering services is such as to place this business in a separate category.

In the past the utility has applied rate schedules for this service that cover ordinary extension lines or telephones. It appears that the usage characteristics and value of this service are such that a distinct class rate treatment is warranted for telephones that are served by answering services.

Where the telephone answering service is located in the same building as the patron's telephone the defendant has not assessed any line mileage charge, notwithstanding the fact that in a large or tall building more line extension length may be involved than the distance between a central office and a nearby answering board within the first quarter of a mile. Such telephones, even though located in the same building, should exhibit the same class usage and availability characteristics as those for telephones now furnished at mileage charges. In equity it appears that subscribers to this service should pay some extension mileage charge.

It is evident that the mileage rate treatment proposed by United with the \$6 limitation would not meet the defendant's request that its revenues from this source not be lowered substantially. A sizeable reduction would result. Likewise, the rates proposed by TASC and the suggestion by the staff would result in lower revenues. Although the present rate form would maintain the defendant's

revenue, the conditions brought to light by these two cases show the need for an improvement in the method of mileage measurement. An airline mileage rate computed from the central office to the answering board would provide a rate to the patrons more in harmony with defendant's present method of equal rate treatment for all customers in an exchange, regardless of the distance from the central office to each patron.

The most simple rate treatment and the one that appears most preferable from the defendant's standpoint, is a flat rate. The TASC group opposed a flat rate treatment and as that group represents approximately 40 per cent of the business, its position is entitled to serious consideration.

Inasmuch as the answering service is presently unregulated, each answering service can adjust the price for its service plus the charge for the extension line by the utility, to a level that will offer a competitive total cost for its service, regardless of location. Several of United's witnesses (representing approximately 13 per cent of the business) were opposed to the staff's suggested rate treatment; however, it appears that if the mileage rate is held to a low level for each quarter mile beyond the first quarter mile, an answering bureau by reason of cheaper rent, existing lease commitments or more efficient operation, should be able to continue operating in an existing location and not have to move nearer the central office to maintain its competitive position, unless growth or cable availability so requires.

The objection posed by defendant, that when a central office area is divided or plant rearranged changes in rates result, will not be serious under this treatment. With a low mileage rate such as 25 cents per quarter mile the new central office could be a considerable distance away from the existing office before the mileage rate would become so high as to result in the rate being above

the value of the service.

The objection posed by United that this type of mileage treatment will make it impossible for the small operator to start up in the future is not apparent. Within a large building there could be some minimum rate advantage. If the small operator selects some area outside of a large building for his operations, sufficient savings by low rent or by more efficient operation should enable the new operator to offer an over-all rate for answering service, including line mileage, that would enable him to meet competition successfully.

While the complainants and the defendant claim agreement on all points except the mileage rate treatment, it is apparent that principles being considered herein vitally affect the future course of the answering service business in this state.

Conclusion

Based upon a review of the record in these cases, it is evident that:

1. The telephone answering service is a growing and prosperous business even under the present rate treatment.
2. As the answering service business grows the answering switchboards tend to move into close proximity to the central office in order to obtain a large number of cable pairs that normally are not available in an exchange area at a point far removed from the central office.
3. The cost to the utility of providing the extension line from the patron to the answering switchboard bears little or no relation to the air-line mileage between the patron and the answerboard, unless the extension is run from the patron's location directly to the board, rather than from the central office.
4. The present method of mileage measurement discourages business from prospective patrons who may be located roughly one mile or more from the answering service board.

5. A method of pricing which gives all patrons in an exchange the same rate from any single answering service board will encourage business unless the extension cost exceeds \$5 to \$6 per month.

6. The present rates unduly favor the patrons located within the same building as the answering service that are not now being charged for any line extension mileage.

7. The rates proposed by complainants in Case 5400 are unattractive to patrons located more than 1/2 mile from an answering bureau and would not maintain the defendant's present level of revenues.

8. The rates proposed by complainants in Case No. 5417 are unattractive to patrons of answering bureaus where the bureau is located more than 1/2 mile from the central office and would not maintain the defendant's present level of revenues.

9. The staff's rate suggestion would result in increases to a large number of patrons while resulting in decreases to many others and would not maintain the defendant's revenues.

10. The trial rates set forth above while maintaining the defendant's revenues, like the staff's suggestion, would result in a large number of increases in rates while decreasing certain others.

In view of the fact that the patrons of answering bureaus were not notified of possible increases in line mileage charges and were not given an opportunity to oppose any proposed increases at a public hearing, it is not appropriate to change the line mileage rates by this order. The problem created by having different rates for off-premises lines terminating on answering service equipment compared to the rates for all other types of off-premises lines has not been investigated. It is the opinion of the Commission that there is need for improvement in the method of charging for off-premises lines and that more study is necessary before making any final conclusion on this matter. Inasmuch as increases might result upon a

change in the basis of mileage measurement or charges it appears to the Commission that such changes should more appropriately be made in connection with the defendant's present rate increase proceeding under Application No. 33935 now pending before the Commission.

The improvements in rates for answering service agreed to by the parties, except for the basis of line mileage measurement, appear reasonable and will be authorized. The defendant will be ordered to give further study to the problem of off-premises line rates and charging methods.

O R D E R

Complaints as above-entitled having been filed with this Commission, public hearings having been held thereon, the matters having been submitted and now being ready for decision, and it being the opinion of the Commission that the rates for answering service should be revised, and it appearing that the rate and serving arrangements, other than the basis for charges for off-premises lines, represent a substantial improvement over the present rates and arrangements for answering service and should be authorized, but, that since patrons of such answering services were not notified of possible increases and decreases in off-premises line rates, increases and decreases in off-premises line charges should be effected in the general rate proceeding under Application No. 33935, and it further appearing that the basis of the present air-line mileage rates to off-premises lines in connection with the telephone answering services may be improved and that a more equitable basis for applying such mileage may be developed; therefor

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates in so far as they differ from those herein prescribed for the future are unjust and unreasonable, therefore,

IT IS HEREBY ORDERED that defendant is authorized and directed to file in quadruplicate with this Commission after the

effective date of this order in conformity with General Order No. 96 schedules of rates and conditions as set forth in Exhibit A, attached to defendant's answers in Cases Nos. 5400 and 5417 and, after not less than five days' notice to this Commission and to the public, to make said rates and conditions effective for service furnished on and after June 1, 1953.

IT IS HEREBY FURTHER ORDERED that not later than ninety days after the effective date of this order defendant shall file with the Commission and with each complainant herein a study of the revenue effects and the effects on customers of a revision of the mileage rates set forth in Schedule Cal. P.U.C. No. 26-T for all off-premises lines applicable throughout the State of California substantially in accordance with the principles, plans and methods set forth in Exhibit A attached hereto. Such study shall include a distribution of the amounts of increases and decreases in charges to customers under the several suggested schedules. In addition to the total effects set forth above the study shall segregate the off-premises lines which terminate on cord operated answering boards.

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

Dated at San Francisco, California, this 24 day of April, 1953.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners

EXHIBIT A
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With respect to each plan, defendant shall develop schedules of rates designed to produce (1) approximately the same level of revenues as the presently effective schedule, (2) approximately the same level of revenues as the presently effective schedule increased by the average over-all percentage increase being requested by The Pacific Telephone and Telegraph Company in Application No. 33935 and (3) such other amounts as defendant deems appropriate.

Defendant may include such other schedules of mileage rates as, in its opinion, are appropriate.

Mileage Rates

PLAN I

- A. Off subscribers' premises and within the exchange area or zone.
Each extension station line, private branch exchange station line, order receiving equipment line, or multiple key cabinet line:

- | | <u>Rate per Month</u> |
|--|-----------------------|
| 1. Continuous Property: | |
| (a) Same building | |
| First $\frac{1}{4}$ mile air-line distance | |
| Each additional $\frac{1}{4}$ mile air-line distance | |
| (b) Different buildings | |
| First $\frac{1}{4}$ mile air-line distance | |
| Each additional $\frac{1}{4}$ mile air-line distance | |
| 2. Noncontinuous Property: | |
| (a) Served from same central office building | |
| First $\frac{1}{4}$ mile air-line distance | |
| Each additional $\frac{1}{4}$ mile air-line distance | |
| (b) Served from different central office buildings | |
| (1) Distance between off-premises location and central office building which serves off-premises location: | |
| First $\frac{1}{4}$ mile air-line distance | |
| Each additional $\frac{1}{4}$ mile air-line distance | |
| (2) Distance between central office buildings | |
| First $\frac{1}{4}$ mile air-line distance | |
| Each additional $\frac{1}{4}$ mile air-line distance | |
| (3) Distance between terminals | |
| First $\frac{1}{4}$ mile air-line distance | |
| Each additional $\frac{1}{4}$ mile air-line distance | |

EXHIBIT A
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PLAN I--contd.

- B. Extension station or private branch exchange station located outside the exchange area or zone and off subscribers' premises on which the primary station or private branch exchange switchboard is located:
- (a) When the primary station or private branch exchange switchboard is located in the local exchange area or zone and connected for foreign exchange service from a contiguous exchange and the extension station or private branch exchange station is located in that contiguous exchange area, the rates under A above apply.
 - (b) Same basis as Schedule Cal. P.U.C. No. 26-T Original Sheet 5, Rate 3(b).
 - (c) Same basis as Schedule Cal. P.U.C. No. 26-T Original Sheet 6, Rate 4.

Conditions:

1. The rates in A 1(a) and A 1(b) above apply to the air-line distances measured between the terminals involved.
2. The rates in A 2(a) above apply to the air-line distances measured between the serving central office and the off-premises location or the air-line distance between the terminals of the line involved, whichever results in the lower charge.
3. The charge for off-premises lines extending between locations which are served from different central office buildings in the same exchange area or zone is determined by adding the charges under Rates A 2b(1) and A 2b(2). Such charge in no case shall exceed the amount determined under Rate A 2b(3) above.
4. "Terminals" mean the stations or station and switchboard between which the off-premises line is connected.

PLAN II

- A. Off subscribers' premises and within the exchange area or zone. Each extension station line, private branch exchange station line, order receiving equipment line, or multiple key cabinet line:

- | | <u>Rate per Month</u> |
|--|-----------------------|
| 1. Continuous Property: | |
| (a) Same building | |
| First $\frac{1}{4}$ mile air-line distance | |
| Each additional $\frac{1}{4}$ mile air-line distance | |
| (b) Different buildings | |
| First $\frac{1}{4}$ mile air-line distance | |
| Each additional $\frac{1}{4}$ mile air-line distance | |

EXHIBIT A
Page 3 of 3

PLAN II—contd.Rate per Month

2. Noncontinuous Property:

- (a) Served from same central office building
 - First $\frac{1}{4}$ mile air-line distance
 - Each additional $\frac{1}{4}$ mile air-line distance
- (b) Served from different central office buildings
 - (1) Distance between off-premises location and central office building which serves off-premises location
 - First $\frac{1}{4}$ mile air-line distance
 - Each additional $\frac{1}{4}$ mile air-line distance
 - (2) Distance between central office buildings
 - First $\frac{1}{4}$ mile air-line distance
 - Each additional $\frac{1}{4}$ mile air-line distance

B. Extension station or private branch exchange station located outside the exchange area or zone and off subscribers' premises on which the primary station or private branch exchange switchboard is located:

- (a) When the primary station or private branch exchange switchboard is located in the local exchange area or zone and connected for foreign exchange service from a contiguous exchange and the extension station or private branch exchange station is located in that contiguous exchange area, the rates under A above apply.
- (b) Same basis as Schedule Cal. P.U.C. No. 26-T Original Sheet 5, Rate 3(b).
- (c) Same basis as Schedule Cal. P.U.C. No. 26-T Original Sheet 6, Rate 4.

Conditions:

1. The rates in A 1(a) and A 1(b) above apply to the air-line distances measured between the terminals involved.
2. The rates in A 2(a) above apply to the air-line distances measured between the serving central office and the off-premises location.
3. The charge for off-premises lines extending between locations which are served from different central office buildings in the same exchange area or zone is determined by adding the charges under Rates A 2b(1) and A 2b(2).
4. "Terminals" mean the stations or station and switchboard between which the off-premises line is connected.