

ORIGINALDecision No. 50630

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY,)
 a corporation, for authority to establish)
 rates for extended service in its Orange)
 County exchanges, to cancel and withdraw)
 present exchange service rates in said)
 exchanges and to cancel and withdraw message)
 toll telephone service rates now in effect)
 between certain exchanges in Orange County.)

Application No. 35762

(Appearances and list of witnesses
 are set forth in Appendix A.)

O P I N I O N

In this proceeding The Pacific Telephone and Telegraph Company, hereinafter referred to as applicant, coincident with the provisions of extended service in Orange County on October 31, 1954; requests authority to:

1. File and make effective rates for extended service in its 12 exchanges: Anaheim, Brea, Buena Park, Dana Point, Fullerton, Garden Grove, Newport Beach, Orange, Placentia, San Clemente, San Juan Capistrano and Santa Ana,
2. Cancel and withdraw present rates for local exchange service now in effect in these 12 exchanges,
3. Expand the local service areas of these 12 exchanges to include certain adjoining and nearby exchanges as set forth in Exhibit A of the application, and
4. Cancel and withdraw message toll telephone rates over the routes set forth in Exhibit B of the application.

Public Hearing

A public hearing on this application was held in Santa Ana before Commissioner Justus F. Craemer and Examiner M. W. Edwards on October 1, 1954, the matter being submitted for decision at the

close of the day's session. Several interested parties made statements with regard to applicant's proposal. The General Telephone Company of California, serving the Huntington Beach, Laguna Beach and Westminster exchanges, and other exchanges, portions of which are in Orange County, was represented by counsel who explained General's position.¹ The Commission staff, represented by counsel and a telephone engineer, took an active part in the proceeding; presented an exhibit and cross-examined witnesses for the purpose of developing a full and complete record in the public interest.

Previous Authorization

As a result of a complaint case² brought by the California Farm Bureau Federation against the applicant and the former Associated Telephone Company, Ltd.,³ applicant was ordered to proceed to introduce extended service in its exchanges in Orange County, with a tentative date not later than January 1, 1955, and General Telephone Company of California was ordered to study the matter and render a report relating to the feasibility and costs of furnishing extended service in its three principal Orange County exchanges and to the applicant's adjacent exchanges within Orange County only. Applicant's witness testified that it has proceeded with the engineering construction and installation work in accordance with the Commission's order, that the work has progressed on schedule and that it expects to be able to introduce the authorized extended service on October 31, 1954.

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- 1 The principal areas served by these exchanges located in Orange County embrace the cities of La Habra and Seal Beach.
 - 2 Case No. 5289, Decision No. 46510, dated December 11, 1951.
 - 3 Associated Telephone Company, Ltd., name has since been changed to General Telephone Company of California.

Station Availability

Applicant's summary of station availability under the present local service arrangement and the proposed extended service arrangement based on figures as of January 1, 1954⁴ may be summarized as follows:

<u>Classification</u>	<u>Stations in Local Service Area</u>	
	<u>Present</u>	<u>Extended Service</u>
<u>Group A</u>		
Garden Grove	3,537	71,057
Santa Ana	26,661	71,057
<u>Group B</u>		
Anaheim	9,571	57,979
Brea	1,489	57,979
Buena Park	1,857	57,979
Fullerton	7,786	57,979
Orange	5,633	57,979
Placentia	1,445	57,979
Newport Beach	13,078	43,276
<u>Group C</u>		
Dana Point	492	2,297
San Clemente	1,470	2,297
San Juan Capistrano	335	2,297

Applicant's rate proposal in general is predicated on station availability, that is, the greater the number of stations available the higher the rate by certain groupings. For the purpose of this proposal applicant classes Newport Beach in the same grouping as Anaheim, Brea, and several other exchanges, even though the station availability of Newport Beach is some 14,000 less than in the other exchanges in the group. Staff counsel questioned applicant's witness as to the equity of Newport Beach being placed in Group B with areas of greater station availability. The witness stated that a grouping of from 40,000 to 60,000 was practical, quite common, and within equitable bounds.

⁴ The evidence shows that the number of stations in Orange County exchanges of the applicant increased from 67,734 as of June 30, 1953 to 82,523 as of August 31, 1954.

Present and Proposed Rates

Exhibit No. 1, introduced by the applicant, shows the present local service rates and the proposed extended service rates. The principal rates, both present and proposed, are as follows:

Classification	Group A		Group B		Group C	
	Present	Proposed	Present	Proposed	Present	Proposed
Residence						
1-Party	\$4.05-\$4.55	\$5.25	\$4.05-\$4.30	\$5.00	\$3.80-\$4.05	\$4.50
2-Party	3.50- 3.75	4.20	3.50	3.95	3.25- 3.50	3.75
4-Party	2.95- 3.20	3.55	2.95	3.30	2.70- 2.95	3.10
Business						
1-Party Flat Rate	6.50- 9.25	11.50	6.50- 8.75	11.00	6.00- 6.50	7.50
1-Party Msg. Rate	-	5.75 (75)*	-	5.25 (65)*	-	-
2-Party Flat Rate	5.25- 7.00	8.25#	5.25- 6.75	7.75#	4.75- 5.25	6.00

* The proposed rate for each exchange message over the indicated allowance is 4.25 cents.

Interim service to be withdrawn as facilities for business 1-party flat or message rate service become available.

Applicant's proposed rates show a range of increases of from 45 cents to \$1.20 for residence one-party subscribers, 25 to 70 cents for residence two-party, and from 15 to 60 cents for residence four-party. With respect to business service the range of monthly increases is from \$1 to \$5 for one-party flat rate, and from \$1.50 to \$7.50 for PBX trunks. These increases in exchange rates contemplate the elimination of a number of the toll rates between adjacent and nearby exchanges.

Cost and Revenue Effects

Exhibit No. 1 shows that the introduction of extended service in Orange County, at the rates proposed by applicant under the assumption that 40 per cent of business service is at message rates, will result in an annual reduction in cost of \$506,800, an annual increase in exchange charges of \$496,000, a reduction in toll

charges of \$1,027,000 yielding a net annual decrease of \$24,200. The staff questioned the use of a ratio as high as 40 per cent for business message rate service and developed the fact that at a 30 per cent ratio there would be a net annual increase of \$14,000 and at a 20 per cent ratio there would be a net annual increase of \$59,100. The above figures were developed using 7 per cent interest on net additions and the staff further brought out the fact that at a 6½ per cent interest rate the increase over the figures shown above would be about \$8,700 per year.

The applicant took exception to the use of a ratio as low as 20 to 25 per cent as advocated by the staff witness, particularly since its construction of facilities was predicated on the higher ratio of 40 per cent. It pointed out that the plant and cost effects would not be significantly reduced if a lesser ratio than 40 per cent eventually materialized. However this ratio does affect the revenue to the extent indicated above.

Position of Parties

The representative of the California Farm Bureau Federation urged that the applicant's plan be promptly placed into effect and commented on the absence of any opposition to the proposed rates at the proceeding. A representative from Newport Beach questioned the rate level proposed for Newport Beach, particularly since the extended service for his exchange did not include the adjacent exchanges of the General Company, Huntington Beach and Laguna Beach. He urged early action to include these General Company exchanges in the plan.

Counsel for General outlined its position pursuant to the Commission's prior order and stated it would continue to study the problem. Within three to five months General expects to have its further study completed including the effect of introducing extended

service in its Orange County exchanges as well as to its adjacent Long Beach, Downey, Whittier and Covina exchanges in the Los Angeles extended area. The applicant offered to cooperate in making this further study.

Service Matters

Applicant submitted Exhibit No. 2 consisting of copies of three letters it had sent to all one-party flat rate business subscribers in nine exchanges in Orange County to advise them of the proposed change to extended service and the future availability of either flat rate or message rate one-party business service. The staff requested that responses to applicant's letters received by October 1, 1954 be tabulated and a summary statement be filed with the Commission showing the preference of customers for the proposed new message rate service.⁵ The evidence shows that subscribers may have any change in classification of service without additional service connection or installation charges.

In response to staff's inquiry as to the status of held orders in the applicant's 12 exchanges in Orange County, a witness reported 4,416 unfilled orders as of June 30, 1954, 3,661 of which will be filled in the second half of 1954. However, with the continuing rapid growth it is expected that the applicant will still have 2,000 unfilled orders at the end of 1954.

While the achievement of extended service generally was contingent upon the conversion to dial operation, two areas will still be under manual operation after extended service is introduced, namely the Harbor central office in Newport Beach and the San Juan Capistrano office. Applicant's present tentative plans call for conversion of these two offices in 1957. The continuance of manual service in Newport Beach was criticized by the representative from

⁵ The tabulation reveals that 5,763 letters were mailed to business individual line subscribers of whom 661 or 11.5% had indicated by October 1, 1954 a preference for message rate service.

that community but he admitted that service had improved in the past few months. Applicant's reason for continuing manual service in these locations is one of over-all system economy, replacement being planned when growth renders inadequate the present central office manual equipment.

Representatives of the Orange County Farm Bureau and the California Farm Bureau Federation questioned whether the introduction of extended service with stimulated calling rates would aggravate party line interference problems. One representative suggested the possibility of limiting calling time on local calls or installing 3-minute buzzer signals. Applicant's witness stated it was concerned over this problem, would continue its program of education to obtain customer cooperation in reasonable party line use, but did not desire to restrict or limit legitimate party line usage.

Conclusions

After considering the evidence of record and the statements by the various parties it is concluded that (1) applicant's proposed rates for extended service generally did not meet objection from subscribers in Orange County, (2) while applicant's proposed extended service rates, coupled with cost savings, might render a slight gain over existing local and toll service rates depending upon realized message rate development, the rate levels appear reasonable when giving weight to indicated costs, the extremely rapid growth of the area and other rate-making factors and (3) applicant should expedite studies in cooperation with the General Telephone Company of California as to the feasibility of making service available in the remaining exchanges in Orange County and with local calling areas which may include certain adjacent or nearby exchanges or district areas in both Los Angeles and Orange Counties.

Finding

From the facts of record herein it is hereby found that the public interest requires the establishment of rates for extended service in the Orange County area as proposed by applicant herein coincident with the establishment of extended service on or about October 31, 1954 and that an order be issued to become effective in less than twenty days, namely on October 23, 1954.

O R D E R

Applicant having applied to the Public Utilities Commission of the State of California for an order granting authority to establish rates for extended service in Orange County, the Commission having considered this matter and having held a public hearing thereon, and it appearing that the granting of the application will be in the public interest,

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 as follows:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the Commission's General Order No. 96, revised tariff schedules with changes in rates, charges, and conditions as set forth in Exhibit No. 1 of this proceeding and, after not less than five days' notice to this Commission and to the public, to make said revised tariff schedules effective coincident with the establishment of extended service in Orange County.
2. At the time of making effective the rates authorized by Section 1 hereof applicant may cancel present rates for local service as contemplated in the application and in Exhibit No. 1 in this proceeding.
3. Applicant is authorized to extend local service areas of its 12 exchanges in Orange County as set forth in Exhibit A of the application and

cancel and withdraw rates for message toll telephone service over the routes set forth in Exhibit B of the application coincident with the introduction of extended service.

- 4. Applicant shall file with this Commission on or before February 28, 1955 a statement showing the development, as of December 31, 1954, of business individual line message rate and flat rate service and business two-party line flat rate service by exchanges in Orange County.

The effective date of this order shall be October 23, 1954.

Dated at San Francisco, California, this 13th

day of OCTOBER, 1954

Richard L. Mitchell
 President
Justin J. Caswell
Dennis Higgins
Ralph Winters

Commissioners

Commissioner.....Kenneth Rotter....., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

LIST OF APPEARANCES

For Applicant: Pillsbury, Madison & Sutro, A. T. George, and F. N. Marshall.

Interested Parties: California Farm Bureau Federation and Orange County Farm Bureau, by J. J. Deuel; Orange County Farm Bureau, by George Kellogg; General Telephone Company of California, by M. K. Taylor and A. M. Hart; Newport-Balboa Press, by Ben Reddick.

For the Commission Staff: W. W. Dunlop and B. H. Lakusta.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by Ward C. Schweizer and by J. L. Richards.

Evidence was presented on behalf of the Commission staff by J. B. Balcomb.