

Decision No. 53299

ORIGINAL

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 Eureka, Arcata and Blue Lake)
 exchanges in lieu of present rates and)
 to cancel and withdraw message toll)
 telephone service rates now in effect)
 between Eureka and Arcata and Eureka)
 and Blue Lake.)

Application No. 37215

(Lists of appearances and witnesses are
 set forth in Appendix A)

O P I N I O N

Applicant's Request

The Pacific Telephone and Telegraph Company by the above-entitled application, filed August 16, 1955, requests authority to:

1. Provide extended service between Eureka and Arcata and between Eureka and Blue Lake.
2. File and make effective rates for extended service as set forth in Exhibit D attached to the application.
3. Cancel and withdraw present rates for exchange service now in effect in the Eureka, Arcata and Blue Lake Exchanges.
4. Cancel and withdraw message toll telephone rates between Eureka and Arcata and between Eureka and Blue Lake.

Public Hearing

After due notice a public hearing on this application was held in Eureka before Examiner M. W. Edwards on May 10, 1956, the matter being submitted for decision on that date. Applicant through three witnesses presented seven exhibits and testimony in support

of its application. The Commission's staff through one witness presented three exhibits and testimony for the purpose of bringing before the Commission information relative to the feasibility of and justification for the introduction of extended service as proposed or for alternate plans. Testimony was presented on behalf of the cities of Arcata and Blue Lake urging the Commission to authorize the applicant's extended service plan.

Statements favoring the application were made by representatives of the Eureka Chamber of Commerce, Arcata Chamber of Commerce, Humboldt State College and Nor-Cal. Tele Radio System. The California Farm Bureau Federation took an active part in the proceeding, cross-examined witnesses and generally favored the proposed extended service. In addition, certain members of the public appeared at the hearing and offered statements favoring the introduction of extended service. No one offered any opposition to the applicant's proposal.

Desire For Extended Service

Applicant asserts it has received numerous requests for an extended service arrangement between Eureka, Arcata and Blue Lake exchanges. Copies of six letters are attached to the application as Exhibit C generally endorsing applicant's proposed extended service plan. On April 9, 1956 the Board of Supervisors of Humboldt County passed a resolution recommending that the Commission grant the application.

The effect of applicant's proposal would be to considerably increase, for each of the three exchanges, the number of stations that could be called without payment of toll charges. Applicant's Exhibit No. 3 shows the following company stations in the local calling area as of February 29, 1956:

<u>Exchange</u>	<u>Stations in Local Service Area</u>	
	<u>Present</u>	<u>Proposed Extended</u>
Arcata	5,035	20,972
Blue Lake	5,035	20,972
Eureka	15,937	20,972

It will be noted that Arcata and Blue Lake presently have identical station availability because they are now on an extended service basis as a result of prior Commission authorization (Decision No. 48544) effective coincident with the introduction of dial service in the Blue Lake exchange in March 1954. Such service would not be disturbed but rather would be enlarged by applicant's proposal.

Applicant's studies show a substantial community of interest between the three exchanges. Eureka, the county seat of Humboldt County, has a population of approximately 40,000 and is the center of the lumbering industry of the northwest California coast. Arcata, located some ten miles north of Eureka, has a population of approximately 15,000 and is the site of Humboldt State College which draws nearly half of its students from Eureka. Blue Lake is located some seven miles east of Arcata and has a population of approximately 2,400. The entire area is devoted largely to production of lumber, lumber products and allied activities. One typical month's study showed that there were 13.28 toll calls from Arcata to Eureka per subscriber and 9.05 toll calls from Blue Lake to Eureka per subscriber.

While applicant's statements would indicate that practically all subscribers favor the extended service plan, the Commission was aware that in a typical month studied 57 percent of the residential subscribers and 31 percent of the non-coin business subscribers in Eureka made no toll calls to Arcata-Blue Lake exchanges. To check

this indicated desire more completely, the Commission requested the applicant to canvass the subscribers.

Subscriber Canvass

Applicant canvassed by mail all subscribers in the three exchanges to determine subscriber preference for the extended service plan or retention of present serving arrangement. Of the 15,841 subscribers canvassed, 9,135 or 57.7 per cent responded, 6,790 indicating that they favored extended service at the rates proposed by applicant. In other words, 74.3 percent of those responding favored the proposed change to extended service.

The Commission staff questioned that the canvass truly reflected the desires of a majority of the subscribers since less than half of the total subscribers had voted in favor of the plan. Witness for the applicant disagreed with this conclusion because the replies which had been received following the announced closing date of the canvass (April 16, 1956) were still running approximately 75 percent in favor of the plan.

Of particular interest was the relative approval shown by the residential and business subscribers. Of the total residential subscribers answering the canvass, 75.8 percent favored extended service and of the total business subscribers answering the canvass, 66.8 percent favored extended service. The applicant's proposed increases in exchange rates for extended service were substantially higher for business than for residence service.

Present and Proposed Rates

A comparison of applicant's present and proposed extended service rates for the principal classifications of exchange service follows:

<u>Service</u>	<u>Rate Per Month</u>		
	<u>Arcata and Blue Lake</u>	<u>Eureka</u>	<u>Applicant's Proposed Extended Service</u>
<u>Business</u>			
1-Party	\$6.50	\$ 8.75	\$10.00
2-Party	5.25	6.75	7.75
PBX Trunk	9.75	13.00	15.00
Suburban	4.75	5.25	6.00
<u>Residence</u>			
1-Party	4.05	4.30	4.50
2-Party	3.50	3.50	3.65
4-Party	2.95	2.95	3.05
Suburban	3.45	3.45	3.55

Coincident with the introduction of extended service, applicant proposes to cancel the presently effective toll telephone rates between Eureka and Arcata and between Eureka and Blue Lake, the initial station toll rates being 10 cents and 15 cents, respectively. Applicant also proposes to cancel presently effective foreign exchange rates which will no longer be required under extended service.

Cost and Revenue Effects

Applicant estimates that it will realize substantial expense savings in accounting, commercial and traffic functions if nonoptional extended service is authorized. This total expense saving is estimated at \$69,600 per year, based on June 30, 1954 development. In order to make the plan effective, however, applicant will have to install additional plant on which it estimates the annual charges thereon to be \$10,900. The net cost effects of the plan are an over-all saving of \$58,700.

Applicant estimates that the cancellation of the toll rates will reduce revenues by \$143,600. For applicant's revenue position to be maintained at its present level, increases in exchange rates amounting to \$84,400 are proposed, of which \$71,700 are in basic service and \$12,900 in coin service. In other words, applicant's

plan will save telephone users an estimated \$59,000 per year.

Optional Extended Service Plans

In addition to the nonoptional plan proposed by the applicant, the Commission's staff studied two alternate plans based on optional extended service. These optional plans were presented in Exhibit No. 8. The first plan limited the optional service to individual line subscribers, PBX trunk and coin service, with an estimated extended service development of approximately 9 percent of main stations. The second plan included all services except suburban and farmer line, with an estimated development of approximately 12 percent of main stations.

The cost of introducing either of these plans was shown to be nearly as great as the cost of introducing nonoptional extended service. Because of the lesser development under these optional plans the rate levels were substantially higher than proposed by applicant. For example, the rate for 1-party business service under the first optional plan is \$3 higher and under the second optional plan \$4.75 higher.

Exchange Earnings

At the request of the Commission the applicant presented Exhibit No. 7 showing that the earnings for exchange operations under present rates and service for the year 1954 were 4.3 percent in the combined Arcata and Blue Lake exchanges and 6.7 percent in the Eureka exchange. The combined exchange earnings for the entire three exchanges was 6.3 percent. Applicant had no estimate as to the exchange earning level under its proposed extended service, its rate proposal having been developed on the basis of maintaining the existing level of over-all net revenue after expense savings.

The staff introduced Exhibit No. 9 for the purpose of showing the results of exchange operations on an extended service basis. The 1954 results were adjusted for the applicant's proposed

rates, the added investment in plant, and the added expenses on a re-separation of plant and expenses assignable to exchange operations and toll operations. This study indicates that the rate of return in the Arcata and Blue Lake exchanges will decline to a negative or red figure of 3.9 percent and in the Eureka exchange decline to a positive figure of 5.9 percent. The staff estimates that the entire extended area under the proposed exchange rates will show a drop in rate of return to 4.3 percent. The staff's general conclusion was that the applicant had not requested rates of a proper level, particularly in the Arcata and Blue Lake exchanges.

Applicant disagreed with the staff's conclusion on the basis that the 1954 results are not proper for conclusions as to earnings on extended service; it maintains that the extended service will apply to future operations with an increased number of subscribers and with local calls stimulated as much as 200 percent, thus enhancing the expectancy of additional revenue. However, on cross-examination applicant's witness testified that the introduction of extended service would result in the reallocation of plant and expense from state and interstate toll to exchange operations and tend to reduce exchange earnings.

Findings and Conclusions

A substantial community of interest has been shown between the three exchanges and there is apparent desire by roughly three-quarters of the subscribers for extended service. Because of the smaller number of subscribers that would take the service if optional extended service is offered, the rates would be so high as to be attractive only to the larger users. On a non-optional basis the increases per station are nominal considering the increased service incident to an extended local calling area. In the Commission's opinion, optional extended service does not appear to be the most

reasonable solution to the problem. In view of the substantial majority that desire the service, the applicant's non-optional plan will be authorized at the rate levels proposed by applicant. There is an indication that these rate levels may not in the future provide a return as high as the system average return and in the fixing of rates in the future the Commission will give consideration to any deficiencies in earnings in the Eureka area in order not to unreasonably burden other areas of California.

From the facts of record herein the Commission finds: that the public interest requires the establishment of non-optional extended service in the Eureka, Arcata and Blue Lake exchanges within the period of approximately 90 days following the effective date of this order; that the increases in rates and charges authorized herein are justified; that present rates, in so far as they differ from those herein prescribed, for the future are unjust and unreasonable; and that an order should be issued authorizing applicant's proposal.

O R D E R

The above-entitled application having been filed, a public hearing having been held, the matter having been submitted and it appearing that the granting of the application will be in the public interest; therefore,

IT IS ORDERED as follows:

1. Applicant is authorized to expand the local service area of the Eureka exchange to include the Arcata and Blue Lake exchanges and expand the local service area of the Arcata and Blue Lake exchanges to include the Eureka exchange.

2. 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 D attached to the application 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 as provided by Section 1 hereof.

3. At the time of making effective the rates authorized by Section 2, hereof, applicant may cancel and withdraw present rates for exchange service now in effect in the Eureka, Arcata and Blue Lake Exchanges and foreign exchange service as contemplated in the application.

4. At the time of making effective the rates authorized by Section 2 hereof, applicant may cancel and withdraw message toll telephone rates between Eureka and Arcata and between Eureka and Blue Lake.

5. The authority herein granted will expire unless exercised on or before November 30, 1956.

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

Dated at San Francisco, California, this 26th day of September, 1956.

John E. Mitchell
President
Justus J. Craven
Paul J. Interviewer
Walter J. ...
Commissioners

Commissioner Rex Hardy being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

LIST OF APPEARANCES

For Applicant: Arthur T. George, Dexter C. Tight, Pillsbury
Madison & Sutro.

Interested Parties: Eureka Chamber of Commerce by R. F. Denbo;
Cities of Arcata and Blue Lake by
John R. Stokes, Jr.; California Farm
Bureau Federation by J. J. Deuel, Bert
Buzzini and Joseph A. Joynt; Humboldt
State College by Frank E. Devery;
Arcata Chamber of Commerce by H. R. V.
Chapman and Harrison O. Parker;
Nor-Cal. Tele Radio System by Alvor E.
Olsen; Radio Station KIEM by Newton L.
Steward; Kenneth E. Stacey and Percy L.
Musser in propria personae.

Commission Staff by William W. Dunlop.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by:

Clifford F. Goode, John S. Daniels
and Robert M. Cunningham.

Evidence was presented on behalf of the interested parties by:

John R. Stokes, Jr. and Kenneth E.
Stacey.

Evidence was presented on behalf of the Commission staff by:

E. J. Macario.