

ORIGINALDecision No. 55202

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 Modesto, Hughson and Riverbank) Application No. 38424
 Exchanges in lieu of present exchange)
 rates and to cancel and withdraw)
 message toll telephone service rates)
 now in effect between Modesto and Hughson,)
 and between Modesto and Riverbank.)

Arthur T. George, Pillsbury Madison & Sutro, by
Dexter C. Tight and Charles B. Renfrew, for
 applicant.

J. J. Deuel and Eldon Dye, for California Farm
 Bureau Federation; Donald H. West, for Modesto
 Chamber of Commerce; C. W. Masonheimer for
 City of Modesto; Frederick W. Reyland, Jr.,
 for Board of Supervisors of Stanislaus County;
Ernest Landward, for Stanislaus County Chamber
 of Commerce; Kenneth L. Galt, for Hughson
 Chamber of Commerce; Mrs. Don Scranon, for
 20th Century Club of Hughson; Robert O. James,
 for Hughson Lions Club; and Dick Landon, for
 Riverbank Chamber of Commerce, interested
 parties.

James H. McCraney for the Commission staff.

O P I N I O NApplicant's Request

By the above-entitled application filed on September 19,
 1956, The Pacific Telephone and Telegraph Company requests an order
 of the Commission authorizing it on or before March 31, 1959 to:

1. File and make effective rates for extended service
 in the Modesto, Hughson and Riverbank exchanges, as
 set forth in Exhibit C attached to the application;
2. Cancel and withdraw present rates for exchange
 service now in effect in the Modesto, Hughson, and
 Riverbank exchanges;

3. Expand the local service area of the Modesto exchange to include the Hughson and Riverbank exchanges,

expand the local service area of the Hughson exchange to include the Modesto exchange, and expand the local service area of the Riverbank exchange to include the Modesto exchange;
4. Cancel and withdraw from its Schedule Cal. P.U.C. No. 34-T foreign exchange service rates applicable to Modesto service in Hughson and Riverbank;
5. Modify its Schedule Cal. P.U.C. No. 9-T to limit the offering of foreign exchange farmer line service between Modesto and Hughson and Modesto and Riverbank as described in Paragraph V of the application; and,
6. Cancel and withdraw message toll telephone service rates between Modesto and Hughson and between Modesto and Riverbank.

Public Hearing

After due notice, public hearing on this application was held before Examiner M. W. Edwards on April 29, 1957, at Modesto, California. Applicant through three witnesses presented six exhibits in support of its application. The Commission's staff, represented by a telephone engineer, presented one exhibit through a staff witness which was an analysis of the applicant's cost studies. The representative of the Commission's staff also cross-examined one of the company's witnesses for the purpose of developing a full and complete record to aid the Commission in deciding this matter. Also, a representative of the California Farm Bureau Federation cross-examined the witnesses. Statements favoring the establishment of the extended service plan as proposed by the company were

made by representatives of the following civic and service organizations:

Modesto Chamber of Commerce
City of Modesto
Board of Supervisors of Stanislaus County
Stanislaus County Chamber of Commerce
Hughson 20th Century Club and Riverbank
District Chamber of Commerce

No persons attending the hearing objected to the granting of applicant's request.

Present Service Arrangement

The City of Modesto is the county seat of Stanislaus County and is the industrial and trading center for the surrounding agricultural area which includes the Hughson and Riverbank exchanges. Hughson is an agricultural community located about seven miles east of Modesto. Riverbank also is an agricultural community located eight miles northeast of Modesto.

The Modesto exchange which is comprised of the City of Modesto and surrounding territory has a population of approximately 100,000 persons. The exchange is served by means of dial equipment and as of March 1, 1957, served 34,395 stations. The exchange covers an irregularly shaped rectangular area some 15 miles on a side.

The Hughson exchange as of March 1, 1957, served 837 stations and covers an irregularly shaped rectangular area of some four miles by seven miles. The west and north boundaries of the Hughson exchange are adjacent to the eastern and southern boundaries of the Modesto exchange.

The Riverbank exchange as of March 1, 1957, served 911 stations and covers an irregularly shaped square area some four miles on a side. The west and south boundaries of the Riverbank exchange are adjacent to the eastern and northern boundaries of the Modesto exchange.

Community of Interest

Applicant represents that a definite community of interest has developed between Hughson and Modesto and between Riverbank and Modesto, basing such representation on the level of toll telephone usage between these exchanges. Applicant estimates that on the basis of June, 1955 data, average monthly toll telephone messages from Hughson to Modesto and from Modesto to Hughson amount to 7,100 and 5,200, respectively. Similarly, such messages from Riverbank to Modesto and from Modesto to Riverbank amount to 6,800 and 4,700^{1/}, respectively. When expressed as a community of interest factor applicant's June, 1955, study shows 10.40 between Hughson and Modesto and 9.77 between Riverbank and Modesto.

Applicant's Position

Applicant states that it has received numerous requests from individuals in Hughson that the Modesto exchange be included within their local service area. As early as June, 1954, applicant states such action also was urged by the Hughson Chamber of Commerce. In view of these requests, applicant undertook studies to determine the feasibility of extended service. Applicant represents that its study indicated that extended service would be feasible between these exchanges and, also, in view of the high community of interest between Riverbank and Modesto, the Riverbank exchange was studied at the same time with the same feasibility indicated. Applicant estimated that extended service could be established 18 to 24 months after authorization is received.

Exchange Rates, Present and Proposed

Under applicant's proposal the present 10 cent (initial period) toll charge between Hughson and Modesto and between Riverbank and Modesto would be canceled and nonoptional extended service would be provided at rates which would represent increases of from zero to

^{1/} Number of toll calls per month per average station.

50 cents per month for Modesto subscribers, from 25 cents to \$5.25 per month for Hughson subscribers, and from zero to \$4.50 per month for Riverbank subscribers. An example of present and proposed monthly rates for principal classes of service follows:

<u>Classification</u>	<u>Present Rates</u>			<u>Proposed Extended Service</u>
	<u>Modesto</u>	<u>Hughson</u>	<u>Riverbank</u>	
<u>Residence</u>				
1-Party	\$4.55	\$3.80	\$4.05	\$4.55
2-Party	3.50	3.25	3.50	3.50
4-Party	2.95	2.70	2.95	2.95
Suburban	3.45	3.20	3.45	3.45
Farmer Line	1.25	0.75	0.85	1.25
<u>Business</u>				
1-Party	9.25	6.00	6.50	9.55
2-Party	7.00	4.75	5.25	7.10
PBX Trunk	13.75	9.00	9.75	14.25
Suburban	5.25	4.50	4.75	5.25
Farmer Line	2.25	1.25	1.50	2.25

Applicant's basis for proposing the increased rates is that they approximately offset the loss from elimination of the 10-cent (initial period) toll charges between Hughson and Modesto and between Riverbank and Modesto after allowing for the increases in cost on added plant and the expense savings in each exchange. This proposal does not contemplate extended service between Hughson and Riverbank and the present toll charge of 15 cents (initial period) remains; the toll centers will remain the same in each exchange and only the tolls between Modesto and Riverbank and Modesto and Hughson will be eliminated.

Cost and Revenue Effects

Applicant estimated the investment in plant released under extended service at \$97,000 which would more than offset the added \$68,200 gross investment to establish the extended service. The indicated annual charges on the net investment saved is a saving

of \$2,700. The saving in commercial, accounting and traffic expenses is estimated at \$18,100 per year. The total annual savings estimate is \$20,800.

Applicant estimates that the annual loss in toll revenues will be \$42,100 and that there will be an additional loss of revenue of \$6,800 resulting from elimination of approximately 50 Modesto foreign exchange services being furnished in Hughson and approximately 20 such services in Riverbank. This will leave about \$28,100 increase in exchange revenues if applicant is not to sustain a revenue reduction from the establishment of extended service. The rate increases proposed are estimated to produce an increase of \$25,200 in basic exchange services and \$3,300 in coin services. The total annual saving to subscribers estimated to result from the proposed extended service is \$20,400.

Staff Analysis

The applicant's study did not show these savings by exchanges, but showed results for the three exchanges combined. The staff studied this matter and by Exhibit No. 6 showed that the subscribers in Riverbank and Hughson would benefit more than the subscribers in Modesto from the establishment of extended service. The subscriber savings by exchanges would be:

Modesto	\$5,400
Hughson	6,800
Riverbank	<u>8,200</u>
Total	\$20,400

The staff also studied the effect of the applicant's proposal on the rate of earnings for exchange service by the three exchanges involved in this extended service proposal both before and after the inauguration of extended service. These earning studies are predicated upon a separation of plant and expenses between toll and exchange service for the year 1955 and then relating the net

revenue from exchange operations to the average net plant and working capital allocated to exchange service. The results are expressed in the form of rates of return and may be summarized as follows:

<u>Estimated Results of Exchange Operation.</u>		<u>Year 1955</u>
<u>Exchange</u>	<u>Under Present Serving Arrangement and Rates</u>	<u>: Under Extended Service and Proposed Rates</u>
Modesto	3.53%	: 3.43%
Hughson	4.59	: 3.48
Riverbank	<u>4.04</u>	: <u>2.61</u>
Total (Weighted)	3.56	: 3.41

The staff took the position that the extended service would result in stimulation of traffic between Modesto, Hughson and Riverbank and inasmuch as the proposal would not particularly lower the exchange earning position, it did not oppose applicant's proposal. In other proceedings of this nature, when a substantial reduction in earnings might result because the applicant had not proposed adequate rate levels, the staff has opposed extended service that would burden the rates of other exchanges over the system.

Findings and Conclusions

Applicant's studies indicate a substantial community of interest has developed between Hughson and Modesto and between Riverbank and Modesto. While substantial rate increases are involved for Hughson and Riverbank customers the value of telephone service is improved as indicated by the following station availability figures:

<u>Exchange</u>	<u>Station Availability - March 1, 1957</u>	
	<u>Present</u>	<u>Proposed Extended</u>
Hughson	837	35,232
Modesto	34,395	36,143
Riverbank	911	35,306

Statistically, Modesto subscribers gain very little; at the same time the increases are comparatively small to Modesto subscribers.

The representative of the California Farm Bureau Federation expressed the view that the application was in the public interest, but was concerned that the applicant's proposal not jeopardize farmer line local and extended service in the area.

The Commission has carefully considered the entire record in this matter including the testimony and statements favoring extended service. In the Commission's opinion the advantages of increased service incident to an extended local calling area, outweigh the nominal increase to the Modesto subscribers and the substantial increases to the Hughson and Riverbank subscribers.

From the facts of record herein the Commission finds and concludes:

1. That public interest requires the establishment of non-optional extended service between Hughson and Modesto and between Riverbank and Modesto;
2. That the increase in rates and charges authorized herein are justified;
3. That present rates in so far as they differ from those herein prescribed for the future are unjust and unreasonable after extended service is available; and
4. That an order should be issued authorizing the introduction of extended service and rates substantially as proposed by applicant.

O R D E R

The above-entitled application having been filed, a public hearing having been held, the matter having been submitted and being ready for decision; therefore,

IT IS ORDERED as follows:

1. Applicant is authorized on or before July 1, 1959, to expand the local service area of the Modesto exchange to include the Hughson and Riverbank exchanges, to expand the local service area of the Riverbank exchange to include the Modesto 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 C 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 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 or modify present rates for local, toll and foreign exchange service as contemplated in the application, except that it shall not cancel and withdraw farmer line service to subscribers listed on Exhibit No. 7 unless so requested by the subscribers involved.

4. The authority herein granted will expire unless exercised on or before July 1, 1959.

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

Dated at San Francisco, California, this 2nd day of July, 1957.

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