

Decision No. 59280**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Suspension and)
 Investigation on the Commission's)
 own Motion of Changes in Schedules)
 Nos. 34-T and 35-T of The Pacific)
 Telephone and Telegraph Company)
 filed by Advice Letter No. 7351.)

Case No. 6287

Arthur George and Pillsbury, Madison & Sutro
 by Charles Renfrew, for The Pacific Tele-
 phone and Telegraph Company.
 Irving Rovens, for Hilton Hotels; Dion Holm
 and Robert Laughead, for City and County
 of San Francisco; and William L. Knecht,
 for California Farm Bureau Federation,
 interested parties.
James M. McCraney, for the Commission staff.

O P I N I O NRate Revision Filing

The Pacific Telephone and Telegraph Company¹ on May 29, 1959 filed under its Advice Letter No. 7351 revisions to Schedules Nos. 34-T and 35-T for the purpose of offering business foreign exchange trunk line service to terminate on hotel switchboards as follows: (1) San Francisco service in South San Francisco exchange, and (2) Los Angeles service in Beverly Hills, El Segundo and Inglewood exchanges. The presently effective foreign exchange tariff schedules specifically exclude foreign exchange trunk service in connection with private branch exchange (PBX) switchboards located in hotels and apartments. It appeared appropriate to suspend the filing and set the matter for public hearing in order to obtain additional information as to the need for this type of service.

¹ Hereinafter sometimes referred to as Pacific.

Accordingly, on June 16, 1959, the Commission suspended the filing and instituted an investigation to determine whether the changes in Schedules Nos. 34-T and 35-T are unreasonable, discriminatory, preferential or unlawful in any particular and to issue any order or orders that may be lawful and appropriate in the exercise of the Commission's jurisdiction in the premises.

Public Hearing

After due notice to Pacific and to parties the Commission considered would be interested in this matter, public hearing was held on September 21, 1959 in San Francisco before Examiner Manley W. Edwards. Pacific presented one exhibit and testimony by one witness in support of its filing. The Hilton Hotels presented testimony by one witness to show need for the new service as proposed by Pacific. The Commission staff cross-examined the witnesses, presented three exhibits and testimony by one witness for the purpose of developing a full record to aid the Commission in deciding this matter. The matter was submitted for the Commission's ruling at the close of the day's hearing and now is ready for decision.

Need for the New Service.

Pacific contends that a need has developed in the last few years for foreign exchange service to certain hotels because of the change in trend of locating new hotels on the fringes rather than in the center of metropolitan areas and the desire of such hotels to offer their guests free calling to the metropolitan area. Usually such hotels are located in an exchange area different from the main metropolitan exchange and may be beyond the extended service free calling area. Current examples of this situation are the new Hilton Inn located near the San Francisco International Airport in the South San Francisco exchange; the Hyatt House and

Hyatt House East, both located near the Los Angeles International Airport in the Inglewood exchange; the Thunderbird in the El Segundo exchange; and the Beverly Hilton located in the Beverly Hills exchange.

Pacific studied the calling habits of guests at the Hyatt House in Inglewood and expanded the study to include the other three hotels in the Los Angeles area and made estimates for the Hilton Inn for the purpose of estimating the revenue, plant, and expense effects of its proposed new rate offering. Exhibit No. 4 indicates that annual revenue will decrease by \$32,600 from loss of toll charges, but that annual expenses will decrease by \$37,000 because of the savings in switchboard positions, operators handling the calls, preparing toll tickets and making out bills. With foreign exchange trunks from the metropolitan area, accounting for local calls to such area can be done mechanically and Pacific represents that savings can be effected by bulk billing. Exhibit No. 4 includes no revenue or expense effects for incoming calls on the foreign exchange trunks.

The new Hilton Inn in South San Francisco was described as having great need for the new service. The hotel's witness estimated that 90 per cent of the guests' calls would go to San Francisco and that it was the hotel's desire to provide dial service in the rooms so that the guests could dial directly to San Francisco numbers without toll charge and without the delay of going through the local hotel operator.

Present Hotel Service Arrangements

Pacific's advice letter reference to "business" foreign exchange trunk line service to terminate on hotel PBX switchboards represents departure from established terminology. Private branch

exchange service heretofore has been divided into three categories, namely: commercial PBX service, hotel PBX service, and residence PBX service. Different rate treatment has been accorded each of these three categories.

Under the commercial PBX service resale of telephone service to hotel guests is not permitted, but service for administrative use of hotel management is permitted. The hotel PBX service is primarily for guest use, but management may also use it. The conditions applicable to the furnishing of hotel PBX service permit hotels to add an optional surcharge to the guest's hotel bill as authorized by this Commission's Decision No. 58085, dated March 2, 1959, in Case No. 6085.

While the proposed service is a new offering by Pacific, one independent telephone company in the State does offer foreign exchange service to hotel PBX switchboards over one route at the commercial rate. This is the Coachella Valley Telephone Company's offering of Palm Springs message rate PBX trunk service in the contiguous Indio exchange.

Rate Effect of Filing

There are differences in the hotel PBX rates and commercial PBX rates. For example, in the South San Francisco exchange the following differences are noted:

- a. No charge for hotel PBX trunks; commercial PBX trunks \$2.50 each.
- b. The message rate charge for each hotel message is 5 cents and for each commercial message is 4.25 cents.
- c. PBX extension stations in guest rooms are 85 cents per month each while commercial PBX extension stations are \$1 per month each.

The rate filing does not retain the existing rate structure difference for hotel and commercial PBX service as it provides the

lower message rate applicable to commercial service; however, it retains for hotels the more favorable extension station rate applicable to hotels as well as permitting the hotel to charge up to 18 cents for local calls and make a surcharge of 12 or more cents on toll and message unit calls.

Commission Staff Analysis

The staff analyzed the basic survey of Pacific for the Hyatt House in Inglewood and arrived at the conclusion that the revenue decrease due to the elimination of multmessage unit (MMU) charges was greater than the switchboard, traffic and accounting savings, and that the message rate would have to be 8 cents per message to offset the decrease and maintain Pacific's revenue position. Also the decreased revenue that would result from incoming calls to the hotel being routed over the foreign exchange trunks was not considered.

The staff pointed out that some 35 years ago² the Commission stated that foreign exchange service is, in reality, a service competing with toll service; and an equitable basis for such rate is a charge dependent upon the toll distance between exchanges.

The staff takes the position that where the telephone service is to be used by management as well as hotel guests, it is semipublic in character and that Pacific's filing makes no provision for semipublic service on a foreign exchange basis for the hotels and motels requiring this type of service. In other words, Pacific's filing takes into consideration only foreign exchange service to those hotels having a PBX switchboard, and for that and other reasons the staff states that the tariff filing may result in discriminatory or preferential conditions.

² Decision No. 14420, Application No. 9648.

The staff also pointed out the following discriminatory or preferential conditions:

- a. Foreign exchange service is rendered hotels under more favorable conditions than applicable to commercial PBX service in that hotels will continue to have the lower extension station rate as well as the privileges of resale and making a surcharge on calls.
- b. No provision is included in the tariffs as to what rate the guests will be charged for service rendered over the foreign exchange trunk, nor as to what surcharge will be applied to such service. There is no requirement that all guests calls to the foreign exchange be routed over the foreign exchange trunks and billed at the local rate. This could result in as much as 14 cents difference in a three-minute call.
- c. Two toll rate centers will be available for the use of the hotel PBX operator in completing guests' message unit and toll calls, resulting in different charges to guests depending upon which toll rate measuring point is used.
- d. Under the filing joint user service is offered in connection with hotel PBX foreign exchange service in Southern California, but not in Northern California.
- e. The tariff provides for foreign exchange service over only four routes. There is no provision in the tariff for furnishing the service to any hotel over other routes that might be required.

There is some question by the staff that the filing may result in a lowering of quality of service to hotel guests as Pacific no longer is required to provide free trunks sufficient to meet the traffic demand. If the hotel does not subscribe to a sufficient number of foreign exchange trunks to meet peak guest demand, guests' calls would be subject to considerable delay or would have to be routed over the local trunks with multiple message unit charges applicable.

Findings and Conclusions

Applicant's filing is primarily for the purpose of meeting the request of the Hilton Inn in South San Francisco for toll free

dialing by guests to the San Francisco area, but its study of the probable revenue effects is based principally upon a hotel in the Los Angeles-Inglewood area. Applicant's filing and the facts brought out at the hearing point to the need for a revision in the concept that hotel guests should have only local service available on a toll free basis. The Commission sees a need for the type of service requested by Pacific, but after considering the record finds and concludes that the instant filing is so limited as to be preferential and should be permanently suspended. There undoubtedly are many hotels and motels in fringe areas that desire to make toll free fringe exchange calls available to guests which would not be possible under the instant filing. It would appear that Pacific could accomplish this result by revising its hotel PBX service offering to include the foreign exchange trunks with precise indications as to the method of meeting the preferential and discriminatory points advanced by the staff and also by making semipublic foreign exchange service available to motels and hotels.

O R D E R

The Pacific Telephone and Telegraph Company having filed on May 25, 1959, under Advice Letter No. 7351, revisions to Schedules Nos. 34-T and 35-T as set forth on tariff sheets listed in said advice letter, public hearing having been held, the matter having been submitted and the Commission being of the opinion and finding that such tariff sheets should be permanently suspended; therefore,

IT IS ORDERED that the revisions in Schedules Nos. 34-T and 35-T and in each of the tariff sheets hereinabove mentioned hereby are permanently suspended.

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

Dated at San Francisco, California, this 17th day of November, 1959.

Ernest W. Ford
 President

E. R. ...

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 Commissioners

Commissioner Theodore H. Jenner, being necessarily absent, did not participate in the disposition of this proceeding.