

Decision No. _____

61294

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation on
the Commission's own motion into the
reasonableness of the rates, rules,
regulations, charges, classifications,
contracts, practices, operations and
service, or any of them, of THE PACIFIC
TELEPHONE AND TELEGRAPH COMPANY,
GENERAL TELEPHONE COMPANY OF CALIFORNIA,
KERNAN TELEPHONE COMPANY and SANGER
TELEPHONE COMPANY.

Case No. 5928

(Appearances are listed in Appendix B)

OPINION ON REHEARINGPetition for Rehearing

After public hearing in the above-entitled proceeding, the Commission by Decision No. 56728, issued May 27, 1958, ordered as follows:

- (1) That, on or before July 1, 1960, The Pacific Telephone and Telegraph Company (Pacific) institute extended service between its Fresno exchange and its Clovis, Caruthers and Del Rey exchanges; and
- (2) That, on or before July 1, 1960, Pacific and General Telephone Company of California (General) institute extended service between Pacific's Fresno exchange and General's Fowler exchange under a prescribed basis of intercompany settlement for cross-boundary extended service, referred to in said decision as a "partnership arrangement".

Pacific thereafter sought and obtained an order, Decision No. 56832, extending the effective date of Decision No. 56728 to ninety days after May 27, 1958. On August 15, 1958, Pacific, taking

exception to the prescribed "partnership arrangement", filed a petition for rehearing, and on September 10, 1958, the Commission issued an order granting such rehearing.

Interim Orders Relating to Clovis

In recognition of demonstrated public need, the Commission issued its first interim order herein, Decision No. 57501, dated October 21, 1958, directing Pacific to proceed forthwith to make the necessary plant changes to provide extended service between its Fresno and Clovis exchanges in order that such extended service be established on or before July 1, 1960. In its second interim order herein, Decision No. 58312, issued April 28, 1959, the Commission, following two days of public hearing, fixed rates for Fresno-Clovis extended service on an interim basis, subject to refund in the event that the final rates established for Clovis were less than the interim rates.

Thereafter, Pacific petitioned for modification of certain statements and provisions of Decision No. 58312. On September 1, 1959 the Commission issued Decision No. 58943, setting aside and vacating the requirement that Pacific establish a reserve fund but otherwise affirming Decision No. 58312.

After four additional days of public hearing at Fresno, the matter was submitted on March 30, 1960, subject to the receipt of briefs.

Petition to Reopen Proceedings

On June 24, 1960, Pacific, General and the California Independent Telephone Association filed a joint petition requesting the Commission to reopen the investigation for the limited purpose of receiving additional evidence with respect to intercompany settlement arrangements and proposed extended service rate levels.

The petition recited that the petitioners had arrived at a mutually satisfactory basis of settlement under which cross-boundary extended service between exchanges of Pacific and exchanges of independent telephone companies, where a large exchange and contiguous smaller exchanges are involved, could be furnished in the best interest of the public and all parties. The petition was granted by the Commission and a further day of public hearing was held before Commissioner Matthew J. Dooley and Examiner James F. Haley at San Francisco on October 5, 1960, at which time Pacific and General presented and supported their respective rate proposals and cost studies based upon the agreed settlement arrangement. Closing statements were filed by the respondents and certain interested parties on November 7, 1960, and the matter is now ready for final decision.

Remaining Issues

The record of this proceeding subsequent to the granting of Pacific's petition for rehearing shows that a total of four issues remain to be considered and resolved by this final decision in the Commission's investigation of telephone service in the Fresno area. The four remaining issues are:

1. The outlying exchanges to be included in the Fresno extended service area, those encompassed in this investigation being Pacific's Clovis, Caruthers and Del Rey exchanges, General's Fowler exchange, Kerman Telephone Company's Kerman exchange and Sanger Telephone Company's Sanger exchange.
2. The basis of intercompany settlement for cross-boundary extended service between Pacific, the operator of the large, central Fresno exchange and any of independent companies whose smaller, satellite exchanges are determined herein to be properly includable in the Fresno extended service area.
3. The appropriate rate levels to be charged for extended service in each of the exchanges to be included in the Fresno extended service area.

4. The problem of the boundary between Pacific's Fresno exchange and the Bowles area of General's Fowler exchange.

Exchanges To Be Included in Extended Area

Clovis Exchange

Because the record in this proceeding prior to rehearing had made it abundantly clear that Fresno-Clovis extended service should be authorized and because the establishment of such extended service had no bearing, except as to rate levels to be ultimately fixed herein, on the matters involved in Pacific's petition for rehearing, the Commission, in Decisions Nos. 57501 and 58312, supra, authorized the establishment of Fresno-Clovis extended service under interim rates. On October 31, 1959, Pacific introduced said extended service. No evidence was introduced upon rehearing to alter the Commission's previous finding and conclusion that the public interest requires Fresno-Clovis extended service.

Caruthers and Del Rey Exchange

Representatives of the Caruthers Chamber of Commerce and the Del Rey Chamber of Commerce gave convincing testimony as to the need and desirability of extended service between those two communities and Fresno. They were supported in these views by the California Farm Bureau Federation. Pacific is agreeable to establishing such service. The record upon rehearing confirms the Commission's finding in Decision No. 56728 that the public convenience and necessity require the introduction of extended service between Pacific's Fresno exchange and its Caruthers and Del Rey exchanges.

Kerman and Sanger Exchanges

The communities of Kerman and Sanger are located at some distance from Fresno, and the record shows that the Kerman-Fresno

and Sanger-Fresno community of interest factors are substantially lower than like factors for the other outlying exchanges being considered herein. While some public witnesses indicated a desire for extended service from these two exchanges into Fresno, others appeared to desire the economy of the present rates for local service over the prospectively higher rates which would appear to be indicated for extended service to Fresno. The evidence with respect to the present need for, or desirability of, such extended service is at best inconclusive. Following rehearing there is still insufficient evidence in the record to support an order instituting either Fresno-Kerman or Fresno-Sanger extended service. Should future conditions so warrant, Kerman and Sanger exchanges may be added to the Fresno extended service area through appropriate proceedings before this Commission.

Fowler Exchange

The demand and need for extended service between Fresno and Fowler have been clearly established on this record. While it appeared earlier in the proceedings that the majority of the demand for such service centers in the Bowles area of the Fowler exchange, it became evident during the presentation of public witnesses on rehearing that the demand is not so limited but, instead, extends generally throughout the Fowler exchange. Therefore, the order herein will include the entire Fowler exchange in the Fresno extended service area.

Intercompany Settlement

While the rehearing of this matter was in progress, Pacific and General together with the California Independent Telephone Association entered into negotiations directed toward arriving at mutually satisfactory settlement principles and

procedures for cross-boundary extended service. These negotiations were culminated on September 12, 1960, by Pacific and General signing a contract providing an intercompany settlement basis for extended service between the Fresno and Fowler exchanges. The contract, a copy of which was introduced in evidence as Exhibit No. 44, provides that General shall receive its costs assignable to Fresno-Clovis extended service. Under the contract, General's costs will include a rate of return based upon Pacific's rate of return on its California exchange operations.

The exclusion of Kernan and Sanger exchanges from the Fresno extended service area, as determined above, and the execution of the settlement contract for Fresno-Fowler extended service by Pacific and General effectively resolve the intercompany settlement issue for purposes of this proceeding.

The evidence indicates that, based upon application of the contract provisions to June 30, 1956 traffic data, no undue burden on either company will result. Under these circumstances, reasonable rate levels may be expected to ensue from the operation of the contract.

Neither Pacific nor General sought specific Commission approval of the contract, which can become effective without such approval. Accordingly, there appears to be no requirement for the Commission to sanction expressly herein either the contract or the separation procedures upon which it is based. Nothing in this opinion and order, therefore, should be construed as either approving or disapproving the separations procedures underlying the operation of the Fresno-Fowler extended service settlement contract between Pacific and General.

Extended Service Rates

The rates finally proposed by Pacific in Exhibit No. 45 and General in Exhibit No. 47 are substantially the same rates as those which were found reasonable by the Commission in Decision No. 56728. The following tabulation is a comparison by exchanges of the finally proposed rates with present rates for principal classifications of service. Rates for local service are shown under present rates for all exchanges except Fresno and Clovis, for which presently effective interim rates for extended service are shown.

	<u>RATE PER MONTH</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Increase</u>
<u>Fresno Exchange</u>			
Business Individual Line	\$10.25	\$10.55	\$.30
Business Two-Party Line	7.85	8.10	.25
Business Suburban Line	5.85	6.00	.15
Residence Individual Line	5.15	5.30	.15
Residence Two-Party Line	3.85	3.95	.10
Residence Four-Party Line	3.25	3.30	.05
Residence Suburban Line	3.75	3.80	.05
<u>Clovis Exchange</u>			
Business Individual Line	10.45	10.55	.10
Business Two-Party Line	8.00	8.10	.10
Business Suburban Line	6.00	6.00	-
Residence Individual Line	5.20	5.30	.10
Residence Two-Party Line	3.90	3.95	.05
Residence Four-Party Line	3.30	3.30	-
Residence Suburban Line	3.80	3.80	-
<u>Caruthers Exchange</u>			
Business Individual Line	6.50	12.05	5.55
Business Two-Party Line	5.10	9.60	4.50
Business Suburban Line	4.85	7.50	2.65
Residence Individual Line	4.15	6.05	1.90
Residence Two-Party Line	3.35	4.70	1.35
Residence Four-Party Line	2.75	4.05	1.30
Residence Suburban Line	3.25	4.55	1.30
<u>Del Rey Exchange</u>			
Business Individual Line	6.50	11.55	5.05
Business Two-Party Line	5.10	9.10	4.00
Business Suburban Line	4.85	7.00	2.15
Residence Individual Line	4.15	5.80	1.65
Residence Two-Party Line	3.35	4.45	1.10
Residence Four-Party Line	2.75	3.80	1.05
Residence Suburban Line	3.25	4.30	1.05
<u>Fowler Exchange</u>			
Business Individual Line	7.25	11.55	4.30
Business Two-Party Line	5.85	9.10	3.25
Business Suburban Line	5.10	7.00	1.90
Residence Individual Line	5.35	5.80	.45
Residence Two-Party Line	4.10	4.45	.35
Residence Four-Party Line	3.30	3.80	.50
Residence Suburban Line	3.80	4.30	.50

In consideration of the increased calling availability for Fresno subscribers the rates proposed by Pacific for its Fresno exchange increase charges over present rates 5¢ to 30¢ per month depending on grade and class of service. The proposed rates also bring Clovis exchange rates up to the same level as Fresno in recognition of the fact that Clovis is so closely situated and integrated with Fresno.

The rates proposed by Pacific for its Caruthers exchange are higher than the proposed Fresno level by \$1.50 per month on business and 75¢ per month on residence service. This is in consideration of the 14-mile distance from Caruthers to Fresno and the present 20¢ initial period toll rate over that route.

The rates proposed by Pacific for its Del Rey exchange are higher than the proposed Fresno level by \$1.00 on business and 50¢ per month on residence service. This is in recognition of the 12-mile distance from Del Rey to Fresno and the present 15¢ initial period toll rate.

The rates proposed by General for its Fowler exchange give recognition to the present 15¢ initial period toll rate from Fowler to Fresno. They are at the same level as the rates proposed by Pacific for its Del Rey exchange.

Both Pacific and General introduced studies of the estimated differential plant, expense and revenue effects of providing extended service between Fresno exchange and Clovis, Caruthers, Del Rey and Fowler exchanges at proposed rate levels and under the provisions of the September 12, 1960, settlement contract. The results of these studies may be summarized as follows:

	<u>Pacific</u>	<u>General</u>
A. Annual Cost Effect	\$ (15,500)	\$ (8,500)
B. Annual Revenue Effect	(7,500)	(10,400)
C. Annual Settlement Effect	(8,100)	8,100
D. Net Annual Effect (B plus C minus A)	(100)	6,200

These results indicate that, on a differential basis for the period studied, Pacific's annual costs under the extended service plan would be reduced by the amount of \$15,500, which would be approximately offset by \$7,500 annual loss of revenue and \$2,100 increase in annual settlement payments to General. General's annual costs would be reduced by \$8,500 and its revenues by \$10,400. The net of these differential effects would be more than offset by the \$8,100 differential increase in settlement payments which General would receive from Pacific.

The Commission concludes that the application of the above proposed rates in the Fresno extended service area will have no significant effect on Pacific's earnings, and it will enable General, under the provisions of the September 12, 1960, settlement contract, to recover its costs and a reasonable return on its capital devoted to providing extended service between Fowler and Fresno.

Ordering Paragraph 3 of Decision No. 53612 required Pacific to maintain records of subscriber payments to permit refunds in case final rates should be established at a lower level than interim rates. Since the final rates for Clovis authorized herein are not lower than the interim rates it will no longer be necessary for Pacific to maintain such subscriber payments records.

Fresno-Fowler Boundary

The issue of the boundary between Pacific's Fresno exchange and the Bowles area of General's Fowler exchange was raised during the rehearing by the California Farm Bureau Federation. This problem is intensified by the proximity of the Fresno base rate area boundary to the boundary of the Fowler exchange in the Bowles area. The Farm Bureau recommended that the Bowles area be transferred to Pacific's Fresno exchange, or in the alternative, that the Bowles area be provided special rate area treatment.

As to moving the Fresno-Fowler exchange boundary in the Bowles area, the record shows that the boundary has been long established and is entitled to be respected. Both Pacific and General, throughout the years, have designed and constructed their respective telephone exchange systems within the limitations of the boundary. The boundary could be moved only at considerable expense to Pacific and General and, ultimately, to the telephone ratepayer. To move the boundary would merely move the problem.

The problem is one which can best be solved by appropriate extended service treatment. While the evidence of record does not support an order requiring the establishment of a special rate area, the rate difficulty arising in the Bowles area because of the nearness of the Fresno base rate area and comparative remoteness of the Fowler base rate area can be overcome by the continued offering of Fresno foreign exchange service in Fowler. Neither Pacific nor General specifically proposed to withdraw their offerings of foreign exchange service upon the authorization of extended service. However, the studies they introduced would indicate that such had been their intent. In order to provide subscribers in boundary problem areas such as Bowles the option of obtaining at reasonable rates the most desirable service arrangements commensurate with their telephone requirements and locations, the order herein will not authorize the withdrawal of foreign exchange service presently offered in any of the exchanges to be included in the Fresno extended service area.

Findings and Conclusions

The Commission finds and concludes: (1) that the record developed on rehearing confirms its finding in Decision No. 56723 that the public convenience and necessity require extended service between Fresno exchange and Clovis, Caruthers, Del Rey and Fowler

exchanges; (2) that the increases in rates and charges and changes in conditions ordered in Decision No. 58312, were and are justified, and Pacific shall have no liability to make refunds to subscribers as provided in Ordering Paragraph 3 of the order in said decision; (3) that the specific rates proposed by Pacific in Exhibit No. 45 and by General in Exhibit No. 47 are reasonable and should be authorized; and (4) that the increases in rates and charges authorized herein are justified and that present rates, insofar as they differ from those prescribed herein will become unjust and unreasonable upon the establishment of extended service between Fresno exchange and Caruthers, Del Rey and Fowler exchanges.

ORDER ON REHEARING

The petition of The Pacific Telephone and Telegraph Company for a rehearing in this proceeding having been granted, such rehearing held, additional evidence introduced, and the matter resubmitted for decision,

IT IS ORDERED that:

1. Ordering Paragraphs 1 through 4 of Decision No. 56726 be and they hereby are vacated and set aside.

2. This Commission's Decision No. 57501, ordering extended service between Fresno and Clovis, issued October 21, 1952, is hereby affirmed and made permanent.

3. The Pacific Telephone and Telegraph Company shall proceed to institute extended telephone service between its Fresno exchange and its Caruthers and Del Rey exchanges on or before December 31, 1962.

4. The Pacific Telephone and Telegraph Company and General Telephone Company of California, jointly, shall proceed to

institute extended telephone service between Fresno and Fowler exchanges on or before December 31, 1962.

5. The Pacific Telephone and Telegraph Company and General Telephone Company of California are 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 Appendix A herein and after not less than five days' notice to this Commission and to the public to make such revised tariff schedules effective upon the establishment of extended service between Fresno exchange and Caruthers, Del Rey and Fowler exchanges.

6. At the time of making effective the rates authorized by Ordering Paragraph 5 hereof, The Pacific Telephone and Telegraph Company and General Telephone Company of California are authorized and directed to cancel and withdraw: (a) rates for local service in the Caruthers, Del Rey and Fowler exchanges, and (b) rates for toll service between Fresno and Caruthers, Del Rey and Fowler exchanges.

7. Case No. 5928 be and it hereby is discontinued.

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

Dated at San Francisco, California, this
14 day of January, 1961.

_____, 1931.

Amelia B. ...
President

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Commissioners

APPENDIX A

The presently effective rates, charges and conditions in Fresno, Clovis, Caruthers, Del Rey and Fowler exchanges are authorized to be changed to the extent and levels set forth in this appendix.

RATES:

<u>Each Primary Station</u>	<u>Extended Service - Rate Per Month</u>				
<u>Business Service</u>	<u>Fresno</u>	<u>Clovis</u>	<u>Caruthers</u>	<u>Del Rey</u>	<u>Fowler</u>
Individual Line	\$10.55	\$10.55	\$12.05	\$11.55	\$11.55
Two-Party	8.10	8.10	9.60	9.10	9.10
PBX Trunk	15.75	15.75	18.00	17.25	17.25
Suburban Line	6.00	6.00	7.50	7.00	7.00
Semipublic					
Rate Per Month	1.20	1.20	2.70	2.20	2.20
Minimum Per Day	.25	.25	.25	.25	.25
Farmer Line	2.70	2.70	4.20	3.70	*
 <u>Residence Service</u>					
Individual Line	5.30	5.30	6.05	5.80	5.80
Two-Party	3.95	3.95	4.70	4.45	4.45
Four-Party	3.30	3.30	4.05	3.80	3.80
Suburban	3.80	3.80	4.55	4.30	4.30
Farmer Line	1.35	1.35	2.10	1.85	*

* Not offered.

LOCAL SERVICE AREAS:

<u>Exchange</u>	<u>Local Service Area</u>
Fresno	Fresno Clovis Caruthers Del Rey Fowler
Clovis	Clovis Fresno
Caruthers	Caruthers Fresno
Del Rey	Del Rey Fresno
Fowler	Fowler Fresno

APPENDIX B

LIST OF APPEARANCES

FOR RESPONDENTS:

Arthur T. George, Pillsbury, Madison & Sutro, by Francis N. Marshall, Dexter C. Ticht, Charles Renfrew and James E. Atkin, for The Pacific Telephone and Telegraph Company; Albert M. Hart and E. Ralph Snyder, Jr., for General Telephone Company of California; William G. Sebastian, Neal C. Hasbrook and Orrick, Dahlquist, Herrington & Sutcliffe, by Warren A. Palmer and Robert A. Keller III, for Kerman Telephone Company; Alden C. Knapp and Neal C. Hasbrook, for Sanger Telephone Company.

FOR INTERESTED PARTIES:

Orrick, Dahlquist, Herrington & Sutcliffe, by Warren A. Palmer and Robert A. Keller III, for California Independent Telephone Association, Sunland-Tujunga Telephone Company, Western California Telephone Company, Central California Telephone Company and Citizens Utilities Company; Neal C. Hasbrook, for California Independent Telephone Association; Peter A. Wenzel and A. W. Lambert and Bacigalupi, Elkus & Salinger, by Claude N. Rosenberg, for California Water and Telephone Company; Charles Preuss, for Garfield Telephone Company; Lyndon Farwell, for Western California Telephone Company; J. J. Deuel, for California Farm Bureau Federation; R. L. Andrews, for Clovis Farm Bureau Federation; John B. Weldon and Nicholas H. Dubsick, for City of Clovis; John E. Lauten, for City of Fresno; Fred Davis, for City of Fowler; Delbert C. Cederquist, for Pacific Union School District; Robert Brewer, for Monroe Elementary School Board of Trustees; N. Azadian, for Del Rey Chamber of Commerce; Norman E. Eolt, for Sanger District Chamber of Commerce; A. A. Soderberg, for Biola Chamber of Commerce; Delmer C. Say, for Caruthers Chamber of Commerce; W. R. Osterhoudt, for Stockmen of Fowler District; Raymond D. Magill and Viggo G. Madsen, for Fowler Chamber of Commerce; Geneva Claborn, for Monroe Mothers Club; E. Paul Gallagher, for Monmouth United Presbyterian Church; Donald E. Oren and R. W. Wilson, for Vie-Del Grape Products; Sanger-Fresno Toll Free Service, by M. C. Pascual, Peter E. Herman, Andrew Merk, John Gebhart, Earl Roberts, Jack G. Paxton, Leo Chooljian, and Hugh M. Marshall, Jr.; R. A. Cooke, in propria persona.

FOR THE COMMISSION STAFF:

Mary Moran Pajalich and William W. Dunlop.