

additional annual gross revenues of \$452,450 based on the test year ending March 31, 1960. At the time of filing said application, California Company indicated it intended to amend its application to seek increased annual revenues totalling \$712,450, or \$260,000 above its interim request.

Public hearing on the interim request was held on May 2 and 3, 1960 at Victorville before Examiner William W. Dunlop. On June 20, 1960 the Commission issued its Decision No. 60296 authorizing California Company to increase its rates for service furnished on and after July 15, 1960 by some \$220,200 annually based on the test year ending March 21, 1959, pending the establishment of final rates. By said Decision No. 60296 California Company also was directed to prepare and file with the Commission, on or before December 31, 1960, a study showing separation of its plant, revenues, and expenses applicable to its total California operations between intrastate and interstate categories, and the intrastate category further separated among exchange, intracompany toll, private line and TWX, and inter-company toll. The Commission directed that such separated studies should be for certain designated periods as well as for each test period to be relied upon by California Company for the establishment of final rates.

On June 20, 1960 the Commission also issued its order instituting investigation under Case No. 6548 to determine whether the rates, rules, regulations, charges, classifications, contracts, practices, operations and service, or any of them, of The Pacific Telephone and Telegraph Company (Pacific) and of California Interstate Telephone Company are unjust, unreasonable, discriminatory, or

preferential in any particular and to determine the just, reasonable, sufficient and proper rates, rules, regulations, charges, classifications, contracts, practices, operations and service, or any of them, of said respondents and to fix the same by order. The respondents were ordered to prepare and file certain studies with the Commission by not later than December 31, 1960. Thereafter, California Company and Pacific filed certain studies on or about December 30, 1960 and California Company requested, and on December 28, 1960, was granted an extension of time within which to file certain other data to the same date upon which it filed an amendment to its application. Such amendment was filed on July 28, 1961 and a second amendment was filed on October 24, 1961 seeking additional adjustments in rates over and above the interim rates. The estimated over-all impact on California Company's intrastate revenues resulting from the requests contained in the application, as amended, based on 1962 operations as estimated by California Company, may be summarized as follows:

REQUESTED INCREASE IN INTRASTATE REVENUES

TEST YEAR 1962

<u>Item</u>	<u>Interim Increase</u>	<u>Additional Request</u>	<u>Total Request</u>
Intrastate Rates:			
Exchange	\$295,100	\$246,700	\$541,800
Directory Advertising	-	41,400	41,400
Interchanged Toll With Pacific (B-I) ^{1/}	-	(478,400)	(478,400)
Other Intrastate Toll (I-I)	26,800	(42,600)	(15,800)
Private Line Service	400	(61,400)	(61,000)
	<u>322,300</u>	<u>(294,300)</u>	<u>28,000</u>
	(Reduction)		

^{1/} Interchanged toll traffic with Pacific, designated (B-I), is set forth in written agreements between California Company and Pacific Company. All other toll traffic is designated (I-I).

Prior to the filing of its amendment to the application, California Company entered into an agreement with Pacific adopting the cost basis of settlement for toll traffic, designated by the two utilities as interchanged (B-I), retroactive to June 1, 1960 in lieu of the former so-called "cents-per-message" settlement plan. The effect of the cost basis of settlement was to increase California Company's annual revenues over those received under the former plan of toll settlement by an amount in excess of one million dollars.

Twelve additional days of public hearings were held during the period November 6, 1961 to February 16, 1962 before Commissioner Frederick B. Holoboff and/or Examiner William W. Dunlop. The investigation proceeding, Case No. 6548, was consolidated for hearing with the application on November 6, 1961. All days of hearing were held in the territory served by California Company, except the last two days which were held in San Francisco. The record contains 49 exhibits and testimony by eight witnesses for California Company, one witness for Pacific, four witnesses for the Commission staff, one witness for the Department of Defense and Other Executive Agencies of the United States of America, and seventeen witnesses from the general public. Oral argument was concluded on February 16, 1962 and two late-filed exhibits were filed on March 15, 1962.

At the close of its argument on February 16, 1962, Pacific moved to strike all evidence relating to Commission Staff Proposal No. 1 described later in this opinion. Such motion is denied.

Operations of California Company

California Interstate Telephone Company was incorporated on January 21, 1954 as a California corporation. On March 25, 1954, it acquired from California Electric Power Company all of the outstanding capital stock of Interstate Telegraph Company, a wholly-owned subsidiary. Interstate Telegraph Company was then dissolved.

California Company furnishes exchange, intrastate toll and interstate toll telephone service as a public utility in various areas in the Counties of Alpine, Inyo, Kern, Los Angeles, Mono, Tulare and San Bernardino in the State of California and in portions of the State of Nevada. Currently California Company serves in excess of 30,000 telephones through 28 exchanges, 25 of which are located in California and 3 in Nevada. California Company also operates extensive toll lines extending from San Bernardino northward to Bridgeport and from Carson City, Nevada, southward to Coleville, California. This utility operates five full toll centers at Bishop, Victorville, Barstow, and Inyokern, California, and at Gardnerville, Nevada. For certain toll traffic using in part the facilities of California Company, toll center operations are performed by Pacific at San Bernardino.

The investment in telephone plant in service of California Company has increased from \$7,824,706 as of March 25, 1954 to \$27,800,934 as of June 30, 1961, while operating revenues for the 12 months ended June 30, 1961 amounted to \$7,232,780.

Earning Position

The following tabulation summarizes the evidence respecting California Company's rate of return on an average depreciated rate base, realized in the recent past and estimated for the test year 1962 for its total California operations and for its California intrastate operations.

<u>Item</u>	<u>Rate of Return</u>			
	<u>Total California Division</u>		<u>California Intra-State Operations</u>	
	<u>California Company</u>	<u>CPUC Staff</u>	<u>California Company</u>	<u>CPUC Staff</u>
12 Months Ended March 31, 1960	4.72%	Not Shown	4.65%	Not Shown
12 Months Ended March 31, 1961	7.38	Not Shown	7.03	Not Shown
Year 1961 Estimated				
at Pre-Interim Rates	6.99	Not Shown	6.10	Not Shown
at Present Interim Rates	7.55	Not Shown	6.75	Not Shown
Year 1962 Estimated				
at Pre-Interim Rates	6.56	6.47	5.92	5.90
at Present Interim Rates	7.09	7.03	6.56	6.57
at Company Proposed Rates	6.58	6.56	6.01	6.11

The substantial improvement in earnings for the 12 months ended March 31, 1961 over the prior 12 months reflects the effects of the cost basis of toll settlement commencing June 1, 1960 and the interim rate increase effective July 15, 1960.

California Company in its late-filed Exhibit 40 presented a revised earning estimate for the year 1962 under proposed rates for its total California Division which shows a rate of return of 6.47 percent. However, such revised estimate was not separated to show intrastate results and accordingly will not be considered further herein.

The estimates for the test year 1962 at present interim rates for total California Division and segregated to interstate and intrastate operations as developed by California Company and by the Commission staff are compared in more detail in the following tabulation:

SUMMARY OF EARNINGS - ESTIMATED TEST YEAR 1962
AT PRESENT INTERIM RATES

Item	: Total California Division :		: Interstate Operations :		: Intrastate Operations :	
	: Company : CPUC	: Company : CPUC	: Company : CPUC	: Company : CPUC	: Company : CPUC	: Company : CPUC
	: Staff	: Staff	: Staff	: Staff	: Staff	: Staff
	:Ex.17 & 19:	:Ex.27,28,34:	Ex. 17	:Ex. 28, 34:	Ex. 17	:Ex. 28, 34
Oper. Revenues						
Local Service	\$2,518,500	\$2,568,000				
Toll Service	5,575,000	5,343,300				
Miscellaneous	176,000	181,000				
Uncollectibles	(25,000)	(25,000)				
Total Oper.Rev.	8,244,500	8,067,300	\$1,773,200	\$1,644,200	\$6,471,300	\$6,423,100
Oper. Expenses						
Maintenance	921,200	865,000				
Traffic	801,900	790,000				
Commercial	486,200	490,000				
General Office	454,300	444,000				
Other Operating	260,200	227,000				
Depreciation	1,006,200	1,156,000				
Sage Installation	262,500	199,000				
Taxes Other Than Inc.	836,200	818,000				
Subtotal	5,028,700	4,989,000	952,400	874,400	4,076,300	4,114,600
Taxes on Income	1,257,100	1,138,700	362,300	345,400	894,800	793,300
Total Oper. Exp.	6,285,800	6,127,700	1,314,700	1,219,800	4,971,100	4,907,900
Net Oper.Revenues	1,958,700	1,939,600	458,500	424,400	1,500,200	1,515,200
Avg. Rate Base	27,634,100	27,595,000	4,762,000	4,541,000	22,872,100	23,054,000
Rate of Return	7.09%	7.03%	9.63%	9.35%	6.56%	6.57%

(Red Figure)

California Company and the Commission staff also presented the estimated intrastate earning results for 1962 further separated among exchange, toll and private line categories. A comparison of these separated results at present interim rates and at rates sought by California Company is shown in the tabulation following:

RATE OF RETURN - SEPARATED OPERATIONS
ESTIMATED TEST YEAR 1962

Category	: At Present Interim : At Company Proposed		: At Present Interim : At Company Proposed	
	: Rates :		: Rates :	
	: Company :	CPUC Staff:	Company:	CPUC Staff:
	: Ex 17 :	Ex 28 & 34:	Ex 17 :	Ex 28 & 34:
Exchange Operations	4.53%	5.33%	5.57%	6.42%
Intrastate Toll				
Interchanged (B-I)	10.96	10.20	8.12	7.67
Other (I-I)	(.54)	(.60)	(1.44)	(1.44)
Subtotal Intrastate Toll	8.44	7.83	6.02	5.67
Intrastate Private Line and TWX	11.57	8.77	10.34	6.65
Total Intrastate Operations	6.56	6.57	6.01	6.11

(Red Figure)

While individual components of the two estimates for 1962 vary to some extent, there is no significant difference between California Company and the staff in the estimated rate of return for total California intrastate operations at present interim rates. Further, under the rates requested by California Company, both the utility and the staff estimate that the rate of return for total intrastate operations will approximate 6 percent.

The separated results presented by California Company and by the staff do not reflect the recent changes in separation procedures approved by the Federal Communications Commission and by the Executive Committee of the National Association of Railroad and Utilities Commissioners and placed into effect by the Bell System on April 1, 1962. While this record does not show the precise dollar effect of

such changes in separation procedures on operations of California Company, the testimony reveals that such changes will tend to increase somewhat California Company's rate of return for exchange operations and total intrastate operations compared with the results shown above.

The above estimates of California Company and the staff reflect the classification of toll traffic either as interchanged with Pacific, designated (B-I), or as other, designated (I-I) assertedly in accordance with the terms of certain agreements between California Company and Pacific. In the above estimates, the cost basis of toll settlement was applied only to the portion of toll traffic designated (B-I). The staff indicated by Exhibit 28 that if all intrastate toll traffic, both (B-I) and (I-I) were to be included under the cost basis of settlement, gross revenues of California Company for test year 1962 would be increased by \$432,900. In Exhibit 39 California Company developed that if all intrastate toll traffic routed through Pacific's toll office at San Bernardino were considered to be included under the cost basis of settlement, its gross revenues for test year 1962 at present interim rates would be increased by approximately \$233,000 compared with the results contained in Exhibit 17 tabulated above.

Rate of Return

While California Company seeks authorization to place into effect rates which it claims will produce a rate of return of about 6½ percent on its total California Division operations and 6 percent on its California intrastate operations, nevertheless California Company claims that a rate of return of at least 7 percent on its depreciated rate base must be earned if it is to give its stockholders a fair return and produce earnings that will attract capital.

The claim for a 7 percent rate of return is based, in part, upon an analysis of earnings on total average capitalization realized by 41 independent telephone companies in the United States, from 1956 to 1960, inclusive. California Company also referred to its high proportion of capital devoted to toll service, its rapid rate of growth and the trend in cost of both short- and long-term borrowed funds over the past few years as support for a 7 percent rate of return.

The Commission staff, in Exhibit 30, showed California Company's capital structure as of June 30, 1961 to be 57.3 percent long-term debt, 12.7 percent preferred stock and 30.0 percent common stock equity with an average cost of 5.36 percent for long-term debt and preferred stock. Approximately 96 percent of the total capitalization of California Company at June 30, 1961 has resulted from financing through public sale and private placement of its securities since the early part of 1954. Exhibit 30 also shows recent trends in interest rates, percent return on total average capitalization and on average common stock equity of selected telephone utilities recent telephone bond and debenture offerings, and rates of return allowed in telephone utility rate proceedings in California.

The Department of Defense and Other Executive Agencies of the United States Government cross-examined witnesses on rate of return and, in closing argument, took the position that California Company had not proved its need for a rate of return as high as 7 percent. It noted that the Commission had found a rate of return of about 6.2 percent to be fair and reasonable for the predecessor company, Interstate Telegraph Company, in February 1953.

The 7 percent rate of return referred to by California Company apparently applies to over-all company operations both interstate and intrastate. California Company claims its toll business is less stable than its exchange business. Applicant's interstate operations are exclusively toll. Since this Commission has jurisdiction only over intrastate operations consisting of exchange and intrastate toll business, our finding on rate of return must necessarily be limited to the showing on intrastate operations.

California Company seeks authorization to place into effect rates which it claims will produce gross intrastate revenues of approximately \$6,190,000 and, as previously stated, yield a rate of return of approximately 6 percent on its intrastate operations in California for the test year 1962. On this record we find that applicant has justified its need for gross intrastate revenues of \$6,190,000 with a resulting rate of return on total California intrastate operations of 6 percent. However, the rates herein found reasonable, authorized by the order herein and designed to produce such results, are different, in a number of respects, from those proposed by applicant.

Requested Changes in Rates

The principal changes in rates sought by California Company may be summarized as follows:

1. Exchange Rates.
 - a. Increase rates for basic exchange services by \$541,800, or by \$246,700 over the interim rate levels.
 - b. Reclassify exchanges into four categories for the purpose of applying basic exchange rates.
 - c. Close four-party business service offerings and withdraw such service at the option of the utility at any time within a two-year period.
 - d. Withdraw Schedule A-8 relating to PBX trunking facilities-military, and furnish such service under Schedule A-6 (Exhibit 22).

2. Directory Advertising Rates.

- a. Increase rates for all items of advertising by amounts ranging from 15 cents a month for lines of information in Directory No. 1 up to \$6.00 per month for two one-half columns of display advertising in Directory No. 4. The requested advertising rates are estimated to increase annual charges to advertisers by \$75,500, increase payments to the directory publishing company by \$34,100 and increase revenues to California Company by \$41,400 based on test-year 1962 estimated business.

3. Toll Rates.

- a. Adopt Pacific's Schedule A toll rates in lieu of Pacific's Schedule B toll rates for intrastate interchanged (B-I) toll traffic. It is estimated this change will reduce annual customer toll charges of both California Company and Pacific by \$518,500, reduce cost payments from California Company to Pacific by \$40,100, and reduce revenues of California Company by \$478,400 based on 1962 estimated business.
- b. Adopt Pacific's Schedule A toll rates in lieu of California Company's own toll schedule for other intrastate toll (I-I) traffic. It is estimated this change will reduce California Company's annual revenues by \$42,600 compared with present interim rates and by \$15,800 compared with pre-interim rates based on test-year 1962 operations.

4. Telegraph Rates.

- a. Withdraw all tariffs relating to telegraph service. California Company states that no telegraph business has been carried on under its tariffs since 1952, that Western Union is providing telegraph service in the area, and that no change in revenue will result from a withdrawal of said tariffs.

5. Private Line Rates.

- a. Revise private line rates as set forth in Exhibit 16. It is estimated this change will reduce annual charges to intrastate private line users by \$147,500, increase annual settlement payments from Pacific to California Company for intrastate business by \$86,500, and reduce California Company's annual revenues by \$61,000 based on test-year 1962 operations.

Commission Staff Proposals

The staff presented two proposals relating to California Company's rates. These two proposals briefly may be summarized as follows:

Staff Proposal No. 1

- a. Authorize the toll rates proposed by California Company but include not only interchanged (B-I) toll but also other (I-I) toll under a cost basis of toll settlement with Pacific at a 7.7 percent rate of return.

- b. Authorize the private line and directory advertising rates proposed by California Company with some possible adjustments in exchange rates between classes and grades of service, at or below the present over-all exchange revenue level.

Staff Proposal No. 2

If it were not feasible to include both the interchanged (B-I) and other (I-I) toll under a cost basis of toll settlement, the staff proposed the retention of the present level of toll rates for both (B-I) and (I-I) toll traffic, authorization of the private line and directory advertising rates as proposed by California Company, and some adjustments in exchange rates between classes and grades of service at or below the present over-all exchange revenue level.

Position of the Parties

Pacific opposed Staff Proposal No. 1 to include (I-I) toll traffic in the cost toll settlement as being unwarranted, unjustified and improper. Pacific urged that such proposal was not within the issues defined by the Commission's order of investigation, was not supported by the facts on the merits and is beyond the Commission's jurisdiction either under the statutes or under the constitution.

Pacific maintains that since the two utilities had negotiated a cost type of settlement for the traffic they designate (B-I), the only issue remaining before the Commission under the order of investigation as issued was whether the higher toll rates (Schedule B) applicable to such (B-I) traffic should be eliminated.

Three reasons were advanced by Pacific why it considered Staff Proposal No. 1 to be beyond the Commission's jurisdiction. First, according to Pacific such proposal relates to traffic which

flows entirely over the lines owned or leased by California Company or the General Company and is traffic with which Pacific has no connection except that in certain instances Pacific switches traffic for California Company or General at cost pursuant to contract. Second, Pacific maintains Staff proposal No. 1 relates to traffic which does not flow at joint rates to which Pacific is a party. Third, Pacific urges that such proposal relates to traffic as to which there are signed agreements existing and in effect between the utilities. Pacific also urges that Section 766 of the Public Utilities Code does not contemplate any action by this Commission regarding settlements unless the utilities are unable to agree among themselves and that since there is no joint rate involved in (I-I) traffic, Section 766 gives the Commission no jurisdiction to prescribe settlements as suggested by Staff Proposal No. 1.

The Commission staff through its counsel did not agree with the position of Pacific Company and expressed the view that Staff Proposal No. 1 was fully justified and in the public interest.

The California Farm Bureau urged that the interim rates should be adopted as the permanent rates. It neither supported nor opposed Staff Proposal No. 1 to include both interchanged (E-I) and other (I-I) toll in cost settlements with Pacific. However, it was the position of the Farm Bureau that settlements between companies should be accomplished through negotiations between the companies involved, if at all possible.

Several customer witnesses questioned the reasonableness of reducing toll rates and at the same time further increasing exchange rates. They pointed out that a considerable portion of the toll usage

was made by transients in the area who were not required to subscribe to exchange service. Some customer witnesses expressed the view that present exchange rates for residence service were already at a higher level. Other witnesses complained of various service deficiencies which were answered in detail by California Company on this record.

The Department of Defense and Other Executive Agencies of the United States Government, in addition to its position on rate of return previously mentioned, urged that PBX trunking facilities for military installation be furnished under Schedule A-6 rather than under Schedule A-8 and that no further increases in Schedule A-6 be authorized at this time. The Government supported California Company's request to reduce toll rates and private line rates. The Government also urged the expansion of certain base rate areas.

Toll Traffic Classification

In agreeing upon reaching a cost basis of toll settlement, Pacific and California Company also agreed upon the traffic which would be designated (B-I) and included in the cost settlement, and the traffic which would be designated (I-I) and not included in the cost settlement. The types of toll traffic agreed upon to be classified as (I-I) by Pacific and California Company and not subject to the cost toll settlement were defined as traffic between two points of the same independent company or between points of different independent companies which passes wholly over lines of the independent company or companies. Traffic over the following listed routes was classified by Pacific and California Company as (I-I) traffic.

1. Both-way traffic between Barstow, Victorville, Ridgecrest, Bishop and their tributaries.
2. Both-way traffic between any of the points in 1. above, and the Arrowhead, Crestline and San Bernardino exchanges of the General Telephone Company (General).
3. Both-way traffic between Big Bear Lake and Running Springs.
4. Both-way traffic between Gardnerville, Nevada, and its tributaries.

Traffic included under the cost settlement, designated (B-I), was defined by Pacific and California Company as (1) traffic between any independent company point and a Bell System Company point which passes wholly or in part over the lines of either company, and (2) traffic between two independent company points which passes wholly or in part over the lines of the Bell System Company.

The evidence reveals that with respect to the following types of traffic which Pacific and California Company classified as (I-I), Pacific's facilities located in its San Bernardino toll office are used in making connections and in providing a continuous line of communication.

1. Overflow toll traffic between different toll centers of California Company, such as between Bishop and Ridgecrest or between Victorville and Barstow.

2. All toll traffic between the following California Company points: Big Bear Lake - Running Springs, Barstow and tributaries - Ridgecrest and tributaries, Barstow and tributaries - Bishop and tributaries, Victorville and tributaries - Ridgecrest and tributaries, Victorville and tributaries - Bishop and tributaries.

3. All toll traffic between the California Company points of Bishop and tributaries, Ridgecrest and tributaries, Victorville and tributaries, Barstow and tributaries, Running Springs, Big Bear Lake and the General Telephone Company points of San Bernardino, Arrowhead and Crestline.

In addition certain toll traffic classified by Pacific and California Company as (I-I) and not included in the cost toll settlement is routed over outside plant facilities or other telephone circuits owned by Pacific but "leased" to California Company or to General Company. Actually in most such cases California Company does not have exclusive use of the facilities it "leases" from Pacific.

Findings and Conclusions

On this record the Commission finds that for test-year 1962 California Company's request to reduce its over-all intrastate gross revenues by approximately \$294,000 below present interim rate levels will produce annual intrastate gross revenues approximating \$6,190,000, which, when related to reasonable operating expenses and rate base shown in the following tabulation, will yield a fair and reasonable rate of return on its intrastate operations.

INTRASTATE OPERATIONS
ESTIMATED TEST-YEAR 1962

Operating Revenues	\$6,190,000
Operating Expenses, Depreciation and Taxes	4,810,000
Net Revenue	<u>1,380,000</u>
Avg. Rate Base (Depreciated)	23,000,000
Rate of Return	6.0%

We find the above-tabulated revenues, expenses, rate base and rate of return for California intrastate operations to be fair and reasonable in light of the entire record. The rates hereinafter prescribed are designed to produce such an indicated result.

California Company's request to increase basic exchange rates by \$246,700 over the interim rate levels and to reclassify its exchanges into four categories for rate purposes is not justified on this record. Applicant urges that its rates for business service are low in relation to its rates for residence service. It is true that applicant's rates for residence service are high in relation to its rates for business service and in relation to residence rates generally applicable in other sections of the State. We find that reductions in rates for certain residence classifications are justified and should be prescribed at this time. Further, we find that the differential in rates between one-, two- and four-party residence service should more adequately reflect cost and value considerations than would be indicated by the rates applicant proposes.

There was no objection expressed by any party to California Company's request to close and later withdraw business four-party service offerings. We find such change will tend to improve the over-all quality of service and should be authorized.

The request to serve military PBX trunking facilities under Schedule A-6 rather than under Schedule A-8 was supported by the Government, appears reasonable and should be authorized.

No party to the proceeding objected to the requested increase in rates for directory advertising service. We find such requested rates to be reasonable and they should be authorized at this time.

There is merit in having a single toll schedule apply to all intrastate toll traffic involving a point of California Company. However, based on existing settlement contracts between Pacific and California Company, the requested Schedule A toll rates would yield a rate of return of less than 6 percent on intrastate toll operations of California Company. In our opinion such a result is inadequate to give reasonable recognition to the risks attached to California Company's intrastate toll operations at this time. While we do not subscribe to the position expressed by Pacific regarding Staff Proposal No. 1, we are of the opinion that further opportunity should be afforded the two utilities to negotiate particularly with reference to the reclassification of (I-I) traffic and its inclusion in cost toll settlements.

Pending the outcome of such further negotiations, we find that the changes in toll rates hereinafter ordered are justified at this time. We will prescribe a single schedule, designated Schedule B, applicable to all intrastate toll traffic involving a point of California Company. We will also require Pacific and California

Company to conduct and report progress on further negotiations with reference to the reclassification of (I-I) traffic and its inclusion in cost toll settlements. If the two utilities are successful in negotiating a cost toll settlement agreement which includes not only the toll traffic which they have classified as (B-I) but also the traffic they have classified as (I-I), the Commission would not be adverse to such an arrangement if it were coupled with the adoption of Pacific's Schedule A toll rates.

California Company's request to cancel its tariffs relating to telegraph service was not opposed by any party. We find that such request is reasonable and that it should be authorized at this time.

The request to revise intrastate private line rates as set forth in Exhibit 16 was not opposed by any party and was supported by the Government. While the requested rates increase charges for certain items of private line service, the over-all effect is a reduction in private line charges. We find such changes in rates to be justified at this time.

California Company should file up-to-date sample copies of printed forms that are normally used in connection with customers' services as indicated by General Order No. 96-A.

We will expect California Company to expand its base rate areas as it indicated on this record and as future development warrants through normal tariff filing procedures.

The estimated changes in intrastate revenues for test-year 1962 between present interim rates and the rates requested by

California Company, and the rates prescribed by the order herein are set forth in the tabulation following:

Schedule No.	Annual Increase In Intrastate Revenues Over Present Interim Rates Estimated Year 1962	
	Requested Rates	Authorized Rates
A-1 Base Rate Area Service		
Business	\$172,300	\$ 6,000*
Residence	20,700	(87,800)
Total	<u>193,000</u>	<u>(81,800)</u>
A-3 Semi-Public Telephone Service	3,300	-
A-4 Mileage Rates	12,800	-
A-5 Suburban Service		
Business	6,000	-
Residence	11,000	(31,000)
Total	<u>17,000</u>	<u>(31,000)</u>
A-6 Manual PBX Service	28,500	-
A-8 PBX Trunking Facilities - Military	(11,500)	(11,500)
A-10 Tie Line Service	300	-
A-14 Directory Listings	1,300	-
A-16 Foreign Exchange Service-Contiguous	1,400	-
A-18 Joint User Service	600	-
Total Exchange Service	<u>246,700</u>	<u>(124,300)</u>
B-1 Intrastate Toll Service		
Interchanged (B-I)	(478,400)	
Other (I-I)	(42,600)	
Total Intrastate Toll	<u>(521,000)</u>	<u>(150,000)</u>
C-1 General Telegraph Messages (Withdraw)	-	Withdraw
C-2 Press Dispatches (Withdraw)	-	Withdraw
C-3 Money Transfer Service (Withdraw)	-	Withdraw
D-1 Classified Telephone Directory Advertising	41,400	41,400
G-1 Private Line Telephone Service and		
G-3 Private Line Teletypewriter Service Intrastate Private Line Service	<u>(61,400)</u>	<u>(61,400)</u>
Total	<u>(294,300)</u>	<u>(294,300)</u>

(Reduction)

* Effect of withdrawing business four-party line service.

For typical classes of basic residence service under Schedule No. A-1 there is shown below a comparison of pre-interim rates, present interim rates, rates sought by California Company and those prescribed by the order herein.

Base Rate Area	Residence Service Rate Per Month							
	1-Party				4-Party			
	:Pre- :Interim	:Present :Interim	:Co. :Request	: :Ordered	:Pre- :Interim	:Present :Interim	:Co. :Request	: :Ordered
Alpine	\$4.40	\$5.50	\$5.75	\$5.25	\$2.95	\$3.70	\$4.15	\$3.50
Barstow	5.60	6.90	6.90	6.10	4.10	5.00	5.00	4.25
Benton Station	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Big Bear Lake	5.60	5.75	5.75	5.75	4.10	4.15	4.15	4.00
Big Pine	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Bishop	5.60	5.75	5.75	5.75	4.10	4.15	4.15	4.00
Boron	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Bridgeport	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
California City#	-	5.50	5.75	5.25	-	3.70	4.15	3.50
Coleville	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Crowley Lake	4.40	5.50	6.60	5.25	2.95	3.70	4.75	3.50
Independence	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
June Lake	5.60	6.60	6.60	5.75	3.80	4.75	4.75	4.00
Kernville	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Lee Vining	4.40	5.50	6.60	5.25	2.95	3.70	4.75	3.50
Lone Pine	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Lucerne Valley#	-	5.75	5.75	5.75	-	4.15	4.15	4.00
Mammoth Lakes*	5.60	6.60	6.60	5.75	3.80	4.75	4.75	4.00
Newberry	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Pine Creek	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Randsburg	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Ridgecrest	5.60	6.60	6.60	6.25	4.10	4.75	4.75	4.40
Running Springs	4.40	5.50	5.75	5.25	2.95	3.70	4.15	3.50
Trona	5.60	5.75	5.75	5.75	4.10	4.15	4.15	4.00
Victorville	5.60	7.05	7.50	6.25	4.10	5.15	5.40	4.40
Wrightwood	5.60	5.75	5.75	5.75	4.10	4.15	4.15	4.00

New exchange recently established.

* Special rate area.

Accordingly, we find and conclude that the increases in rates and charges authorized herein are justified, that the rates and charges authorized and ordered herein are reasonable, and that present rates and charges, in so far as they differ from those herein prescribed, are for the future unjust and unreasonable.

ORDER

Based on the evidence and the findings thereon contained in the foregoing opinion,

IT IS ORDERED as follows:

1. California Interstate Telephone Company is authorized and directed to file with this Commission, on or after the effective date of this order and in conformity with General Order No. 96-A, revised tariff schedules with rates, charges, conditions and rules modified as set forth in Appendix A attached to this order and, on not less than five days' notice to the public and to the Commission to make said revised tariffs effective for all service rendered on and after August 1, 1962, except that rates for classified telephone directory advertising service shall be made effective on the date new directories are issued subsequent to the effective date of this order.

2. The Pacific Telephone and Telegraph Company is authorized and directed to file with this Commission, on or after the effective date of this order and in conformity with General Order No. 96-A, revised tariff schedules with rates, charges and conditions modified as set forth in Appendix B attached to this order and, on not less than five days' notice to the public and to the Commission to make said revised tariffs effective for all service rendered on and after August 1, 1962.

3. Not later than December 1, 1962 The Pacific Telephone and Telegraph Company and California Interstate Telephone Company shall submit a written report setting forth the results of their further negotiations with reference to reclassification of (I-I) traffic and its inclusion in the cost toll settlement.

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

Dated at San Francisco, California, this 2nd day of July, 1962.

George H. Brewer
President

[Signature]
[Signature]
[Signature]

Commissioners

Commissioner C. Lyn Fox, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 9

RATES

The presently effective rates, charges and conditions of California Interstate Telephone Company are changed to the levels and extent set forth in this appendix.

Schedule No. A-1, Individual and Party Line Service

The following monthly rates for residence services are prescribed:

	Each Primary Station Monthly Rate		
	<u>Indi- vidual Line</u>	<u>Two- Party Line</u>	<u>Four- Party Line</u>
<u>MULTI-OFFICE EXCHANGES</u>			
<u>Crowley Lake</u>			
Crowley Lake Base Rate Area	\$5.25	\$4.25	\$3.50
Mammoth Lakes Special Rate Area	5.75	4.75	4.00
<u>Lee Vining</u>			
June Lake Base Rate Area	5.75	4.75	4.00
Lee Vining Base Rate Area	5.25	4.25	3.50
Ridgecrest	6.25	5.15	4.40
Victorville	6.25	5.15	4.40
<u>SINGLE OFFICE EXCHANGES</u>			
Barstow	6.10	5.00	4.25
Big Bear Lake, Bishop, Trona and Wrightwood	5.75	4.75	4.00
Lucerne Valley	5.75	4.75	4.00
All Other Exchanges	5.25	4.25	3.50

Add the following condition applicable to business four-party line service:

"The rates and conditions applicable to business four-party line service in this schedule apply only to services established or applied for prior to August 1, 1962, furnished to the same subscriber on the same premises. In no case shall business four-party line service be provided after June 30, 1964 and such service may be withdrawn at the option of the utility prior to June 30, 1964 as facilities become available to provide other grades of service."

APPENDIX A
Page 2 of 9RATES (Continued)Schedule No. A-5, Suburban Service

The following monthly rates for residence service are prescribed:

	0-4½ Miles	Each Primary Station Monthly Rate		
		4½-14½ Miles	14½-24½ Miles	24½-35 Miles
<u>MULTI-OFFICE EXCHANGES</u>				
Crowley Lake				
Crowley Lake				
Residence Services	\$3.50	\$4.50	\$4.50	\$ -
Mammoth Lakes				
Residence Services	4.00	5.00	-	-
Lee Vining				
June Lake				
Residence Services	4.00	5.00	-	-
Lee Vining				
Residence Services	3.50	4.50	4.50	-
Ridgecrest				
Residence Services	4.40	5.40	5.40	-
Victorville				
Residence Services	4.40	5.40	5.40	-
<u>SINGLE OFFICE EXCHANGES</u>				
Barstow				
Residence Services	4.25	5.25	5.25	-
Big Bear Lake, Bishop, Lucerne Valley, Trona and Wrightwood				
Residence Services	4.00	5.00	5.00	-
Lone Pine				
Residence Services	3.50	4.50	4.50	4.50
All Other Exchanges				
Residence Services	3.50	4.50	4.50	-

APPENDIX A
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RATES (Continued)

Schedule No. A-6, Manual Private Branch Exchange Service

Revise the Applicability statement to read as follows:

"Applicable to manual business and residence private branch exchange flat rate telephone service and to central office trunking facilities furnished in connection with Government-owned private branch exchange systems and automatic private branch exchange systems operated and maintained by the Department of Defense on Military and Naval reservations."

The following monthly rates for residence trunks are prescribed:

(2) Trunk Rates:	<u>Monthly Rate</u> <u>Each Trunk</u> <u>Residence</u>
<u>MULTI-OFFICE EXCHANGES</u>	
Crowley Lake	
Crowley Lake Base Rate Area	\$ 7.75
Mammoth Lakes Special Rate Area	8.50
Lee Vining	
June Lake Base Rate Area	8.50
Lee Vining Base Rate Area	7.75
Ridgecrest	9.25
Victorville	9.25
<u>SINGLE OFFICE EXCHANGES</u>	
Barstow	9.00
Big Bear Lake, Bishop, Lucerne Valley, Trona and Wrightwood	8.50
All Other Exchanges	7.75

APPENDIX A
Page 4 of 9

RATES (Continued)

Schedule No. A-6 (Continued)

Add the following condition relating to Government-owned systems:

"Where the Government-owned system is located outside a base rate area or special rate area of an exchange and within the exchange area or where the Government-owned system is also connected for foreign exchange service, the rates and charges which would be applicable to such services will apply in addition to the above rates. This schedule contemplates the furnishing of all equipment necessary for the provision of service except where the Government requests trunking facilities to be terminated on Government-owned equipment."

Schedule No. A-8, Commercial Manual and Dial PBX.

Service Trunking Facilities and Services U. S. Army and U. S. Navy.

This schedule is to be cancelled.

APPENDIX A
Page 5 of 9RATES (Continued)Schedule No. A-16, Foreign Exchange Service - Between Contiguous Exchanges

The following residence primary service monthly rates are prescribed:

(1) Primary Service Rates:	MONTHLY RATE			
	Each Primary Station Service in Adjacent Exchanges			
(A) Base Rate Area Service	Individual Line	Two-Party Line	Four-Party Line	
<u>FOREIGN EXCHANGE</u>				
<u>MULTI-OFFICE EXCHANGES</u>				
Crowley Lake Residence	\$5.25	\$4.25	\$3.50	
Lee Vining June Lake Base Rate Area Residence	5.75	4.75	4.00	
Lee Vining Base Rate Area Residence	5.25	4.25	3.50	
Ridgecrest Residence	6.25	5.15	4.40	
Victorville Residence	6.25	5.15	4.40	
<u>SINGLE OFFICE EXCHANGES</u>				
Barstow Residence	6.10	5.00	4.25	
Big Bear Lake, Bishop, Lucerne Valley, Trona, and Wrightwood Residence	5.75	4.75	4.00	
All Other Exchanges Residence	5.25	4.25	3.50	
(B) Suburban Service	0-4½ Miles	4½-14½ Miles	14½-24½ Miles	24½-35 Miles
<u>MULTI-OFFICE EXCHANGES</u>				
Crowley Lake Residence	\$3.50	\$4.50	\$4.50	-
Lee Vining June Lake Residence	4.00	5.00	-	-
Lee Vining Residence	3.50	4.50	4.50	-
Ridgecrest Residence	4.40	5.40	5.40	-
Victorville Residence	4.40	5.40	5.40	-
<u>SINGLE OFFICE EXCHANGES</u>				
Barstow Residence	4.25	5.25	5.25	-
Big Bear Lake, Bishop, Lucerne Valley, Trona and Wrightwood Residence	4.00	5.00	5.00	-
Lone Pine Residence	3.50	4.50	4.50	4.50
All Other Exchanges Residence	3.50	4.50	4.50	-

APPENDIX A
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RATES (Continued)

Schedule No. A-16, (Continued)

(c) Trunk Rates:	<u>Monthly Rate</u> <u>Each Trunk</u> <u>Residence</u>
<u>MULTI-OFFICE EXCHANGES</u>	
Crowley Lake	
Crowley Lake Base Rate Area	\$7.75
Mammoth Lakes Special Rate Area	8.50
Lee Vining	
June Lake Base Rate Area	8.50
Lee Vining Base Rate Area	7.75
Ridgecrest	9.25
Victorville	9.25
<u>SINGLE OFFICE EXCHANGES</u>	
Barstow	9.00
Big Bear Lake, Bishop, Lucerne Valley, Trona and Wrightwood	8.50
All Other Exchanges	7.75

Add the following condition applicable to foreign exchange business four-party line service:

"The rates and conditions applicable to foreign exchange business four-party line service in this schedule apply only to services established or applied for prior to August 1, 1962, furnished to the same subscriber on the same premises. In no case shall foreign exchange business four-party line service be provided after June 30, 1964 and such service may be withdrawn at the option of the utility prior to June 30, 1964 as facilities become available to provide other grades of service."

APPENDIX A
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RATES (Continued)

Toll Service Schedule No. B-1

Cancel existing Schedule No. B-1 in its entirety and file the following Toll Service Schedule No. B-1:

TOLL SERVICE SCHEDULE NO. B-1

APPLICABILITY

Applicable to message toll telephone service and to message toll mobile telephone service furnished or made available by California Interstate Telephone Company between its points and between its points and points reached over facilities of connecting companies.

TERRITORY

Between points within the State of California where the respective rate centers of such points are located in said state.

TOLL SERVICE ADOPTION NOTICE

California Interstate Telephone Company assents to, adopts and concurs in the tariffs of The Pacific Telephone and Telegraph Company listed below, together with amendments thereto and successive issues thereof, and hereby makes itself a party thereto until this authority is revoked by cancellation of this adoption notice for the purpose of California Interstate Telephone Company furnishing all intrastate message toll telephone service and message toll mobile telephone service thereunder originated at or terminated at a point of California Interstate Telephone Company:

1. Schedule Cal. P.U.C. No. 53-T, Message Toll Telephone Service-Rates and Conditions.
2. Schedule Cal. P.U.C. No. 56-T, Interexchange Mileage and Rate Guide-Part I & II.
3. Schedule Cal. P.U.C. No. 58-T, Post Route Map.
4. Schedule Cal. P.U.C. No. 89-T, Message Toll Telephone Service-Toll Rate and Route Guide General Regulations.
5. Schedule Cal. P.U.C. No. 90-T, Message Toll Telephone Service-Toll Rate and Route Guide for the State of California.
6. Schedule Cal. P.U.C. No. 91-T, Message Toll Telephone Service-Toll Rate and Route Guide Appendix-Intrastate Rate Center-Block Information for Certain Connecting Company Points.
7. Schedule Cal. P.U.C. No. 92-T, Message Toll Telephone Service-Supplement to Toll Rate and Route Guide for the State of California.
8. Schedule Cal. P.U.C. No. 96-T, Message Toll Telephone Service-Location of Rate Centers.

APPENDIX A
Page 8 of 9RATES (Continued)

Telegraph Service Schedule No. C-1
Telegraph Service Schedule No. C-2
Telegraph Service Schedule No. C-3

These schedules are authorized to be canceled.

Schedule No. D-1, Classified Telephone Directory Advertising Service.

Cancel Original Cal. P.U.C. Sheet No. 2065-T.

The following rates are authorized:

	<u>Monthly Charge</u>		
	<u>Directory Nos.</u>		
	<u>1</u>	<u>2 & 3</u>	<u>4</u>
(1) Display Advertisements:			
Two-half Columns	\$12.00	\$14.00	\$20.00
One-half Column	6.00	7.00	10.00
One-quarter Column	3.00	3.50	5.00
(2) Column Advertising:			
a. Each Informational Listing			
1. One-half inch	1.50	1.60	1.90
2. One inch	2.60	2.80	3.40
3. One and one-half inch	2.95	3.30	4.35
b. Each Trade Mark Heading	2.75	3.00	3.75
c. Each Trade Mark or Trade Name Cross Reference Listing or Heading	1.10	1.20	1.50
d. Each Trade Name Listing	1.25	1.30	1.45
e. Each Bold Type Listing	1.00	1.05	1.20
f. Each Regular Type Listing	.40	.45	.50
g. Additional Line of Information	.40	.45	.50
h. Alternate Call Number	.40	.45	.50

APPENDIX A
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RATES (Continued)

Schedule No. G-1, Private Line Telephone Service
Schedule No. G-3, Private Line Teletypewriter Service

The installation charges and monthly rates shown under the columns headed "Proposed" in Exhibit 16 are prescribed.

Telegraph Service Rules: C-1, C-2, C-3

These rules are to be canceled.

Standard Forms

Standard forms pertaining to telegraph service are to be canceled. Up-to-date sample copies of printed forms that are normally used in connection with customers' services as indicated by General Order No. 96-A are to be filed.

APPENDIX B
Page 1 of 2

RATES

The presently effective rates, charges and conditions of The Pacific Telephone and Telegraph Company are changed to the levels and extent set forth in this appendix.

Schedule Cal. P.U.C. No. 53-T, Message Toll Telephone Service

The rates shown in the following tabulation are prescribed for California Schedule B:

(2) California Schedule B

This schedule is applicable to two-point messages involving a point of the California Interstate Telephone Company as designated in Schedule Cal. P.U.C. No. 91-T, Toll Rate and Route Guide Appendix - Rate Center - Block Information for Certain Connecting Company Points.

Mileage	STATION SERVICE				PERSON SERVICE		
	Day (Except Sunday)	Each Addl.	Night and Sunday	Each Addl.	Day, and Night and Sunday	Each Addl. Min.	After
Up to:	First:	3	First:	3	First:	3	3
Over:	and:	Mins.	Mins.	Mins.	Mins.	3	3
0-	10	\$0.15	\$0.05				
10-	15	.20	.05				
15-	20	.25	.05				
20-	25	.30	.10				
25-	30	.35	.10				
30-	35	.40	.10				
35-	40	.45	.15				
40-	45	.50	.15				
45-	50	.55	.15				
50-	60	.60	.20				
60-	70	.65	.20				
70-	80	.70	.20				
80-	90	.75	.25				
90-	100	.80	.25				
100-	115	.85	.25				
115-	130	.90	.30				
130-	175	.95	.30				
175-	200	1.00	.30				

The initial and additional period rates for person service and night and Sunday station service are those shown in California Schedule A for the corresponding initial period day station rate.

(Continued)

APPENDIX B
Page 2 of 2

RATES (Continued)

(2) California Schedule B - Continued

Mileage	STATION SERVICE				PERSON SERVICE		
	Day (Except Sunday)	Each	Night and Sunday	Each	Day, and Night and Sunday	First	Each Addl. Min.
Up to	First	Each	First	Each	First	Each Addl. Min.	
Over and	3	Addl.	3	Addl.	3	First	After
Incl.	Mins.	Min.	Mins.	Min.	Mins.	3	3
:200-	225	\$1.05	\$0.35				
:225-	250	1.10	.35				
:250-	275	1.15	.35				
:275-	300	1.20	.40				
:300-	330	1.25	.40				
:330-	360	1.30	.40				
:360-	395	1.35	.45				
:395-	430	1.40	.45				
:430-	470	1.45	.45				
:470-	510	1.50	.50				
:510-	550	1.55	.50				
:550-	590	1.60	.50				
:590-	685	1.65	.55				

The initial and additional period rates for person service and night and Sunday station service are those shown in California Schedule A for the corresponding initial period day station rate.

Schedule Cal. P.U.C. No. 91-T, Toll Rate and Route Guide Appendix.

Add Wrightwood to the list of points to which California Schedule B rates apply.

Schedule Cal. P.U.C. No. 92-T, Supplement to Toll Rate and Route Guide

Delete Wrightwood from the list of points contained in this schedule.