

Decision No. 64113

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
TUOLUMNE TELEPHONE CO., a California
corporation, for an order authorizing
it to publish, file and place in
effect rates in two exchanges to be
designated Oak Run, Shasta County,
and Shingletown, Shasta and Tehama
Counties, California.

Application No. 43939

Investigation and suspension of tariff
sheets, Cal. P.U.C. Sheets Nos. 2168-T
through 2182-T, filed by CITIZENS
UTILITIES COMPANY OF CALIFORNIA under
Advice Letter No. 141.

Case No. 7286

Mazzera, Snyder & De Martini, by J. Calvert Snyder,
for Tuolumne Telephone Co., applicant in
Application No. 43939, interested party in
Case No. 7286.

Bacigalupi, Elkus & Salinger by William G. Fleckles,
for Citizens Utilities Company of California,
protestant in Application No. 43939, respondent
in Case No. 7286.

William L. Knecht for California Farm Bureau
Federation, interested party in Application
No. 43939 and Case No. 7286, and for Shasta
County Farm Bureau, interested party in
Application No. 43939.

Glenn Aldridge for Shasta County Farm Bureau, and
M. A. Walters for Local 1245, International
Brotherhood of Electrical Workers, AFL-CIO,
interested parties in Application No. 43939.
Paul Popenoe, Jr., for the Commission staff.

OPINION AND ORDER

Nature of Proceedings

On November 20, 1961, Tuolumne Telephone Co., herein-
after referred to as applicant, filed Application No. 43939 seek-
ing authority to establish rates for two new telephone exchanges

in Shasta and Tehama Counties in an area east of Redding, between Millville and Mt. Lassen National Park and to file and place in effect rates in said exchanges. After due notice, public hearing was held before Examiner Leonard S. Patterson in Redding on January 24 and 25, 1962.

Citizens Utilities Company of California, hereinafter referred to as protestant, appeared at the hearing and protested on the basis that the area in question was contiguous to certain of its existing exchanges and it intended to file revised tariff sheets so as to extend its exchange telephone service into the area. After applicant had completed its showing, protestant was permitted to present testimony as to its plans for serving the area and the matter was adjourned to San Francisco for completion of protestant's testimony and for presentation of the study made by the Commission's staff concerning applicant's proposal. The matter was submitted on February 9, 1962, at the close of hearings in San Francisco on February 7, 8 and 9.

During the course of the adjourned hearing, protestant on February 7 filed with the Commission Advice Letter No. 141 submitting tariff sheets to establish base and exchange rate areas, together with exchange service rates in substantially the same area as filed on by applicant. A copy of said Advice Letter was entered as Exhibit No. 12 in the proceedings and protestant presented testimony thereon. Prior to submission, the principal

parties to the proceeding agreed that should the Commission suspend protestant's Advice Letter filing and institute an order of investigation therein, the record in Application No. 43939 would constitute the record in such investigation proceeding.

By order dated February 26, 1962, Case No. 7286, the Commission suspended the tariff sheets submitted by protestant's said Advice Letter filing until June 7, 1962^{1/} and instituted an investigation into the propriety thereof.

By order dated April 3, 1962, the Commission set aside submission of Application No. 43939 and set it for further hearing on a consolidated basis with Case No. 7286. After due notice to all appearances, a consolidated hearing was held in San Francisco May 2, 1962, at which time the aforesaid stipulation between applicant, protestant, the California Farm Bureau Federation, and the Commission staff was entered, making the record in Application No. 43939 the record in Case No. 7286. There being no protest to such stipulation, it was received and both matters were submitted subject to the filing of concurrent written statements. Said statements having been received, the matters are now ready for decision.

Applicant's Proposal

Applicant is a public utility telephone corporation presently owning and operating a telephone system furnishing exchange and toll telephone service to approximately 600 subscribers in the community of Tuolumne, Tuolumne County.

^{1/} The suspension was later extended to September 7, 1962, by Commission order dated May 28, 1962.

The exchange areas proposed to be served by applicant in this proceeding constitute approximately 638 square miles in southern Shasta and northern Tehama Counties, located generally between Millville and Mt. Lassen National Park and extending north, on the west boundary, beyond the Pit River and south to include the community of Manton in Tehama County. The area in Shasta County includes the communities of Oak Run, Ingot, Fern, Whitmore, Kilarc, Shingletown, and Viola. Large cattle and hog ranches constitute the primary activities in the area; in addition there are several lumber firms logging timber, and a large state fish hatchery which is located in the Manton area.

Applicant proposes to establish two exchanges to be known as Oak Run Exchange and Shingletown Exchange, with boundaries as shown on the map which is Exhibit C attached to the application. Base rate areas would be established at Oak Run, Whitmore and Shingletown. Central office buildings would be constructed at Fern for the Oak Run Exchange and at Shingletown for the Shingletown Exchange. One-hundred-line initial capacity dial office equipment would be installed in each unattended exchange, with inter-exchange extended area service provided by microwave linkage. The microwave repeater installation would be located on Blue Ridge Mountain which is approximately half way between Shingletown and Oak Run. From this microwave repeater there would be both-way linkage to Redding for toll and operator service, to be provided by the Pacific Telephone and Telegraph Company.

Applicant proposes to offer one-, two-, and four-party service outside its base rate areas at line mileage charge rates, and to have a maximum line fill of eight on rural lines. It proposes to incorporate in the design such modern features as terminal-per-station operation, full selective ringing, intercept equipment, and conversation timing. Applicant's engineering consultant testified that the system is being designed to meet the Commission's General Order No. 95 and also requirements specified by the Rural Electrification Administration (R.E.A.). Applicant has requested permission to waive line extension charges for a period of one year, but if such permission is not granted, applicant desires to compute such charges on a project basis and possibly prorate them over a five-year period. The record shows the line extension charges to be estimated at about \$35,000.

The proposed construction is estimated to cost \$507,800. Details of this amount by account numbers and subaccounts are set forth in Exhibit F attached to the application. Applicant is an established R.E.A. borrower, having financed virtually all of its telephone operation in Tuolumne with loans obtained from the R.E.A. Applicant intends to finance the proposed system by means of a supplemental loan from the R.E.A., having filed a preliminary application in the amount of approximately \$500,000.

Applicant's president testified in detail as to plans for operating and maintaining the proposed system. He intends to employ two maintenance men, one to live in each exchange area. One of these would be primarily a central office and

microwave man, and the other would be an outside construction man. Both would make station installations and would, from time to time, assist the other in his duties. The billing would be handled from the Tuolumne office and it is not anticipated that any additional office personnel would have to be hired as, by using cycle billing, the workload would be equalized throughout each month. No additional executive personnel is contemplated as applicant's president testified that he would provide supervision and administration for the operation and his time and expenses would be prorated between the two operations. He testified that if extensive repairs were required due to storm damage, he would be able to transfer personnel from Tuolumne or could have construction crews available from outside contractors in a very short period of time.

An estimate of the first full year of operation showing estimated revenue, expenses, rate base, and rate of return on a separated basis is shown by Exhibit E attached to the application. This estimate shows a 7.7% rate of return on Interchanged Toll, 1.3% on Other, and a 3.1% for Total operations. Applicant's president testified that the estimates for expenses were based on his experience at Tuolumne and translated to the proposed operation on a per-station basis. The rates proposed by applicant are contained in Exhibit D attached to the application and may be summarized as follows:

<u>Tariff Schedule and Class and Grade of Service</u>	<u>Applicant's Proposed Rates per Month</u>
No. A-1, Individual and Party Line Service	
Business Service:	
One Party	\$15.00
Two Party	12.50
Extension Station	2.00
Residence Service:	
One Party	7.50
Two Party	6.35
Four Party	5.50
Extension Station	1.50
No. A-2 Suburban Service	
Eight Party Business Service	10.00
Eight Party Residence Service	6.00
No. A-3 Inter-exchange Receiving Service	
Business Service	5.00
No. A-4 Mileage Rates	
Each 1/4 Mile or Fraction Thereof:	
One Party60
Two Party40
Four Party25
No. A-5 Public Telephone Service	
Exchange Message10

Rates for service other than those tabulated above would be those currently filed and applicable in applicant's Tuolumne operation.

Applicant represents that there is a present need for telephone service as proposed. According to the testimony, applicant's survey indicates there are 22 potential business subscribers and 472 potential residential subscribers. At the time that the application was filed it was represented that

the only telephone service available in the area was toll station service provided by protestant through approximately 22 stations. Applicant's president testified that it was his best estimate that the proposed system could be constructed and placed in operation one year from the date authority to proceed is granted by the Commission.

Protestant's Proposal

Protestant's plan to provide telephone service to substantially the same area as proposed by applicant is set forth in Exhibit No. 12, which is a copy of protestant's Advice Letter No. 141 and suspended tariff sheets. Protestant's vice-president and general manager of telephone operations and also the assistant general manager presented testimony to further explain details of the proposal. Under the plan, protestant's existing Millville Exchange would be enlarged to include therein the Oak Run and Ingot areas by line extension service. New and separate exchanges would be established at both Whitmore and Shingletown. The exchange area boundaries as proposed are shown on the map submitted as Exhibit No. 6. Multi-party service would be provided, including protestant's regular urban and suburban grades of service with full selective ringing, terminal-per-station equipment, but without conversation timing. Toll communication would be effected by pole line plant with toll carrier applied. Base rate areas would be established in each of the exchanges but extended area service would not be offered between exchanges. Protestant has not requested that line

extension charges be waived as it believes such a practice might be discriminatory to its other subscribers. It is estimated that the proposed service plan would cost \$469,000, including the utilization of \$33,600 of pole lines and wire already installed which now provides toll service in the area. Details of the estimated cost are set forth in Exhibit No. 9.

The rates as proposed by protestant for the Whitmore and Shingletown Exchanges would be at the same level as the highest exchange rates existing in protestant's other exchanges in California; whereas, the rates applicable for service in the Millville Exchange, including the extension embracing Oak Run and Ingot, would be the protestant's lowest rate level in California. These rates for the principal grades of service may be summarized as follows:

<u>Class and Grade of Service</u>	<u>Protestant's Proposed Rates Per Month</u>	
	<u>Oak Run Extension</u>	<u>Shingletown and Whitmore Exchanges</u>
Business Service:		
One Party	\$4.00	\$9.00
Two Party	3.50	7.50
Extension Station	1.00	1.75
Residence Service:		
One Party	3.00	5.75
Two Party	--	5.00
Four Party	2.25	4.50
Extension Station75	1.25
Suburban Exchange Service:		
Business	3.75	7.00
Residence	3.25	5.00

Protestant's estimated separated results of the first full year of operation as presented in Exhibit No. 10 and using

a 7.7% rate of return on interchanged toll develops a 5.3% total rate of return for its Oak Run extension and 5.7% for the combined Whitmore and Shingletown exchange areas.

Public Witnesses

The testimony of 23 public witnesses comprises a substantial portion of the record. Of this number, 19 were residents or had business interests in the proposed service area and without exception they were critical of protestant's past performance in the area, either as to the poor quality of toll service rendered or failure to provide prospective subscribers with helpful information concerning requirements to obtain service. The general tenor of the testimony was that protestant seemed to have no real interest in ascertaining or fulfilling the service needs of the residents until interest in the area was evidenced by the applicant in this proceeding.

Of those queried as to their preference in serving agency, thirteen testified unequivocally they would prefer applicant, and four testified in effect that they had no preference between applicant and protestant. Four of the public witnesses who testified were residents of the Hat Creek area which is east of the proposed service area and one to which protestant had recently extended service from its Burney Exchange. In general, they testified that they were satisfied with the service, which, it should be noted, had only been established for a period of a few weeks.

The only outside witness who testified in favor of protestant was the representative of the International Brotherhood

of Electrical Workers who stated that the members of his union who are employed by protestant enjoy good wage and working conditions which would assure a high type of workmanship. He also testified that his union favored the granting of the territory to protestant as it would help maintain job stability for union members and would result in lower subscribers' rates for such members residing in the area.

Position of the Staff

A staff engineer made a study of applicant's proposal, including a field survey, and presented the results in Exhibit No. 19. The principal conclusions he reached were: (1) There exists a growing population in the area which indicates a potential of about 500 telephone subscribers; (2) existing telephone service is entirely inadequate; (3) applicant's estimates of plant costs and expenses are reasonable.

The staff representative cross-examined witnesses extensively and developed the following points and recommendations:

1. Applicant proposes exchange boundaries to include certain sparse uninhabited territories for which there is no present exchange requirement. This could result, in the future, in an unsatisfactory service arrangement when such territory becomes developed, and the boundary limits as proposed should therefore be restricted in the northwest portion and the northeast and east portions so as to include only those areas in which there is a present demand for such exchange service.

2. If applicant's request to waive line extension charges is not granted it would be reasonable to spread the effect of

such line extension revenues over a five-year period. This would result in a \$7,000 offset to the estimated local service annual revenue requirement, thereby permitting a reduction in the proposed basic exchange rates.

3. The estimate of separated earnings studies presented by both applicant and protestant may have considerable merit for evaluating the reasonableness of proposed rate levels, but to insure that rates authorized are neither excessive nor burdensome on the utility's other customers the utility furnishing exchange service in the area should be required to submit an earnings study based upon actual plant, revenue, and expenses existing in the area for the second full calendar year of operation following establishment of such service.

Position of the California Farm Bureau Federation

The representative of the California Farm Bureau Federation took an active part in the proceeding through cross-examination and also by sponsoring certain public witnesses and by presenting exhibits consisting of correspondence with the protestant and certain residents of the area concerning service difficulties and efforts to obtain service. In his statement of position he recommended that, based on the evidence and the expressed preferences of the public, the territory in question should be awarded to applicant.

Findings and Conclusions

The record clearly establishes that the existing telephone service in the area under consideration is entirely inadequate and that a public need exists for an exchange service

of the type proposed by both applicant and the protestant. The issue to be decided then is simply which of the two competing utilities should be awarded the area. Although the competing plans may be considered generally as equivalent, a comparison indicates that there are many differences in details and in almost all cases these details indicate a higher quality of service under applicant's proposal. The more important of such details included under applicant's plan are: (1) Exchange and base rate area service in the Oak Run area rather than suburban service from Millville; (2) extended area service between exchanges; (3) eight-party rural service as compared with ten-party; (4) greater capacity in system for expansion; (5) full selective ringing in all areas including Oak Run and Ingot.

The principal advantages offered by protestant's proposal are lower exchange rates and lower toll charges to Redding for Oak Run and Ingot area subscribers. Protestant's position is that it should be awarded the area on the basis that it will serve at lower rates than applicant, and that its larger pool of manpower and financial resources will afford greater assurance that the area will be efficiently maintained and operated. The contention is also made that the adding of this operation to its existing system, in which five of its present exchanges are in nearby or adjacent territory, would increase the overall efficiency of such existing operations.

Applicant's position is basically that it should be awarded the area as it took the initiative in determining the service needs of the residents and property owners in the area,

that it has demonstrated it is capable of financing, constructing, and operating and maintaining the proposed system and that it will offer a better grade of service than protestant.

In considering this matter, we are aware that when protestant took over operation of the Millville Exchange in October, 1956, and converted it to dial operation, it also took over certain toll facilities in the area under consideration, and despite numerous inquiries and evidence of interest on the part of residents and property owners in the area for an improved grade of service, protestant took virtually no action over a five-year period to ascertain what improvements should be made, until applicant evidenced an intense and genuine interest in the area. The record is replete with evidence of the public dissatisfaction with the protestant's past activities in the area.

Applicant, on the other hand, has taken the initiative in ascertaining the telephone needs which exist and will exist in the area, has prepared a plan to meet these needs, has gained the support of the potential subscribers and, through testimony presented relative to its existing operations in Tuolumne County, has demonstrated that it is capable of carrying out the plans for serving the area herein considered.

After carefully considering the entire record in this proceeding, we find that the public interest so overwhelmingly favors service by the applicant that the considerations in favor of the protestant's lower rates are overcome and applicant should be allowed to serve the area. An order should be issued substantially granting the request of applicant. We

further find that the exchange boundaries as requested by applicant are too extensive on the northwest, northeast and east, and accordingly the order herein will restrict the boundaries to more reasonable limits.

We also find and conclude that to grant applicant's request to waive the line extension charges for a period of one year would be discriminatory to later subscribers and, accordingly, such request will be denied. However, it would be reasonable for applicant to compute and apply such charges on a project basis and, for purposes of establishing rates for service, we find that the estimated revenue from line extension charges in the amount of \$35,000 should be spread over a five-year period, which will result in a \$7,000 lower annual revenue requirement than estimated by applicant, and the rates herein authorized will reflect such revised revenue calculations.

In order that the Commission may be informed as to the results of operation under the rates as authorized, applicant will be required to submit a special study showing the results of operation for the second full calendar year after establishment of the service, such study to be based upon actual plant, revenues, expenses and usage then existing in the area.

Consonant with our conclusion and order herein granting applicant the right to serve in the territory under consideration, we hereby find and conclude that the suspension of protestant's

tariff sheets submitted by Advice Letter No. 141 should be made permanent and the order herein will so provide.

We also find and conclude that, until such time as applicant establishes service as herein authorized, protestant has the obligation to provide toll service in the area in accordance with its filed tariffs.

Concurrent with the establishment of service by applicant, protestant will be relieved of the obligation to provide toll service in the area.

O R D E R

Public hearing having been held, evidence having been received, and the matters having been submitted for decision,

IT IS HEREBY ORDERED as follows:

1. Tuolumne Telephone Company is authorized to establish in Shasta and Tehama Counties its Oak Run and Shingletown exchanges in the area as delineated on the map, Exhibit C, attached to the application, except that the northwest boundary of the Oak Run exchange will be defined by a line parallel to and one mile northwesterly of Highway 299, said line running to where it intersects with applicant's proposed boundaries on the east and west respectively; and the northeast and easterly boundary of said Oak Run exchange will be defined by an easterly extension of applicant's proposed boundary running along the dividing line between Townships 33N and 34N from its present eastward extremity to the point of intersection of Sections 33

and 34 of R2E, T34N, and Sections 3 and 4 of R2E, T33N, thence running due south along section lines to the intersection with applicant's proposed south boundary of its Oak Run exchange.

2. Applicant's request to waive line extension charges for one year is denied but it is authorized and directed to compute and apply its line extension charges on a project basis in accordance with its tariffs except that such charges may be averaged and applied equally to all initial applicants for service.

3. Applicant is authorized and directed to establish toll rate centers at the central offices to be located at Fern and at Shingletown.

4. Applicant is authorized and directed to establish base rate areas at Oak Run, Whitmore, Shingletown, and at such other areas as may be appropriate and to submit for staff review the proposed base rate area boundaries not less than 120 days before establishing service in the proposed exchanges.

5. Applicant is authorized to file with this Commission after the effective date of this order and in conformity with General Order No. 96-A the schedules of rates attached to this order as Appendix A and, upon not less than five days' notice to the Commission and to the public, to make such rates effective coincident with the establishment of service.

6. Applicant is directed to prepare and submit to the Commission a separation study showing the results of operation for the second full calendar year after establishment of service, such study to be based upon actual plant, revenues, expenses, and usage then existing in the area.

7. The authority herein granted will expire if not exercised before March 1, 1964.

8. The suspension of tariff sheets Nos. 2168-T through 2182-T, filed by Citizens Utilities Company of California under Advice Letter No. 141 is hereby made permanent.

9. Concurrent with the establishment of service by applicant in the area, Citizens Utilities Company of California will be and is relieved of the obligation to provide telephone service through its toll stations in the area.

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

Dated at San Francisco, California, this 14th day of AUGUST, 1962.

George T. Grover
President

John S. Mitchell

Commissioners

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

Appendix A

The following rates are authorized for Oak Run and Shingletown exchanges:

<u>Tariff Schedule and Class and Grade of Service</u>	<u>Rate per Month</u>
<u>Schedule No. A-1, Individual and Party Line Service</u>	
<u>Business</u>	
Each One-Party Station	\$12.50
Each Two-Party Station	10.25
Each Extension Station	1.85
<u>Residence</u>	
Each One-Party Station	6.25
Each Two-Party Station	5.25
Each Four-Party Station	4.40
Each Extension Station	1.35
<u>Schedule No. A-2 Suburban Service</u>	
Each Eight-Party Business Station	8.00
Each Eight-Party Residence Station	4.90
<u>Schedule No. A-4, Mileage Rates</u>	
Each 1/4 Mile or Fraction Thereof, Airline Measurement	
One-Party	.60
Two-Party	.40
Four-Party	.25

All Other Services

Rates and charges for all other services shall be those applicable in Tuolumne exchange. Conditions of service and rules governing relations with subscribers shall be those applicable in Tuolumne exchange except as modified by the order herein.