

ORIGINAL

Decision No. 67555

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE)
AND TELEGRAPH COMPANY for authority)
to file and make effective rates for)
extended residence 2-party line)
message rate service and withdraw)
the offering of extended residence)
4-party line flat rate service in)
the San Diego exchange.)

Application No. 45777
(Filed September 16, 1963)

Arthur T. George, Maurice D. L. Fuller, Jr.,
and Richard W. Odgers, for applicant.
Edwin L. Miller, Jr., for the City of San
Diego, interested party.
James G. Shields, for the Commission staff.

O P I N I O N

This matter was heard and submitted before Examiner Patterson in San Diego on December 18, 1963. Applicant proposes to replace residential 4-party flat rate service in the San Diego exchange with 2-party message rate service. This proposal represents a continuation of applicant's program enunciated during the proceedings in Application No. 28211 whereby 2-party service in lieu of 4-party service is to be provided in all exchanges in the San Francisco-East Bay, Los Angeles, and San Diego extended areas and in Orange County.

Under authority of orders issued in other proceedings, applicant has virtually completed this program in the San Francisco-East Bay and Los Angeles areas. The instant application represents

the offer of residence measured rate service in the San Diego exchange and, according to applicant's witness, the program will be extended to the other eight exchanges in the San Diego extended area on a similar basis.

In the San Diego exchange, applicant proposes to furnish said service at a monthly rate of \$3.00 with an allowance of 40 exchange messages. Each additional exchange message over the allowance would be charged at a rate of 4.25 cents. The proposed rate level of \$3.00 is the same as that presently applicable to 4-party line flat rate service in the San Diego exchange. As an option to this minimum grade of service, a residential subscriber would be able to take 2-party line service at a flat rate charge of \$3.60 a month, or individual line service at a flat rate charge of \$4.90.

The only real issue which is before the Commission in this application is the reasonableness of an allowance of 40 exchange messages at the rate proposed, whereas in all exchanges having this type of service in the San Francisco-East Bay and Los Angeles areas the allowance is 60 messages. This issue was raised by counsel for the City of San Diego, who claimed that the lower allowance as proposed for San Diego would constitute discrimination against the San Diego subscribers.

Applicant's witness defended the lower allowance for the San Diego exchange on the basis that: (1) the allowance is predicated on a study of the calling patterns of the subscribers in the San Diego area, (2) different rate structures prevail in the San Diego area as compared with San Francisco and Los Angeles, and

(3) the local calling area for the San Diego exchange customers of over 746 square miles is larger than the local calling area available to customers in District 4 of the Los Angeles exchange.

The calling patterns of the 4-party flat rate subscribers in the San Diego exchange were sampled by applicant in a two-month survey and the results presented in Exhibits 2 and 3. Exhibit 2 indicates that with a monthly charge of \$3.00 and an allowance of 40 messages approximately 45 per cent of the subscribers would find it economical to upgrade to flat rate service. The remaining 55 per cent would presumably take measured rate service and their average usage would be 34 messages per month. Exhibit 3 indicates that with a monthly charge of \$3.00 and an allowance of 60 messages approximately 23 per cent of the subscribers would find it economical to upgrade to flat rate service, and the average usage of the remaining subscribers would be 43 messages per month.

The estimated revenue effect of the proposal is an annual revenue reduction of \$2,900 as set forth in Exhibit 1. The development of this estimate, as explained by applicant's witness, is based partly on the survey of 4-party flat rate subscribers which indicates that of 1,550 such subscribers, 850 would take the 2-party message rate service and the remaining 700 subscribers would upgrade to 2-party flat rate service. Out of 35,175, 2-party flat rate subscribers, it is estimated that 1,425 would downgrade to the new 2-party message rate service. The witness testified that this latter figure was based on judgment rather than upon a specific study. The estimate includes a revenue allowance for the assumption that on the average the measured rate subscribers would exceed the

40-message allowance by 5 per cent, or two messages each month. The witness testified that this also was a judgment figure.

It is applicant's position that the proposed allowance of 40 messages is inextricably related to the proposed monthly rate of \$3.00 and that if an allowance of 60 messages were to be adopted, the monthly rate should be \$3.20. Applicant's witness testified that on this latter basis, the annual revenue reduction would amount to \$2,300, whereas, if 60 messages were allowed with a \$3.00 monthly rate, the annual revenue reduction would be \$6,000. He testified further that the offering of 2-party service in lieu of 4-party service would not be warranted if the annual revenue reduction were greater than \$3,000.

In considering applicant's proposal, we note, by reference to applicant's filed tariffs and to prior decisions, that applicant has established or has secured authority to establish residence 2-party message rate service in about 53 exchanges in California metropolitan areas, and in every instance a 60-message allowance has been proposed and authorized at a monthly rate which has been the same or less than the monthly rate for 4-party flat rate service.

We note further that applicant, in Application No. 45726^{1/} for statewide rate adjustments, seeks to reduce the 60-message allowance to 40 messages wherever it now exists. This proposed action would seem to indicate that the number of messages to be included in the basic monthly rate should be uniform on a statewide basis. We find that rate comparisons between areas is not only valid but necessary to our determination of a proper tariff for the San Diego exchange.

^{1/} Application No. 45726 has not been heard as yet, but the Commission in fixing an interim rate spread in Case No. 7409 (Decision No. 67369, dated June 11, 1964) did not alter the 60-message allowance. Message rate customers should be alerted to the fact that in the final rate spread, under Case No. 7409, a different allowance, message unit rate, and monthly rate may be prescribed.

The application under consideration represents the introduction of residence 2-party measured service to the San Diego Metropolitan area. It is clear from the record that applicant intends to expand this offering to the remainder of the San Diego extended area upon a basis similar to that which will be authorized herein.

Under these circumstances, applicant has the burden of establishing by clear and convincing evidence that the proposed allowance of 40 messages, coupled with the proposed \$3.00 monthly charge, or, in the alternative, an allowance of 60 messages, coupled with a \$3.20 monthly charge, is fair and reasonable.

Applicant in this proceeding did not elect to support the proposed rate and message allowance upon a cost study, but relied upon an estimate of revenue effect. It is our opinion that this estimate contains so many elements of judgment, unsupported by specific studies, that it cannot be accepted as determinative of the probable revenue effect or of the reasonableness of the tariff proposal. If this program is to go forward, as it should, and the improved service be authorized for the San Diego exchange, we have no alternative but to rely upon the historical rate pattern which has been adopted for this service in the other metropolitan areas.

Based upon the record, we find that:

1. The introduction of residence 2-party message rate service,

in lieu of 4-party flat rate service in the San Diego exchange, will result in improved service and will not be adverse to the public interest.

2. Applicant has not sustained the burden of establishing the reasonableness of a 40-message allowance, coupled with a monthly rate of \$3.00 as proposed.

3. A monthly rate of \$3.00, together with a message allowance of 60 messages, is fair and reasonable for residence 2-party line message rate service in the San Diego exchange and any increases in rates and charges which may result from establishment of said rate are justified.

4. Present rates, insofar as they differ from those herein prescribed, upon the introduction of extended residence 2-party line message rate service for the future, will be unjust and unreasonable.

O R D E R

IT IS ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96-A, a rate for extended residence 2-party line message rate service in the San Diego exchange of \$3.00 for the first 60-message units and 4.25 cents for each message unit over the allowance of 60, and after not less than five days' notice to the Commission and to the public, to make said rates effective for service furnished on and after the introduction of such service in the San Diego exchange.

2. Coincident with the introduction of extended residence 2-party line message rate service, as authorized hereinabove, applicant is authorized to withdraw the offering of extended residence 4-party line flat rate service in the San Diego exchange and to cancel and withdraw the rate applicable thereto.

3. The authority granted herein will expire unless exercised on or before December 31, 1964.

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

Dated at San Francisco, California, this 21st day of JULY, 1964.

Friedrich B. Holst
President

John J. Mitchell

Charles W. [unclear]

George H. [unclear]

William A. [unclear]
Commissioners