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ORIGINAL

Decision No. 67579

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for authority to establish extended service between certain of its exchanges in the Lodi area of San Joaquin County and to withdraw message toll telephone service rates now in effect between said exchanges.	Application No. 45803 (Filed September 23, 1963)

Arthur T. George, M. D. L. Fuller, Jr., and Richard W. Odgers, for applicant.
California Farm Bureau Federation, by Ralph Hubbard, interested party.
Franklin G. Campbell and Paul Popenoe, Jr., for the Commission staff.

O P I N I O N

Public hearing in this matter was held before Commissioner Mitchell and Examiner Emerson on February 20, 1964, at Lodi. The matter was submitted on receipt of late-filed exhibits, the last of which was filed on March 20, 1964, and is now ready for decision. Included in the record herein is the complete record made in Application No. 44899.1/

Applicant is presently providing exchange telephone service in Lodi, Thornton, Lockeford, Galt and Herald in San Joaquin County. Calls between such exchanges are toll calls, based upon the following rates:

1/ Heard in Eureka on February 4, 5 and 6, 1964.

Exchanges	Route Miles	Initial 3-Minute Rate
Lodi - Galt	9	15¢
Lodi - Lockeford	8	10¢
Lodi - Thornton	11	15¢
Galt - Herald	6	10¢

Applicant proposes to provide extended exchange service between Thornton, Lockeford, Galt and Lodi, and between Herald and Galt, thus eliminating the above toll routes and charges. In order to offset the loss of toll revenue, applicant proposes to increase flat rate charges in each of the exchanges by the amounts shown in the following tabulation.

Proposed Monthly Increases

	Lodi	Galt	Herald	Lockeford	Thornton
Business					
1-party	$.25	$3.50	$1.25	$3.50	$4.00
2-party	.15	2.65	1.15	2.65	3.15
10-party	.10	1.60	.85	1.35	1.85
PBX trunk	.50	5.25	1.75	5.25	6.00
Farmer line	.10	1.70	.85	1.45	1.95
Residence					
1-party	.10	.85	.60	.85	1.10
2-party	.05	.55	.55	.55	.80
4-party	.05	.55	.55	.55	.80
10-party	.05	.55	.55	.55	.80
Farmer line	.05	.85	.40	.70	.95

Applicant's rate proposal would produce an increase of approximately $28,900 in exchange revenues. The differential cost study on which applicant relies is theoretical and understates the actual immediate costs of extended service in several respects; among them being (1) the understatement of net added investment resulting from an overstatement of the present value of plant removed, (2) the understatement of depreciation charges resulting from an assumed annuity expense rather than the straight-line depreciation charges used on applicant's books and (3) the failure to make any allowance in the computed cost of added plant for spare capacity which will actually be installed. The net new cost of telephone plant chargeable to the proposed extended serving arrangements would bring applicant's net plant devoted to exchange service in the extended area to a total of over $3,579,000. Under applicant's plan, its exchange earnings would decline from the 2.14 percent exchange earnings before introduction of extended service to an estimated 1.91 percent after extended service. This represents a revenue deficiency of $17,127 under applicant's proposed rates. While the record shows substantial public desire for extended service and support for applicant's rate proposal, the record clearly shows that applicant's proposed exchange rates will not produce revenues sufficient to meet the costs of the new service and maintain even the below-average earnings which the area now produces. Applicant has underestimated its revenue requirements and in presenting its proposal to its subscribers it has failed to inform them of the rates which would be required to support the true costs of the service arrangement that they desire.

The fundamental issue of rate spread may not be disposed of in this proceeding but will be undertaken in Case No. 7409 and Application No. 45726; however, it is fair and reasonable to require that the recipients of the new and improved extended service arrangements proposed herein provide revenues sufficient to leave applicant's earnings position in no poorer condition than that presently prevailing. To do otherwise would be unfair to telephone subscribers elsewhere who would receive no benefit from the new service but who would necessarily carry the burden of making up for the additional revenue deficiency occasioned by the establishment of applicant's plan in this area. Rates for the new serving arrangement will be established at such level as will make up the additional $17,127 deficiency necessary to maintain an average earnings ratio of 2.14 percent in the combined exchanges.

In view of the evidence, the Commission finds that:

1. Consummation of applicant's proposed new serving arrangements is in the public interest.

2. The increases in exchange telephone rates authorized herein are justified and that existing rates, insofar as they differ from those authorized herein, will become unjust and unreasonable on such date as extended service is provided.

The Commission concludes that the application herein should be granted, with rates for service thereunder as hereinafter set forth.

ORDER

IT IS ORDERED that:

1. Applicant is authorized to file with this Commission, after the effective date of this order and in conformity with the provisions of General Order No. 96-A, tariffs revised to establish extended service between Galt and Lodi, between Lockeford and Lodi, between Thornton and Lodi and between Herald and Galt exchanges, with rates therefor as set forth in Appendix A attached to this order and, on not less than five days' notice to the public and to this Commission, to make said revised tariffs effective on such date as extended service is established in said exchanges.

2. Coincident with the effective date of the revised tariffs above authorized, applicant is authorized to cancel and withdraw its present tariffs for message toll service applicable thereto.

3. The authorizations hereinabove granted will lapse if applicant shall not have established the aforesaid extended service prior to January 1, 1966.

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.

President

Commissioners

Appendix A
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RATES

The presently effective rates for the Lodi, Galt, Herald, Lockeford and Thornton exchanges are changed to the rates set forth in this appendix.

Schedule No. 4-T
Individual and Party Line Service - Northern California

Each Primary Station	Individual and Party Line Service Rate Per Month: Business: Individual Line	Business: Two-Party Line	Residence: Individual Line	Residence: Two-Party Line	Residence: Four-Party Line	Suburban Service Rate Per Month: Business: Ten-Party Line	Residence: Ten-Party Line	Semipublic Service Individual Line: Rate Per Month	Minimum Charge Per Day
Galt	$10.85	$8.40	$5.45	$4.25	$3.55	$6.85	$4.05	$2.00	26¢
Herald	8.10	6.40	4.95	4.00	3.30	5.85	3.80	1.85	21¢
Lodi	9.85	7.40	4.95	3.75	3.05	5.85	3.55	1.60	24¢
Lockeford	10.35	7.90	5.20	4.00	3.30	6.35	3.80	1.80	25¢
Thornton	10.85	8.40	5.45	4.25	3.55	6.85	4.05	2.00	26¢

Schedule No. 9-T
Farmer Line Service - Northern California

Rates — Each Station:	Rate Per Month: Residence Service	Business Service
Galt	$1.85	$3.45
Herald	1.30	2.35
Lodi	1.35	2.45
Lockeford	1.60	2.95
Thornton	1.85	3.45

Schedule No. 13-T
Private Branch Exchange Trunk Line Service - Northern California

(1) Flat Rate Service

(a) Commercial and Hotel Manual and Dial PBX, Business Key Station Dial PBX and Order Receiving Equipment Services:

Each Trunk:

Exchange	Rate Per Month
Galt	$16.25
Herald	12.00
Lodi	14.75
Lockeford	15.50
Thornton	16.25

(continued)

Appendix A
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RATES
(continued)

Schedule No. 34-T
Foreign Exchange Service - Northern California

Rates

Rates applicable to Foreign Exchange Service are authorized to be revised to reflect the above authorized changes.

CONCURRING OPINION OF COMMISSIONER HOLOBOFF

I concur.

The effort to maintain the same rate of return after extended area service as before, together with the fact that the extended area service routes herein considered involve only contiguous exchanges, remove much of the concern I heretofore expressed in my dissent in Decision No. 66352, dated November 19, 1963, in Application No. 44363. Furthermore, it now appears that a Commission decision on the issue of overall rate spread in Case No. 7409 could reasonably coincide with the completion of the plant changes necessary to implement this authorization. In these circumstances, I am not as apprehensive that applicant's customers elsewhere will be required to bear a possible undue burden of supplying its revenue requirements as I would be if the prospects were different.

Frederick B. Holoboff

FREDERICK B. HOLOBOFF, Commissioner

Dated July 21, 1964
San Francisco, California

A.44201, C.7300; A.45397, A.45702, A.45803 NB

I dissent as to each of the decisions issued today in the above matters.

(1) The rates are high. As I pointed out in my dissent to Decision 61868 in Application 42978 (58 C.P.U.C. 643), such rates benefit heavy users, but they are at the expense of low-income subscribers, whose monthly minimum rates are thereby increased. For example, in the Merced order the increase for one-party residence service in the Le Grand Exchange is $1.85 per month. That increase will be borne by those who have no need for the new extended "service" as well as by those who do desire it. The results are all the more questionable in view of the fact that the new rates in all four orders are substantially higher than those proposed by the company.

(2) Rate of return is not an accurate standard for preserving the status quo with respect to the deficient earnings of the exchanges in question. Today's orders will increase the plant investment in those exchanges, so that even with the same rate of return, the <u>dollar</u> deficiency in earnings will be increased. The burden which may ultimately be cast upon other exchanges (for example, Los Angeles and San Francisco) is better measured in terms of dollars, for it is dollars (not percent) which they will be called upon to contribute.

George G. Grover

GEORGE G. GROVER, Commissioner