

ORIGINALDecision No. 67580

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE)
 AND TELEGRAPH COMPANY to consolidate)
 certain telephone exchanges in Placer)
 County, and to establish a special)
 rate area and extended service.)

Application No. 44201
 Filed February 20, 1962

In the Matter of the Investigation on)
 the Commission's own motion into the)
 reasonableness, adequacy, or suffi-)
 ciency of the telephone rates and)
 service of The Pacific Telephone and)
 Telegraph Company being rendered in)
 Placer County.)

Case No. 7300
 Filed March 20, 1962

Appearances on Rehearing

Maurice D. L. Fuller, Jr., for The Pacific Telephone and Telegraph Company, applicant and respondent.

Ralph Hubbard, for California Farm Bureau Federation; and Neal C. Hasbrook, for California Independent Telephone Association, interested parties.

Thomas Srednik, for Roseville Telephone Company, Calfax Telephone Company and Foresthill Telephone Company, protestants.

Elinore Charles and Paul Popenoe, Jr., for the Commission staff.

OPINION ON REHEARING

The Commission issued Decision No. 64697 in these matters on December 20, 1962. On January 11, 1963, The Pacific Telephone and Telegraph Company filed a petition seeking rehearing of the matters. By order of March 19, 1963, the matters were consolidated with six similar matters for rehearing; however, by Decision No. 66126, issued on October 1, 1963, the matters were effectively separated and rehearing granted for Application No. 44201 and Case No. 7300.

Rehearing in these matters was held before Commissioner Mitchell and Examiner Emerson on January 29, 1964, at Auburn. The matters have again been submitted and are ready for decision.

No material exception to the evidentiary facts set forth in Decision No. 64697 has been taken by any party and such facts and review of the evidence need not be repeated herein. The Commission finds that those sections of said decision dealing with factual and evidentiary matters constitute true statements of the evidence and of the facts.¹ The evidence adduced on the day of rehearing was reiterative in many aspects, with the technical witnesses further explaining the "differential cost study" and the rate effects of various rates of return on exchange operations.

Since the original hearing and the issuance of Decision No. 64697, applicant has filed Application No. 45726 seeking increased rates on a statewide basis, including new rate proposals for the Auburn and South Placer extended areas. According to Pacific, the public has been informed of its latest rate proposals.

Based upon the level of business for the year ending June 30, 1961, the period relied upon by Pacific throughout this proceeding, the separated results of exchange operations of its proposed serving arrangements (Plan A) showed a rate of return of 0.38 percent. Without extended area service, the rate of return for the same period was 0.61 percent. Applying the later rate

¹ The sections to which reference is here made are contained within the Opinion of said Decision No. 64697 and are headed Hearing; Interim Order; Applicant's Request; Commission Investigation; Applicant's Position; Present Service; Pacific's Proposed Service Arrangements; Basic Reasons for Pacific's Plan A; Exchange Rates; Differential Cost Study; Evidence on Earnings; Staff's Analysis; Position of the Farm Bureau; Position of Independent Telephone Companies and Position of Affected Subscribers.

² Exhibit No. 20.

proposal for extended service rates (A.45726) to the same period, develops a rate of return of approximately 0.94 percent.

In this proceeding, Pacific's basic premise for rate determination is that its revenue position before and after extended service should be unaltered; that is, the new rates for the new service should neither provide it with additional profit nor saddle it with monetary penalties. It relies solely upon its so-called "differential study" to guide it to such a break-even result. We have classified such study as being "theoretical" and in fact it is. This is not to say, however, that it is not a useful tool or indicator for plant requirements, but it may not be applied or accepted blindly as an indicator of either a revenue position or an earnings position. Pacific's telephone system is not limited to just those few exchanges for which it seeks new rates in a single proceeding such as this. Indeed, the exchanges here proposed are essentially but two (Auburn and South Placer) of approximately 400 exchanges in this state, each one of which contributes in some manner to Pacific's earnings.

It should be self-evident that when the combined earnings of the six component exchanges under consideration herein are on the order of 0.61 percent before introduction of extended service and when such earnings are estimated to be no more than 0.38 percent after introduction of extended service at the rates proposed by Pacific, an additional earnings burden will be placed upon other exchanges if total exchange earnings are to remain undisturbed. This demonstrates, we believe, the fallacy of placing reliance on the differential study as the sole basis of rate making in proceedings involving the introduction of extended service on Pacific's system. The "differential study" approach is a formula approach,

lacking those elements of realism and judgment which are essential to the rate-making process.

It does not seem reasonable to impose on other subscribers the additional burden of financing the new serving arrangement for which the Auburn-South Placer subscribers clamor. From the evidence it can be computed that Pacific's earning position under its extended service plan will produce a gross revenue deficiency of approximately \$54,816 annually. Of this amount, Pacific's differential study accounts only for \$40,800. The balance of \$14,016 is that minimum amount which is necessary to offset the initial decline in earnings which will result from putting Plan A into effect. It is fair and reasonable to authorize rates which will at least offset this gross deficiency and thus avoid placing an additional supporting burden on other telephone subscribers.

In view of the entire record, the Commission finds as follows:

1. From time to time in the past various groups of subscribers in Applegate, Loomis, Newcastle, Penryn and Rocklin have requested Pacific to provide, or have expressed an interest in obtaining, an expanded local calling area.

2. After study, Pacific voluntarily offered to provide Plan A service, at the rates set forth in its application, to subscribers in the Auburn-South Placer area even though it estimated that its proposed rates under such service plan would yield a rate of return of but 0.38 percent.

3. After numerous meetings by various organizations in the Auburn-South Placer area at which representatives of Pacific explained Pacific's Plan A service and rates as well as several alternate plans and rates, over 30 public or civic bodies and other organizations accepted Pacific's Plan A service and rates and urged that the application be authorized.

4. Protests received to a granting of the application were made by one subscriber in the Loomis area who wanted no change in his present service, by the Roseville Telephone Company, Forest Hill Telephone Company, Colfax Telephone Company, California Independent Telephone Association and by the Commission staff.

5. A granting of Pacific's application may stimulate demands for expanded local calling areas by subscribers in Roseville, Forest Hill and Colfax exchanges which, if satisfied, might require subscribers in those exchanges to pay higher exchange rates. This is not a sufficient reason to deny Pacific's application.

6. No subscribers in the Auburn-South Placer area supported alternate Plans B, C or D, although Plan B was urged by the Commission staff and by the independent companies if Plan A rates were not fixed at a level to yield a 5 to 6 percent rate of return.

7. The differential study relied upon by Pacific's rate witness and used by him to develop the rates contained in Pacific's application is theoretical.

8. Pacific's proposal (Plan A) should be authorized.

9. 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.

10. The increases in rates and charges authorized herein are justified and present rates and charges will, upon consolidation of exchanges and introduction of extended service, be unjust and unreasonable.

In view of the evidence and the foregoing findings, the Commission concludes that the application should be granted, with rates for service thereunder as hereinafter set forth.

O R D E R

IT IS ORDERED that:

1. Except as otherwise herein specified, the findings and ordering paragraphs of Decision No. 64697, issued December 20, 1962, are hereby set aside.

2. The Pacific Telephone and Telegraph Company, after the effective date of this order and on or before January 1, 1966, is authorized to: (a) consolidate its Applegate and Auburn exchanges into an enlarged Auburn exchange with boundaries and base rate area generally as shown in Exhibit A of the application; (b) establish the Meadow Vista special rate area with boundaries generally as shown in Exhibit B of the application; (c) consolidate its Loomis, Newcastle, Penryn and Rocklin exchanges into a single exchange to be called South Placer with boundaries and base rate areas generally as set forth in Exhibit A of the application; (d) establish rates for extended service in Auburn exchange and in South Placer exchange as set forth in Appendix A hereof; (e) cancel tariffs covering existing exchange and foreign exchange rates and services applicable within and between Applegate, Auburn, Loomis, Newcastle, Penryn and Rocklin exchanges; (f) revise tariffs to discontinue present toll rate centers of Applegate, Newcastle, Penryn and Rocklin; and make the present Loomis toll rate center applicable to the South Placer exchange; and withdraw message toll telephone service between Applegate, Auburn, Newcastle, Penryn, Loomis and Rocklin exchanges.

3. Necessary tariff schedule filings are authorized to be made in accordance with General Order No. 96-A and, after not less than ten days' notice to the public and to this Commission, such tariff filings shall be made effective coincident with the exchange consolidations and offerings of extended service as set forth in ordering paragraph 2 hereof.

APPENDIX A

RATES FOR EXTENDED SERVICE

Schedule No. 4-T

Individual and Party-Line Service - Northern California

Each Primary Station	Business		Residence		Party		Suburban Service		Semipublic Service	
	Indi-vidual	2-Party	Indi-vidual	2-Party	4-Party	10-Party	10-Party	Rate	Minimum	Charge
Line	Line	Line	Line	Line	Line	Line	Line	Month	Per Day	
Auburn Base Rate Area and Suburban Area	\$8.75	\$6.80	\$5.10	\$3.90	\$3.20	\$5.95	\$3.70	\$1.50	22¢	
Auburn Meadow Vista Special Rate Area	9.75	7.50	6.10	4.60	3.70	-	-	2.50	22¢	
South Placer	9.75	7.80	5.60	4.40	3.70	6.95	4.20	2.50	22¢	

Schedule No. 9-T

Farmer Line Service - Northern California

Rates

Each Station Exchange	Rate Per Month	
	Residence Service	Business Service
Auburn, Base Rate Area and Suburban Area	\$1.25	\$2.20
Auburn, Meadow Vista Special Rate Area	1.45	2.40
South Placer	1.75	3.20

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
Auburn, Base Rate Area and Suburban Area	\$12.75
Auburn, Meadow Vista Special Rate Area	13.75
South Placer	14.25

Schedule No. 34-T

Foreign Exchange Service - Northern California

Rates

Rates applicable to Foreign Exchange Service are authorized 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

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 dollar 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, Commissioner