

ORIGINAL

Decision No. 67581

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 its Merced and Atwater )  
 exchanges; between its Merced and Le )  
 Grand exchanges; and between its )  
 Merced and Planada exchanges, and to )  
 withdraw message toll telephone )  
 service rates now in effect between )  
 said exchanges. )

Application No. 45397  
 (Filed May 1, 1963)

Arthur T. George, Maurice D. L. Fuller, Jr.,  
 Richard W. Odgers, by Maurice D. L. Fuller, Jr.,  
 and Richard W. Odgers, for applicant.  
 California Farm Bureau Federation, by Ralph Hubbard;  
 California Independent Telephone Association, by  
Neal C. Hasbrook; Dos Palos Telephone Company, by  
Richard D. Crowe; City of Atwater, by Joseph D.  
McDonald; Bloss Memorial Hospital District, by  
Margaret L. Mersch; Officers' Wives Club of  
 Castle Air Force Base, by Mrs. Fred L. Howard, Jr.;  
 Castle Air Force Base, 93rd Bomb Wing, by Lt. Col.  
Louis B. Buckley; City of Merced, by Richard W.  
Zug and E. Earl Udall; N.C.O. Wives' Club, Castle  
 Air Force Base, by Mrs. J. L. Patterson; interested  
 parties.  
Franklin G. Campbell and P. Popenoe, Jr., for the  
 Commission staff.

## O P I N I O N

After due notice, public hearing in this matter was held  
 before Examiner Emerson on February 18, 1964 at Merced. The matter  
 was submitted on receipt of a late-filed exhibit and is now ready  
 for decision. Included in the record herein is the complete record  
 made in Application No. 44899.<sup>1/</sup>

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

Applicant is presently providing exchange telephone service in Atwater, Merced, Planada and Le Grand in Merced and Mariposa Counties. Applicant's subscribers in said communities have been seeking improved service and toll-free calling between their communities and Merced over a period of several years. In response to public demand, particularly in the Atwater and Castle Air Force Base areas, applicant now proposes to establish "extended" service between the Atwater, Planada and Le Grand exchanges and the Merced exchange.

The present toll routes involved, with existing initial 3-minute charges therefor, are as follows:

|                   |          |          |
|-------------------|----------|----------|
| Atwater - Merced  | 9 miles  | 15c toll |
| Planada - Merced  | 10 miles | 15c toll |
| Le Grand - Merced | 14 miles | 20c toll |

Applicant proposes to offset loss of toll revenue between these exchanges by increasing flat rate charges in each exchange. A comparison of proposed rates with existing rates is as follows:

Rate Comparison

| <u>Existing Monthly Rate</u> | <u>Merced</u> | <u>Atwater</u> | <u>Planada</u> | <u>Le Grand</u> |
|------------------------------|---------------|----------------|----------------|-----------------|
| <b>Business:</b>             |               |                |                |                 |
| 1-party                      | \$ 9.25       | \$ 7.00        | \$ 6.50        | \$ 6.50         |
| 2-party                      | 7.10          | 5.60           | 5.10           | 5.10            |
| PBX trunk                    | 13.75         | 10.50          | 9.75           | 9.75            |
| 10-party                     | 5.60          | 5.10           | 4.85           | 4.85            |
| Farmer line                  | 2.15          | 1.55           | 1.30           | 1.30            |
| <b>Residence:</b>            |               |                |                |                 |
| 1-party                      | 4.65          | 4.40           | 4.15           | 4.15            |
| 2-party                      | 3.60          | 3.60           | 3.35           | 3.35            |
| 4-party                      | 3.00          | 3.00           | 2.75           | 2.75            |
| 10-party                     | 3.50          | 3.50           | 3.25           | 3.25            |
| Farmer line                  | 1.20          | .90            | .80            | .80             |
| <u>Proposed Monthly Rate</u> |               |                |                |                 |
| <b>Business:</b>             |               |                |                |                 |
| 1-party                      | 9.95          | 10.95          | 10.95          | 11.45           |
| 2-party                      | 7.60          | 8.60           | 8.60           | 9.10            |
| PBX trunk                    | 14.75         | 16.25          | 16.25          | 17.00           |
| 10-party                     | 5.95          | 6.95           | 6.95           | 7.45            |
| Farmer line                  | 2.40          | 3.40           | 3.40           | 3.90            |
| <b>Residence:</b>            |               |                |                |                 |
| 1-party                      | 5.00          | 5.50           | 5.50           | 5.75            |
| 2-party                      | 3.85          | 4.35           | 4.35           | 4.60            |
| 4-party                      | 3.15          | 3.65           | 3.65           | 3.90            |
| 10-party                     | 3.65          | 4.15           | 4.15           | 4.40            |
| Farmer line                  | 1.25          | 1.75           | 1.75           | 2.00            |

Applicant's rate increase proposal would produce an increase of approximately \$106,200 in exchange revenues. The new net cost of telephone plant chargeable to the proposed extended area serving arrangements would bring applicant's net plant devoted to exchange service in the extended area, as of June 30, 1962, to a total of over \$5,700,000. Under applicant's plan, its exchange earnings would decline from the 3.05 percent overall exchange earnings before introduction of extended service to an estimated 2.73 percent after extended service.

While the record fully demonstrates the public's desire for the extended service proposed, particularly as between Atwater and Merced where aggravating cross-boundary problems exist primarily because of the existence of Castle Air Force Base where calling needs are such as to fully warrant either extended service or exchange consolidation, 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. The new service cannot be supplied under applicant's rate proposal without an additional rate burden being placed on other exchanges. Such situation would be unfair to subscribers elsewhere who will receive no benefit from the extended service here proposed. While the fundamental issue of rate spread for extended service may not be disposed of in this proceeding, it being before the Commission in Case No. 7409 and Application No. 45726, it is fair and reasonable to require that the recipients of the new and improved service provide sufficient revenues to leave applicant's earnings position in no poorer condition than that presently prevailing. To such end, rates for the new service should be authorized at such level as will make up the additional deficiency of \$37,784 necessary to maintain an earnings ratio of 3.05 percent in these combined exchanges. The total increased revenue requirement thus becomes \$143,984 and represents an average increase of 35 percent over applicant's proposed rates.

Applicant estimates that 18 months will pass before extended service may be established. In view of the evidence

respecting the urgency of improved service between Atwater and Merced and of applicant's long-time awareness of the cross-boundary problem existing between such exchanges, applicant is urged to expedite its program to the end that the new serving arrangements may be made effective at the earliest practicable date.

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 set forth hereinafter.

O R D E R

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, tariff sheets revised to reflect rates for extended service between its Merced and Atwater, Merced and Planada, and Merced and Le Grand exchanges 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 the date when extended service is provided in said exchanges.

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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 extended service in the aforesaid exchanges 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.

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 President  
*Robert E. Mitchell*  
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*Charles W. [unclear]*  
 \_\_\_\_\_  
*William [unclear]*  
 \_\_\_\_\_  
 Commissioners

## APPENDIX A

## RATES

The presently effective rates for the Atwater, Merced, Le Grand and Planada 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 |           | Suburban Service |           | Residence Service |           | Semipublic Service |           | Individual Line Rate Per Month | Minimum Charge Per Day |
|----------------------|-----------------------------------|-----------|------------------|-----------|-------------------|-----------|--------------------|-----------|--------------------------------|------------------------|
|                      | Business                          | Residence | Business         | Residence | Business          | Residence | Business           | Residence |                                |                        |
| Atwater              | \$11.45                           | \$8.95    | \$5.75           | \$4.55    | \$3.70            | \$7.20    | \$4.20             | \$2.50    | 26¢                            |                        |
| Le Grand             | 11.95                             | 9.45      | 6.00             | 4.80      | 3.95              | 7.70      | 4.45               | 3.00      | 26¢                            |                        |
| Merced               | 10.45                             | 7.95      | 5.25             | 4.05      | 3.20              | 6.20      | 3.70               | 1.50      | 26¢                            |                        |
| Planada              | 11.45                             | 8.95      | 5.75             | 4.55      | 3.70              | 7.20      | 4.20               | 2.50      | 26¢                            |                        |

Schedule No. 9-T

## Farmer Line Service - Northern California

Rates

| Each Station:<br>Exchange | Rate Per Month    |                  |
|---------------------------|-------------------|------------------|
|                           | Residence Service | Business Service |
| Atwater                   | \$1.80            | \$3.55           |
| Le Grand                  | 2.05              | 4.05             |
| Merced                    | 1.30              | 2.55             |
| Planada                   | 1.80              | 3.55             |

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 |
|----------|----------------|
| Atwater  | \$17.00        |
| Le Grand | 17.75          |
| Merced   | 15.50          |
| Planada  | 17.00          |

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

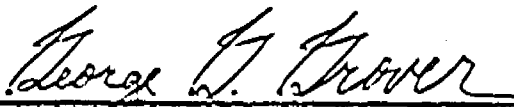
San Francisco, California



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.

  
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GEORGE J. GROVER, Commissioner