

The second, which we shall call the Southern Area, would permit toll-free calling between any Rio Dell, Hydesville, Fortuna, Loleta, and Eureka exchange subscribers.

From applicant's revenue and earnings standpoint, it proposes to offset the loss of toll revenue between these exchanges by increasing flat rate charges to all telephone subscribers in the area in a gross amount equal to the prospective loss in short-haul toll revenues plus the net cost effect of supplying the new type of service. Pacific estimates that increasing basic exchange revenues by \$232,800 annually will approximately meet such net requirement.

The present toll route charges proposed to be eliminated are as follows:

<u>Toll Route</u>	<u>Route Miles</u>	<u>Initial 3-Minute Charge</u>
Trinidad - Arcata	14	20c
Trinidad - Blue Lake	15	20c
Trinidad - Eureka	19	25c
Loleta - Eureka	12	15c
Fortuna - Eureka	14	20c
Hydesville - Eureka	18	25c
Rio Dell - Eureka	21	30c
Rio Dell - Loleta	12	15c
Fortuna - Loleta	5	10c
Fortuna - Hydesville	5	10c
Fortuna - Rio Dell	8	10c
Hydesville - Loleta	10	15c
Hydesville - Rio Dell	4	10c

A comparison of present and proposed basic exchange rates is as follows:

Present Monthly Exchange Rates

	<u>Arcata Blue Lake Eureka</u>	<u>Hydesville Loleta Rio Dell Trinidad</u>	<u>Fortuna</u>
<u>Business</u>			
1-party	\$10.50	\$6.50	\$ 7.00
2-party	8.10	5.10	5.60
Suburban	6.35	4.85	5.10
PBX-trunk	15.75	9.75	10.50
Farmer Line	2.80	1.30	1.55
<u>Residence</u>			
1-party	4.85	4.15	4.40
2-party	3.75	3.35	3.60
4-party	3.10	2.75	3.00
Suburban	3.60	3.25	3.50
Farmer Line	1.40	.80	.90

Proposed Monthly Exchange Rates

	<u>Arcata</u> <u>Blue Lake</u>	<u>Eureka</u>	<u>Rio Dell</u>	<u>Hydesville</u> <u>Trinidad</u>	<u>Loleta</u>	<u>Fortuna</u>
<u>Business</u>						
1-party	\$10.80	\$11.30	\$14.80	\$14.30	\$13.30	\$13.80
2-party	8.30	8.80	12.15	11.65	10.65	11.15
Suburban	6.55	7.00	10.40	9.90	8.90	9.40
PBX-trunk	16.00	16.75	22.00	21.25	19.75	20.50
Farmer Line	3.00	3.45	-	6.35	5.35	5.85
<u>Residence</u>						
1-party	4.95	5.40	7.15	6.90	6.40	6.65
2-party	3.80	4.15	5.70	5.45	4.95	5.20
4-party	3.10	3.45	4.85	4.60	4.10	4.35
Suburban	3.60	3.95	5.35	5.10	4.60	4.85
Farmer Line	1.40	1.75	-	2.90	2.40	2.65

Approximately 150 persons attended the hearing in this matter. Twenty-five public witnesses were heard in behalf of various public bodies, civic organizations, community associations, and certain individuals, in unreserved support of Pacific's proposal. A few desired even further expansion of the proposed extended service area. Three witnesses expressed opposition to the proposal, in essence objecting to increasing Eureka rates in order to further the interests of the outlying communities for which Eureka residents would receive no benefits.

Pacific's four expert witnesses testified, and introduced exhibits in support thereof, respecting the economic and social characteristics of the various component areas and their interdependence, exchange boundaries, estimated differential plant effects, annualized revenue and expense effects, the calling characteristics of its subscribers and specific proposals as to telephone rate changes and related matters.

The Commission staff presented one expert witness who testified respecting the general problems presented by Pacific's various extended service proposals currently pending before the

Commission^{1/} and who presented two specific proposals respecting extended service within the overall area covered by the application herein. Briefly stated, the staff would limit the additional extended service in the Northern Area to Arcata and Trinidad (Arcata-Blue Lake-Eureka is presently an extended area) and would limit new extended service within the Southern Area to service between contiguous exchanges. The basic staff premise in these regards is that extended area service should be used primarily to overcome cross-boundary calling problems and that where such problems do not exist there is no need or justification for the widespread toll-elimination treatment which Pacific proposes. The staff further takes the position that, if in spite of its recommendation to the contrary, Pacific's plan for the overall area is authorized, a message-rate service be offered in lieu of residence four-party flat rate and in lieu of business two-party flat rate service and that business one-party flat rates should be further increased.

The latest available community-of-interest factors (year 1963), as measured by the average number of calls per telephone per month between communities, are as follows:

COMMUNITY-OF-INTEREST FACTORS

<u>Northern Area</u>		<u>From Trinidad</u>	<u>To Trinidad</u>
Arcata		4.5	0.3
Blue Lake		0.2	0.2
Eureka		4.4	0.1

<u>Southern Area</u>					
<u>From</u>	<u>To Eureka</u>	<u>To Loleta</u>	<u>To Fortuna</u>	<u>To Hydesville</u>	<u>To Rio Dell</u>
Eureka	-	0.1	0.9	0.1	0.2
Loleta	7.5	-	6.2	0.3	0.6
Fortuna	6.7	0.7	-	0.8	2.0
Hydesville	4.1	0.4	8.9	-	1.8
Rio Dell	3.6	0.2	5.1	0.4	-

^{1/} Applications Nos. 45397, 45702, 45703, 45783, 45803, 45810, 45903, 45934 and 44899, covering various areas from Humboldt County on the north to the Imperial Valley on the south.

An analysis of subscriber's toll usage during April 1962, is shown in the following tabulation. The "message per subscriber" is a measure of all outgoing toll calls to the other exchanges.

TOLL USAGE ANALYSIS

<u>Toll Routes</u>	<u>Average Messages Per Subscriber</u>
From Trinidad to Northern Area Exchanges:	
Business	16.9
Residence	9.7
From Loleta to Southern Area Exchanges:	
Business	32.6
Residence	12.6
From Fortuna to Southern Area Exchanges:	
Business	32.2
Residence	6.3
From Hydesville to Southern Area Exchanges:	
Business	50.7
Residence	13.7
From Rio Dell to Southern Area Exchanges:	
Business	26.3
Residence	7.2

The latest available information (December 31, 1963) respecting distribution of telephone stations among the exchanges is as follows:

<u>Exchange</u>	<u>Number of Telephones</u>
Eureka	23,159
Arcata	8,772
Blue Lake	651
Trinidad	591
Loleta	408
Fortuna	3,511
Hydesville	352
Rio Dell	<u>1,439</u>
Total	38,883

At the direction of the Commission, Pacific conducted a mail canvass of all of its subscribers who would be affected by its rate proposal. Questionnaires were sent to 23,287 subscribers.

Replies, sent directly to the Commission, totaled 10,380. Of this total, 4,552 indicated that they did not want extended area service, 3,010 (or 66 percent) of them being within the Eureka exchange.

The evidence respecting Pacific's earnings shows that, as of June 30, 1962, on a net investment of \$8,271,000 in exchange plant before introduction of extended service, Pacific was earning 3.02 percent. Estimated exchange earnings, for the same date, on a net investment of \$9,152,000 following establishment of extended service would be 3.12 percent.

It is apparent from the evidence, as illustrated by the foregoing tabulations, that Pacific's Eureka exchange is in fact the primary core exchange around which community interests revolve. It is the center to which the great proportion of the outlying communications activity is directed. For example, the tabulation of community-of-interest factors illustrates that, on the average, 75 calls enter Eureka from Loleta for every call in the reverse direction. Similar comparisons for the other exchanges are: 44 calls from Trinidad, 18 calls from Rio Dell, 41 calls from Hydesville and $7\frac{1}{2}$ calls from Fortuna enter Eureka for each call in the reverse direction. It is also apparent that a secondary core exchange exists in Fortuna, as illustrated by community-of-interest factors therewith of 6.2 for Loleta, 8.9 for Hydesville and 5.1 for Rio Dell.

Public support for Pacific's proposal for toll-free calling to Eureka is substantial. All of the outlying exchanges support Pacific's proposal to afford such calling privileges. The support of Eureka subscribers, however, is far from unanimous. Of the total of 1,817 business subscribers in Eureka, only 34 percent responded to the canvass as favoring the proposal; and of the total of 11,489 Eureka residence subscribers, only 18 percent responded to the canvass as being in favor of the proposal.

An extended service plan, as extensive as that proposed, results in a considerable redistribution of telephone charges. A minority of subscribers would receive substantial reductions in charges while a great majority would receive increases with sharp increases occurring in the outlying or tributary exchanges. With respect to the interests of the tributary exchange business subscribers, the testimony is uniformly to the effect that business will benefit from the proposal and has no general objection to the magnitudes of the flat rate increases proposed. There appears to be some inequity in the proposed increases as between Arcata, Blue Lake and Eureka, however. Insofar as charges for local calling are concerned, these three exchanges are now effectively one exchange; their present rates are identical. There is no compelling reason for changing this present relationship.

From the evidence, the Commission makes the following findings:

1. Consummation of the serving arrangement proposal of applicant, whereby extended service between the various exchanges would replace toll charges between them, will not be unreasonable and will not be adverse to the public interest.

2. The increases in rates for exchange telephone service authorized herein are justified.

3. Present exchange rates, insofar as they differ from those authorized herein will become unjust and unreasonable on such date as extended service is provided.

4. The fundamental issue of rate spread for extended service may not be disposed of in this proceeding as it is at issue before the Commission in Case No. 7409 and Application No. 45726.

5. To all practical purposes, the extended service arrangements authorized herein create two large exchange areas (Northern Area and Southern Area). Applicant should be required to undertake a study of the feasibility of consolidating the individual components thereof within a reasonable period of time.

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

O R D E R

IT IS ORDERED as follows:

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 the rates for extended service between its Trinidad, Arcata, Blue Lake and Eureka exchanges and between its Eureka, Loleta, Fortuna, Hydesville and Rio Dell 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.

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.

4. Applicant is directed to undertake a feasibility study of, and to formulate a possible plan for, the elimination of exchange boundaries between its Trinidad, Blue Lake, Arcata and Eureka exchanges and between its Loleta, Fortuna, Hydesville and Rio Dell exchanges and is directed to file a written report thereon with this Commission no later than ninety days following establishment of the extended service hereinabove authorized.

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

Dated at San Francisco, California, this 25th day of August, 1964.

[Signature] President
[Signature]
[Signature]

Commissioners

I dissent. I will express my views later.

Frederick B. Holdoff

I dissent and will file an opinion later.

George T. Grover

APPENDIX A

EXTENDED SERVICE RATES

Presently effective rates are revised to the extent indicated in this appendix.

	<u>Arcata, Blue Lake, and Eureka</u>	<u>Fortune</u>	<u>Hydesville and Trinidad</u>	<u>Loleta</u>	<u>Rio Dell</u>
<u>Business</u>					
1-party flat	\$11.30	\$13.80	\$14.30	\$13.30	\$14.80
2-party flat	8.80	11.15	11.65	10.65	12.15
Suburban flat	7.00	9.40	9.90	8.90	10.40
Coin semi- public	2.05	3.05	3.55	2.55	4.05
	plus .25*	plus .30*	plus .30*	plus .30*	plus .30*
PBX-trunk	16.75	20.50	21.25	19.75	22.00
Farmer Line	3.45	5.85	6.35	5.35	-
<u>Residence</u>					
1-party flat	5.25	6.65	6.90	6.40	7.15
2-party flat	4.00	5.20	5.45	4.95	5.70
4-party flat	3.30	4.35	4.60	4.10	4.85
Suburban flat	3.80	4.85	5.10	4.60	5.35
Farmer Line	1.60	2.65	2.90	2.40	-

* per day

Rates applicable to Foreign Exchange Service are authorized to be revised to reflect the above extended service rates.

McKEAGE, Commissioner, concurring.

I concur in the decision of the Commission, not because I consider said decision to be ideal or nearly so, but because it is the best that can be done in light of all the relevant facts and circumstances of record. Concededly, the action herein taken is not an answer to the basic problem presented in this frame of reference.

We are faced with the problem spoken of by Abraham Lincoln when he said that there is nothing all good or all bad, and wisdom dictates that one must choose that which has the most good and the least bad.

Public utility regulation is based upon a fundamental social premise--socialism if you will-- , that is, certain customers of the utility must subsidize other customers in order that the latter may receive service at rates which are not prohibitive. It is truly the taking of the property of some for the benefit of others. As Winston Churchill pointed out, the employment of the "magic of the averages" enables society to enjoy fruits which would otherwise be denied it. The difficult problem to solve is how far regulation by government should go in requiring one group of customers of a public utility to subsidize another group. We have this problem before us in this case in a rather aggravated form because of the character of the community involved and the needs of its inhabitants. Additionally, the record shows that this community suffers from an economic lethargy.

If there be any wisdom in the statement that "true genius best reveals itself when working within limitations," then, we have here presented a situation which should bring forth regulatory statesmanship of the first order.

According to the record herein, the Telephone Company is now earning around 3.02 percent on its investment in the Eureka territory


and that, with the institution of extended service, as authorized by this decision, the earnings will be 3.12 percent. The latest return prescribed for the Telephone Company by this Commission as reasonable was and is 6.3 percent. Obviously, if the customers of the company in the Eureka territory are to pay rates which will net the company earnings of only 3.12 percent, it ineluctably follows that other customers of the Telephone Company must subsidize telephone service in this particular territory.

If the territory, here involved, were a very small community, the problem of subsidization would not be great and could be treated as de minimus. However, Eureka and its environs constitute a community of not inconsiderable size and importance. While this community is not growing as fast as some of the other California communities, it is gradually growing in population.

In order to raise the return to the Telephone Company to a figure of 4 percent in this territory, it would require that the rate to each subscriber to telephone service in the Eureka territory be increased \$7.00 annually, and to increase the return figure to 5 percent would require that each subscriber pay an increase of \$16.00 annually, over and above the rates prescribed in this decision. Thus, the knotty economic problem reveals itself.

It is clear that this type of regulation must have its limits; otherwise, the integrity of the over-all rate of return prescribed for the Telephone Company would become undermined. This fear will more and more become realized if this Commission should continue the regulatory action which is reflected by the instant decision. In my judgment, remedial action of fundamental proportions is called for. In line with this thought, it is my suggestion that the rates prescribed in this decision be given a trial test with a view to reconsidering them within a reasonable period of time. The result of such review may indicate further regulatory action

with regard to this territory. At all events, the action taken in this decision should not be considered a precedent for all future cases of like character.



McKEAGE
Commissioner

August 25, 1964

We dissent.

The majority decision violates the Commission's own fundamental policy in favor of metered service as opposed to flat rate service. Under the flat rate service authorized herein, the big users benefit, but the little users pay. For some customers covered by this order, minimum monthly bills will be more than doubled - so that the heavy users can have their calling free. The company does not propose optional extended service; instead it insists upon increasing the price of having any telephone at all.

As has been pointed out in earlier cases of this kind, much of the money for this plan comes from the high profits which the company earns in the San Francisco and Los Angeles metropolitan areas. There are poor families there for whom even minimum telephone rates are a heavy burden, and yet the company does not propose to reduce those rates. There is not even a proposal to put San Francisco and Los Angeles service on the same favorable terms as are ordered today for the Eureka area. For the same distances which are now to become free calling in Humboldt County, San Francisco and Los Angeles customers must pay up to 30¢ per call, notwithstanding much tighter community of interest within these large metropolitan centers. Many San Francisco and Los Angeles customers would appreciate free calling for up to 21 miles; but who would subsidize them?

And what of the rural customers of independent companies who have no metropolitan areas to help meet the cost of such luxury service? Is it fair to give Rio Dell a rate advantage at the expense of San Francisco and Los Angeles when no such advantage is provided for customers of Citizens Utilities in the nearby Ferndale exchange or for customers of West Coast Telephone in the Orick exchange?

Finally, it is simply not true that this proposal was "demanded" by the public. A slight majority approved it, even after the one-sided arguments which the company circulated. At the hearing, several small ratepayers spoke out in eloquent protest against the increased rates. (Reporter's Transcript, pages 123-128, 131-133, 187-188.) And how many more such

customers would have similarly testified were it not so burdensome to attend the hearing? This Commission was established in large part to protect those ratepayers who cannot afford to represent themselves. The Commission has tragically failed to honor that trust in this decision. It has listened instead to the voice of bigness.

George G. Grover

Frederick B. Hallock

Commissioners