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ORIGINAL

Decision No. 67876

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 Imperial County and to withdraw message toll telephone service rates now in effect between said exchanges.	Application No. 45703 (Filed August 23, 1963)

Arthur T. George and Richard W. Odgers, for applicant.
California Farm Bureau Federation, by Ralph Hubbard, interested party.
Franklin G. Campbell and J. G. Shields, for the Commission staff.

OPINION

After due notice, public hearing in this matter was held before Commissioner Mitchell and Examiner Emerson on March 2 and 3, 1964, at El Centro. The matter is submitted and is now ready for decision. The record herein includes the complete record made in Application No. 44899.[1/]

Applicant is presently providing exchange telephone service in the Imperial Valley through its Calipatria, Brawley, Imperial, El Centro, Holtville and Calexico exchanges. In response to public inquiry over a period of years, applicant now proposes to establish extended service among these exchanges. Specifically, it proposes to establish toll-free calling between the El Centro exchange and the Brawley, Imperial, Holtville and Calexico exchanges and between the Brawley exchange and the Imperial and Calipatria exchanges.

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

Toll routes which applicant proposes to eliminate by its proposed extended serving arrangements are as follows:

Between Exchanges	Route Miles	Initial 3-Minute Toll Rate
Calexico - El Centro	10	15¢
Holtville - El Centro	11	15¢
Imperial - El Centro	4	10¢
Brawley - El Centro	13	20¢
Imperial - Brawley	10	15¢
Calipatria - Brawley	11	15¢

Applicant proposes to offset its loss in toll revenues by increasing rates for exchange service. Its rate increase proposal is summarized as follows:

Type of Service	Rate Increases Proposed - Per Month					
	Brawley	Calexico	Calipatria	El Centro	Holtville	Imperial
Business:						
1-party	$5.25	$4.75	$4.00	$4.50	$4.75	$5.75
2-party	4.20	3.80	3.20	3.70	3.80	4.60
10-party	4.05	3.65	3.05	3.80	3.65	4.45
PBX trunk	7.75	7.00	6.00	6.75	7.00	8.50
Residence:						
1-party	1.60	1.35	1.10	1.35	1.35	1.85
2-party	1.35	1.10	.85	1.35	1.10	1.60
4-party	1.20	.95	.70	1.20	.95	1.45
10-party	1.20	.95	.70	1.20	.95	1.45

Applicant'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 upon a so-called "differential cost study" to guide it to such a break-even result. Such study understates the actual immediate costs of extended service in several respects. Relying on such study, applicant's rate proposal would produce an increase of approximately $405,500 in exchange revenues at the same time that the net plant chargeable to the proposed extended serving arrangements would increase by over $2,460,000 to reach a total net plant of about $7,780,000. On an exchange earnings basis, applicant's rate proposal would reduce combined exchange earnings of 2.4 percent before extended service to 1.4 percent after introduction of extended service. Its revenue increase proposal is deficient by $173,114. Its proposed rates will not maintain even the below-average earnings which the area now produces.

In this proceeding, local telephone users have been offered a metropolitan type of service at bargain rates. They desire such service. The total increased annual revenue requirement for applicant's proposed new serving arrangements is $578,614 and it is this amount of increased revenue which applicant should have informed the public was necessary and for which it should have sought subscriber support. With approximately 15,000 main telephone stations in the proposed extended area, the revenue deficiency of applicant's proposal would require a further increase of approximately 95¢ per month per main station beyond that which applicant seeks. While the record reveals substantial public support and willingness to pay the rates which applicant proposes, there is no indication that the public will support the needed further increase.

It should be self-evident that when the combined earnings of the component exchanges decline from a ratio of 2.4 percent before, to a ratio of only 1.4 percent after extended service, telephone users outside the area would have to make up the decline in earnings if applicant's basic premise, of having its profits or penalties left unchanged, is to be met. It would be unfair to place an additional rate burden upon subscribers elsewhere in order to make up the deficiency of applicant's proposal for the Imperial Valley.

The record shows that the 10-cent four-mile toll route of Imperial to El Centro has by far the highest usage per main station of any of the routes proposed to be eliminated. This route is the only one in the proposal which has distinct and substantial cross-boundary calling problems under existing telephone operations. The base rate areas of these two exchanges are only 1½ miles apart. Although the evidence does not indicate the costs of meeting these problems, the testimony of one witness is that they are "relatively low". Under the circumstances, applicant should give this situation its immediate attention and, after an appropriate study, look either to a consolidation of the two exchanges or establishment of extended service between them.

In view of the evidence, the Commission finds that applicant's extended area proposal is economically unfeasible at the rates which applicant has proposed. Applicant has been remiss in not informing the public of the true costs of the service which the public desires.

The Commission concludes that the application should be denied.

ORDER

IT IS ORDERED that Application No. 45703 be and it is hereby denied.

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

Dated at San Francisco, California, this 22nd day of SEPTEMBER, 1964.

Frederick B. Holoboff
President

Peter E. Mitchell

Everett C. McKeage

George G. Grover

William M. Bennett
Commissioners