

ORIGINALDecision No. 67878

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 be-
 tween certain of its exchanges
 in the northern area of San
 Diego County, and to withdraw
 message toll telephone service
 rates now in effect between said
 exchanges.

Application No. 45903
 (Filed October 25, 1963)

Arthur T. George and Richard W. Odgers
 for applicant.
 City of Vista, by Don Martinson; City
 of Escondido, by Russell G. Taliaferro;
 California Farm Bureau Federation, by
Ralph Hubbard, interested parties.
W. R. Roche and James Shields for the
 Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Commissioner Mitchell and Examiner Emerson on March 5, 1964, at Vista. The matter is submitted and is ready for decision.^{1/}

Applicant is presently providing exchange telephone service in Pauma Valley, Fallbrook, Oceanside, Vista and Escondido in the northern portion of San Diego County. Applicant proposes to establish "extended area service" among these exchanges and to eliminate toll charges over certain of the routes between these exchanges. Specifically, applicant proposes toll-free calling between Pauma Valley and Escondido, between Escondido and Vista, between Vista and Oceanside, between Fallbrook and Oceanside and

^{1/} The record herein contains the complete record made in Application No. 44899, heard February 4, 5, and 6, 1964 in Eureka.

between Fallbrook and Vista. Applicant proposes to offset the loss of toll revenue between these exchanges by increasing flat-rate charges in each exchange.

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

<u>Toll Rate</u>	<u>Route Miles</u>	<u>3-Minute Charge</u>
Escondido-Pauma Valley	18 miles	25c toll
Escondido-Vista	11 miles	15c toll
Fallbrook-Oceanside	15 miles	20c toll
Fallbrook-Vista	13 miles	20c toll
Oceanside-Vista	8 miles	10c toll

As of December 31, 1963, the exchanges involved herein had the following number of main telephone stations, with concentrations as shown:

<u>Exchange</u>	<u>Main Stations</u>	<u>Main Stations per Square Mile</u>
Escondido	19,414	71.4
Fallbrook	4,071	36.2
Oceanside	18,952	73.6
Pauma Valley	490	3.1
Vista	<u>11,706</u>	222.1
Total	54,633	

The basic flat-rate monthly-charge increases proposed by applicant are as follows:

	<u>Escondido</u>	<u>Fallbrook</u>	<u>Oceanside</u>	<u>Pauma Valley</u>	<u>Vista</u>
Business					
1-party	\$1.00	\$2.50	\$1.25	\$3.50	\$2.50
2-party	.85	1.90	1.00	2.80	1.90
PBX trunk	1.50	3.75	2.00	5.25	3.75
10-party	.80	1.50	.85	2.15	1.50
Farmer line	1.00	- -	- -	- -	- -
Residence					
1-party	.35	.85	.35	1.35	.85
2-party	.25	.50	.25	1.00	.50
4-party	.05	.25	.05	.75	.25
10-party	.05	.25	.05	.75	.25
Farmer line	.05	- -	- -	- -	- -

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 extended service should neither provide it with additional profit nor saddle it with monetary penalties. Its rate increase proposal would produce an increase of approximately \$224,000 in exchange revenues. The new net cost of telephone plant (approximately \$1,737,000) chargeable to the proposed extended area serving arrangements would bring applicant's net plant devoted to exchange service in the extended area to a total of over \$15,913,000.

Approximately 125 persons attended the hearing in this matter. Eighteen public witnesses were heard in behalf of various public bodies, civic organizations, and certain individuals, in support of applicant's proposal. Three public witnesses testified in opposition to the proposal.

Applicant's two expert witnesses testified, and introduced exhibits in support thereof, respecting the social and economic characteristics of the various component exchanges and their inter-relationships, exchange boundaries, estimated differential plant effects, revenue and expense effects, the calling characteristics of applicant's subscribers and specific proposals as to telephone rate changes.

The Commission staff presented the testimony of two expert witnesses together with exhibits respecting analyses of applicant's proposal. The staff opposed granting of the application on two primary grounds: (1) that there is no clear and unequivocal expression of public support for applicant's proposal and (2) that the presently

existing toll facilities do not have a sufficient usage to provide a basis upon which to convert them to extended service. While opposing applicant's over-all proposal, the staff supported the need for extended service over the Oceanside-Vista and the Escondido-Vista routes, but only on the premise that such treatment is needed in order to meet existing boundary problems which applicant has not otherwise met.

Toll usage distribution factors, as measured by the average toll messages per subscriber during a one-month period, together with an indication of the percentage of subscribers making no toll calls over the routes, are shown in the following tabulation which reflects data for the month of June 1962.

Toll Usage Distribution Factors
(average toll into the principal exchanges)

<u>Between Exchanges</u>	<u>Average Messages Per Subscriber</u>	<u>Percentage of Subscribers Making No Toll Calls</u>
Fallbrook to Oceanside		
Business	3.4	43.2
Residence	1.2	58.8
Vista to Oceanside		
Business	10.8	18.2
Residence	3.9	29.1
Vista to Escondido		
Business	6.2	30.3
Residence	1.6	53.1
Pauma Valley to Escondido		
Business	6.5	27.7
Residence	5.8	19.2
Fallbrook to Vista		
Business	2.4	52.0
Residence	0.8	66.9

At the direction of the Commission, applicant conducted a mail canvass of all of its subscribers who would be affected by its rate proposal. Questionnaires were sent to 34,589 subscribers. Replies, sent directly to the Commission, totalled 18,466 or 53.4 percent. Of the total replies received, 8,023 or 44.1 percent indi-

cated that they did not want extended area service. In Escondido 61 percent of the residence subscribers, and 33.9 percent of the business subscribers, who replied to the questionnaire, expressed opposition to the plan. In the other exchanges, while the majority expressed a desire for extended service, Occanside indicated opposition by 46 percent, Vista 29.2 percent, Fallbrook 36.5 percent and Pauma Valley 12.4 percent.

The evidence respecting applicant's earnings shows that, as of June 30, 1962, on a net investment of \$14,177,035 in exchange plant before extended service, applicant was earning 1.62 percent. Estimated exchange earnings on a net investment of \$15,913,694 following establishment of extended service, at the rates proposed by applicant, would be only 1.19 percent. In order for applicant's earnings to remain unchanged, applicant's revenue would have to be increased by an additional \$152,015 (additional to its proposed \$224,000 increase). Its rate proposal is deficient by such amount. Its proposed rates will not maintain even the below-average earnings which the area now produces. On the average, the revenue deficiency of applicant's proposal would require an increase of approximately 40c per month per main station beyond that which applicant seeks.

In this proceeding, local telephone users have been offered a so-called "toll-free" calling arrangement at bargain exchange rates. Many subscribers desire such service. In view of the considerable revenue deficiency of applicant's proposal, however, and of applicant's avowed intention of neither profiting nor being penalized by

its rate proposal, it seems readily apparent that, if applicant's plan is authorized, the deficiency must be made-up either by telephone users outside of the affected exchanges or by increased rates within the affected exchanges. The first instance would be unfair to telephone users who would receive no benefit whatsoever from the new serving arrangement. With respect to the second instance, the record herein does not demonstrate the willingness of the local users to further underwrite applicant's proposal by paying even greater rates than those proposed. Indeed, if the residential users of Escondido may be cited as an example, the willingness of subscribers to pay even the revenue-deficient rates proffered by applicant is not clearly established in this record. It should be kept in mind that applicant's proposal basically offers no new telephone service to the public; it merely would change the method of payment. At the rates which applicant has proposed, the plan is economically unfeasible.

The City of San Marcos lies astride the boundary between applicant's Vista and Escondido exchanges. The portion within the Escondido exchange is presently a special rate area. The City's growth and development along the exchange boundary present a serious and aggravating cross-boundary calling problem. Insofar as this city is concerned, applicant's present serving arrangement does not provide the city with a reasonable local calling area.

The City of Oceanside has grown in an easterly direction and now includes highly developed territory within the Vista exchange. This growth, as in the case of San Marcos, presents a serious cross-boundary calling problem.

One other cross-boundary problem involves telephone service

to a ranch wherein an exchange boundary divides the ranch property in such a way as to force toll calling between the ranch headquarters and the foreman's quarters on the same property.

Either extended area treatment or exchange consolidation will afford reasonable local calling areas to subscribers involved in cross-boundary problem areas. In the cases of the cities above mentioned, extended area treatment is preferable. Applicant made no proposal for meeting these separate problems, however, and the record herein does not contain evidence sufficient to permit the Commission to direct that a specific solution be undertaken. The ranch problem should never have occurred, for it is fundamental and should be readily apparent to applicant that no boundary should divide a single premise.

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 should immediately undertake a solution of the cross-boundary problems above discussed.

The Commission concludes that the application herein should be denied.

ORDER

IT IS ORDERED that Application No. 45903 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 25th day of SEPTEMBER, 1964.

Fredrick B. Holcomb
President

John L. Matlock

Carroll W. Rago

George L. Traver

William W. Bennett
Commissioners