

DECISION NO. 68026 CASE NO. \_\_\_\_\_ APP. NO. 45783

ORIGINAL

Decision No. 68086

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 Paso Robles and Templeton exchanges, and to withdraw message toll telephone service rates now in effect between said exchanges.

Application No. 45783  
(Filed September 17, 1963)

Arthur T. George and Richard W. Odgers, for applicant.  
San Miguel Telephone Company, by Joseph S. Ray, protestant.  
California Farm Bureau Federation, by William L. Knecht; California Independent Telephone Association, by Neal C. Hasbrook, interested parties.  
Hector Anninos and P. Popenoe, Jr., for the Commission staff.

O P I N I O N

After due notice, this matter was heard before Examiner Emerson on April 22 and 23, 1964, at Paso Robles. On receipt of late-filed Exhibit No. 11, the matter was submitted on May 1, 1964.<sup>1/</sup> It is now ready for decision.

Applicant is presently providing exchange telephone service in Paso Robles and Templeton exchanges, San Luis Obispo County. Applicant proposes to establish "extended area service" whereby present toll charges between the two exchanges would be eliminated. The interexchange mileage for the route is six miles and the initial three-minute toll rate is ten cents.

<sup>1/</sup> The record herein contains the complete record made in Application No. 44899, heard February 4, 5, and 6, 1964 in Eureka.

Applicant proposes to offset the loss of toll revenue between the two exchanges by increasing flat-rate charges in each exchange. The proposed rates, for the principal classes or grades of service, are compared with existing rates in the following tabulation:

	<u>RATE COMPARISON</u>			
	<u>Templeton</u>		<u>Paso Robles</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
<u>Business</u>				
1-party	\$6.50	\$ 7.75	\$ 7.00	\$ 7.25
2-party	5.10	6.30	5.60	5.80
PBX trunk	9.75	11.50	10.50	10.75
10-party	4.85	5.80	5.10	5.30
Farmer Line	1.30	2.15	1.55	1.65
<u>Residence</u>				
1-party	4.15	4.75	4.40	4.50
2-party	3.35	3.85	3.60	3.60
4-party	2.75	3.25	3.00	3.00
10-party	3.25	3.75	3.50	3.50
Farmer Line	.80	1.15	.90	.90

Templeton is a small community. The Templeton telephone exchange covers an area of only 27 square miles and has fewer than 300 subscribers. The City of Paso Robles is the nearest large community; the second largest city in San Luis Obispo County. Applicant's Paso Robles exchange serves more than 3,100 subscribers.

The public hearing in this matter was well attended. Twelve public witnesses were heard in behalf of various public bodies, civic organizations, and certain individuals, in support of applicant's proposal. No person came forward to testify in opposition to applicant's proposal; the protestant herein having confined its presentation to closing argument.

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

The Commission staff presented the testimony of an expert witness together with exhibits respecting analyses of applicant's proposal. The staff recommended the establishment of the proposed extended area service, but only on the condition that rates for such service be at a level which would maintain exchange earnings at no lesser earnings ratio than that prevailing in the test-year period.

Applicant's rate increase proposal would produce an increase of approximately \$5,200 in exchange revenues. At the same time, operating expenses assignable to the extended area exchange operations would increase by about \$7,350 and net exchange telephone plant would increase more than \$57,000 as a result of the new serving arrangement. The effect of applicant's proposal would be to lower its earnings from a combined ratio of 2.48 percent before to 2.19 percent after extended service. Applicant's rate proposal will not maintain even the below-average earnings which the area now produces. It is deficient by \$8,100 on the test-year basis and by \$7,400 when related to a 48 percent Federal income tax basis.<sup>2/</sup> Thus, the "break-even" gross revenue increase required lies between \$13,300 and \$12,600 per year, if applicant's earnings in the area are to remain unchanged.

In this proceeding, local telephone users have been offered a "toll-free" calling arrangement at bargain exchange rates. Many subscribers desire such service. Reduced to its fundamentals, applicant's proposal would do little more than shift the cost burden from those presently making toll calls between the exchanges to other telephone users. In view of the revenue deficiency of

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<sup>2/</sup> It is noted that if the Paso Robles and Templeton exchanges were to yield the statewide average exchange earnings of 6.1 percent (applicable to the test year used by applicant in this proceeding) the gross revenue deficiency could amount to \$99,700.

applicant's rate proposal and of applicant's avowed intention of neither profiting from nor being penalized by its 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. The second instance appears to be economically unfeasible.

The latest information, contained in this record, concerning toll calling between the two exchanges (1963) shows a ratio of 7.67 messages from Templeton to Paso Robles for each 0.58 message in the reverse direction. This is an indication that a Templeton subscriber, on the average, calls Paso Robles more than 13 times as frequently as a Paso Robles subscriber calls Templeton. It seems apparent, therefore, that Templeton subscribers would receive, by far, the greater benefits from the proposed toll-free calling arrangement. If the revenue deficiency were to be spread over the benefited Templeton subscribers, each subscriber's bill would, on the average, have to be increased by more than \$2 per month beyond the increase which applicant has proposed for this exchange. If, on the other hand, the gross deficiency were to be spread over all of the subscribers for which applicant has proposed rate increases in the two exchanges, the monthly increase per subscriber would average 60 cents. The evidence in this proceeding is not convincing that either of these two solutions to the deficient revenue problem is supportable or should be ordered.

In viewing the record herein and this decision in the matter, it should be clearly in mind that extended area service of itself provides no new or changed service characteristics insofar as the telephone user is concerned. The only change to be noticed by the subscriber is in his monthly bill. Extended area service redistributes charges for telephone service to the end that many persons pay more so that some persons may pay less. In the instant proceeding, it is the finding of the Commission that because of the magnitude of the increases involved, authorization of applicant's proposal is not justified.

Although the record herein is not sufficient to reach a conclusion on the subject, the evidence tends to indicate that consolidation of the two exchanges into a single Paso Robles-Templeton exchange may be appropriate. Under the circumstances, applicant should give this situation its immediate attention and study.

In view of the evidence, the Commission finds that applicant's extended area proposal is economically unfeasible at the rates which applicant has proposed. The Commission concludes that the application should be denied.

O R D E R

IT IS ORDERED that Application No. 45783 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 20<sup>th</sup> day of OCTOBER, 1964.

Fredrick B. Holshoff  
President  
James E. [unclear]  
Conrad [unclear]  
George T. [unclear]

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioners