

Decision No. 69194**ORIGINAL**

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 Crows Landing)
 and Newman exchanges and between its)
 Gustine and Newman exchanges, and to)
 withdraw message toll telephone)
 service rates now in effect between)
 said exchanges.)

Application No. 46262
 (Filed March 5, 1964)

Richard W. Odgers and Arthur T. George, by
Richard W. Odgers, for applicant.

City of Gustine, by Lowell N. Peters; California
 Farm Bureau Federation, by William L. Knecht,
 interested parties.

E. Nowak, for the Commission staff.

O P I N I O N

Public hearing in this matter was held before Examiner Emerson on October 20, 1964, at Newman. The matter was submitted on receipt of a late-filed exhibit, and is now ready for decision.

Applicant is presently providing exchange telephone service in its Crows Landing, Gustine and Newman exchanges. It proposes to provide toll-free calling between the Crows Landing and Newman exchanges and between the Newman and Gustine exchanges. The present toll routes between these exchanges are 7 miles and 5 miles, respectively, and each has an initial toll rate charge of ten cents.

The Cities of Gustine and Newman share many common interests and the well-developed area between them has established a strong link between the two cities. The unincorporated community of Crows Landing is closely tied to the City of Newman for business and social outlets. Telephone service development as of June 30, 1961 was:

Crows Landing	224 main stations
Gustine	1125 main stations
Newman	987 main stations

Applicant proposes to offset loss of toll revenues between these exchanges by increasing its flat-rate charges for exchange service. Its basic rate-increase proposal is as follows:

Rate Comparison

	<u>Crows Landing</u>		<u>Gustine and Newman</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
Business:				
1-party	\$6.50	\$ 7.50	\$ 7.00	\$ 7.35
2-party	5.10	6.10	5.60	5.85
PBX trunk	9.75	11.25	10.50	11.00
10-party	4.85	5.60	5.10	5.25
Farmer line	1.30	2.05	1.55	1.70
Residence:				
1-party	\$4.15	\$4.65	\$4.40	\$4.40
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

As will be noted from the foregoing rate comparison, applicant's proposal would place the major burden of increased revenues on the business communities of the three exchanges and none on the Gustine and Newman residential subscribers. Insofar as business establishments are concerned, applicant's proposal has found willing support, business associations having unanimously endorsed the proposal. Only two residence service subscribers have voiced opposition to the proposal.

In this proceeding, as in prior extended area proposals, applicant continues to rely on a "differential study" as being determinative of the amount of increased exchange revenues for which it seeks to increase exchange telephone rates. Applicant continues to maintain that this type of study shows the economic difference between continuing the present service and furnishing extended area service, expressed in terms of so-called annual costs. To these annual "differential" costs, applicant adds "lost" toll revenues to derive the amounts of added exchange revenues which it feels are necessary to

maintain an unchanged revenue position on its total operation. As this Commission has previously pointed out to applicant, such a study has numerous deficiencies. The study, while attempting to present a simple solution to complex problems, is a mixture of past and future elements of plant, expense, revenue, toll usage, number of subscribers and other related effects.^{1/} It does not in fact show applicant's earning position on either exchange operations or on total operations, nor does it, as claimed by applicant, show the added exchange revenue necessary to maintain applicant's present revenue position on total operations. To reiterate, applicant's "differential study" is a hybrid, theoretical and formulized approach. In our judgment such a study lacks validity for rate fixing purposes.

Applicant's rate increase proposal would produce an increase of only approximately \$3,000 in exchange revenues.^{2/} The net new cost of \$88,443 of telephone plant chargeable to the proposed extended serving arrangements would bring applicant's net plant devoted to exchange service in the extended area to a total of over \$598,800 (as of June 30, 1962).^{3/} Under applicant's plan, its exchange earnings would decline from an overall 4.97 percent before introduction of extended service to an estimated 3.22 percent after extended service. Applicant finds fault with and objects to this latter comparison, in essence, as we understand it, because the comparison is limited to exchange rather than total operations. Such alleged deficiency might be overcome, of course, if applicant were to present a proper earnings

1/ As but one example: It can be demonstrated from the evidence that the study in this proceeding looks into the future on 39 percent of the total dollars involved, while treating the remaining 61 percent of the total dollars as of the period of the study and based on June 30, 1961 data.

2/ Exhibit C attached to application, based on "differential study".

3/ Exhibit E attached to application.

study of its total operations in the affected exchange areas. This it has not seen fit to do, nor has it presented witnesses who admit to being or are knowledgeable in such respects. The fact remains that, on a separated exchange earnings basis as presented in evidence by applicant, applicant's rate proposal is deficient by about \$23,100^{4/} if applicant's exchange earnings are not to be adversely affected by the introduction of the proposed extended-area service.

On the assumption that this Commission might authorize rates which would make up such revenue deficiency, applicant introduced an exhibit which sets out specific rates which would produce such an end result.^{5/} While disclaiming any real sponsorship of the same and not requesting such increased rates, applicant did, prior to hearing of the matter, inform many of its subscribers and the press that it was possible that such rates might be authorized. A comparison of these later rates with existing rates is shown in the following tabulation.

Exhibit No. 4 Rate Comparison

	<u>Crows Landing</u>		<u>Newman and Gustine</u>	
	<u>Present</u>	<u>Exh. No. 4</u>	<u>Present</u>	<u>Exh. No. 4</u>
Business:				
1-party	\$6.50	\$ 9.20	\$ 7.00	\$ 8.70
2-party	5.10	7.65	5.60	7.15
PBX trunk	9.75	13.75	10.50	13.00
10-party	4.85	7.05	5.10	6.55
Farmer line	1.30	3.50	1.55	3.00
Residence:				
1-party	\$4.15	\$5.45	\$4.40	\$5.20
2-party	3.35	4.55	3.60	4.30
4-party	2.75	3.85	3.00	3.60
10-party	3.25	4.35	3.50	4.10
Farmer line	.80	1.75	.90	1.50

^{4/} \$26,100 gross deficiency, less \$3,000 gross increase proposal.

^{5/} Exhibit No. 4 in this proceeding.

It should be self-evident that when the combined earnings of the component exchanges decline from 4.97 percent before, to a ratio of only 3.22 percent after extended service that either (1) telephone users outside the area would have to make up the decline in earnings or (2) users within the area would have to support the increased costs of service, if applicant's basic premise of having its profits left unchanged is to be met. Public desire for extended-area service and public support of the rates necessary to provide such service has been well demonstrated in several recent rate-increase proceedings involving extended-area proposals in other exchanges. In a number of such proceedings^{6/} the Commission found that authorizing somewhat higher rates than those originally proposed was justified by the evidence and that such rates would, in effect, place the increased rate burden equitably on those who would directly benefit from the new serving arrangements while at the same time maintaining applicant's separated exchange earnings at approximately the same levels as those prevailing before the new serving arrangements were undertaken. The proposals in the instant proceeding are not unlike the other exchange proposals and the evidence herein closely parallels that received in the prior proceedings. 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 Gustine, Newman and Crows Landing.

In viewing the Newman, Gustine and Crows Landing exchanges the Commission takes official notice of its most recent action^{7/} setting

<u>6/</u> Examples are:	<u>Decision No.</u>	<u>Application No.</u>	<u>Date Issued</u>
	67581	45397	July 21, 1964
	67580	44201	July 21, 1964
	67578	45702	July 21, 1964
	67579	45803	July 21, 1964
	67883	45934	Sept. 22, 1964

7/ Decision No. 68940 in Application No. 46110, issued April 20, 1965.

rates for extended-area service in the King City area whose existing rates are identical to those now in effect in Newman, Gustine and Crows Landing, and is of the opinion that identical new rates may reasonably be authorized herein. By so doing, applicant's separated exchange earnings for Newman, Gustine and Crows Landing will be approximately 4.10 percent, the telephone subscribers may obtain the type of service which they desire and the major rate burden will be placed upon those who will most benefit therefrom.

The Commission finds that:

1. Consummation of applicant's proposed new serving arrangement 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 rates to be authorized herein are compared with existing rates in the following tabulation. Such rates will produce gross revenues of \$131,200, or an increase of 12½ percent on an annual basis and will offset approximately \$14,600 of the deficiency of applicant's proposal.

	<u>Crows Landing</u>		<u>Newman and Gustine</u>	
	<u>Present</u>	<u>Authorized</u>	<u>Present</u>	<u>Authorized</u>
Business:				
1-party	\$6.50	\$ 9.50	\$ 7.00	\$ 9.00
2-party	5.10	7.70	5.60	7.20
PBX trunk	9.75	14.25	10.50	13.50
10-party	4.85	7.05	5.10	6.55
Farmer line	1.30	2.50	1.55	2.00
Residence:				
1-party	\$4.15	\$4.95	\$4.40	\$4.70
2-party	3.35	4.00	3.60	3.75
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

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

ORDER

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 its Newman, Gustine and Crows Landing 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, 1967.

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

Dated at San Francisco, California, this 8th day of JUNE, 1965.

[Signature]
President

[Signature]
Commissioners

We dissent.
Frederick B. Hallock
George H. Drower
I Concur in
findings and order
Allegator

APPENDIX A

Rates

The presently effective rates for the Crows Landing, Gustine and Newman 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		Semipublic Service		Ind. Line		Min. Charge
	Business	Residence	Bus.	Res.	Per	Per	Per	Per	
	Two	Two	Four	Ten	Ten	Month	Day		
Crows Landing	\$9.50	\$7.70	\$4.95	\$4.00	\$3.25	\$7.05	\$3.75	\$2.00	25¢
Gustine	9.00	7.20	4.70	3.75	3.00	6.55	3.50	1.50	25
Newman	9.00	7.20	4.70	3.75	3.00	6.55	3.50	1.50	25

Schedule No. 9-T

Farmer Line Service - Northern California

Rates

Each Station:	Rate Per Month	
	Residence Service	Business Service
Crows Landing	\$1.15	\$2.50
Gustine	.90	2.00
Newman	.90	2.00

Schedule No. 13-T

Private Branch Exchange Trunk Line Service - Northern California

(J) Flat Rate Service

(a) Commercial and Hotel Manual and Dial PEX Business Key Station Dial PEX and Order Receiving Equipment Services:

Each Trunk:

Exchange	Rate Per Month
Crows Landing	\$14.25
Gustine	13.50
Newman	13.50

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 in this appendix.

DISSENTING OPINION

I dissent - for essentially the same reasons which have prompted my dissents in other recent extended service cases:

(1) The rates are unduly high.

(2) The area benefitting will not, as claimed, bear the full burden; new telephone revenues will be even more deficient than at present, and unless the company absorbs the loss (which it has no intention of doing), some other area will have to make it up.

I also feel constrained to protest the violence of the attack by Commissioners Mitchell and Bennett upon differential cost studies. I agree that such studies are far from perfect and that true earnings reports are much to be preferred; but it is an unwarranted exaggeration to suggest that the differential studies lack any validity at all.

June 8, 1965.

George H. Grover

Commissioner