

Decision No. 71418**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE WESTERN TELEPHONE COMPANY, a California corporation, for authority to establish, maintain and operate telephone exchanges to be known as the Mad River Exchange, the Orleans Exchange, and the Trinity Center Exchange, and to file, publish and make effective rules and regulations for telephone service in said Mad River, Orleans and Trinity Center Exchanges.

Application No. 48394
(Filed April 12, 1966)

OPINION AND ORDER

The Western Telephone Company, by the above entitled application, requests authority to: (1) Establish, maintain and operate telephone exchanges in the communities of Mad River in Trinity County, Orleans in Humboldt County and Trinity Center in Trinity County in accordance with the time schedules listed below of estimated completion dates and to render exchange service and toll service in these proposed exchanges, the areas of which include certain of applicant's present toll station service areas and portions of unassigned territory;

Schedule of Estimated Completion Dates

<u>Proposed Exchange</u>	<u>Estimated Completion Date</u>
Mad River	September, 1967
Orleans	January, 1967
Trinity Center	December, 1966

(2) To publish, file and make effective new or revised tariff sheets setting forth rates and maps applicable to telephone service in the proposed Mad River, Orleans and Trinity Center Exchanges.

Applicant is a California corporation furnishing exchange and toll telephone service in the counties of Humboldt, Mendocino and Trinity.

Applicant requests ex parte action based on the fact that essentially all existing subscribers have been advised of the proposed change from toll station area service to exchange service, have been advised of any significant change in over-all cost to them, and have indicated their desire for the new service to be provided.

Investigation by Commission Staff

A member of the Commission staff made a field investigation of the three areas on May 24, 25 and 26, 1966. A report on this investigation and analysis of the application is made a part of the record as Exhibit 1.

Present Service and Present and Projected Number of Stations

Toll station telephone service is now furnished by applicant in the toll station service areas that are proposed to be included in the proposed exchange areas. The proposed Mad River Exchange area includes present Forest Glen, Mad River and Ruth Toll Station Service Areas. The proposed Orleans Exchange includes the Orleans Toll Station Service Area. The proposed Trinity Center Exchange includes the Trinity Center Toll Station Service Area. Except for portions of unassigned territory included in the proposed exchange areas, this application basically involves the conversion of the above named toll station service areas to areas in which the higher grade exchange service will be offered. The following tabulation shows the number of toll station subscribers as of December 31, 1965, located within the boundaries of the proposed

exchanges and also shows the estimated number of exchange subscribers at the date of the establishment of exchange service and at the end of five years:

Proposed Exchange	Toll Station Subscribers		Exchange Subscribers			
	as of 12/31/65		At Cutover		After Five Years	
	Non-Pay Stations	Pay Stations	Non-Pay Stations	Pay Stations	Non-Pay Stations	Pay Stations
Mad River	20	7	92	8	205	9
Orleans	12	5	96	6	161	7
Trinity Center	45	4	159	9	211	11

There is no other public utility furnishing telephone service in the territories proposed to be included in the proposed Mad River, Orleans and Trinity Center Exchanges.

Commercial Survey to Determine Need

Applicant states the following:

1. The number of exchange subscribers estimated at cutover and after five years are based on commercial surveys which started in late 1964 and are being kept current as changes occur.
2. An effort was made to contact all potential subscribers within the respective exchanges, as well as the subscribers now receiving toll station service, and with minor exceptions this was accomplished.
3. During each interview of the commercial survey, the service to be provided was explained and the proposed rates were outlined. No objections were raised by either potential subscribers or present toll station subscribers to the proposed change in kind of service or to the rates shown on the application forms.

4. Applications for service and commercial surveys show requirements for service in the presently unassigned territory being included in the proposed exchange areas.

Justification for Exchange Service

Applicant states the following:

1. The grades of service desired, as determined by the survey, would not be practical except on an exchange basis.
2. It would not be practical to construct a sufficient number of additional circuits to supply the requirements by using toll stations over the distances involved because the costs are comparable to the cost of new exchanges.
3. Consequently, it has been decided by applicant that the service requirements and costs warrant the establishment of the proposed exchanges.

Rates

Applicant proposes the following exchange service rates to be applicable in the proposed new exchanges:

Proposed Grade of Service	Proposed Monthly Rates	
	Business	Residence
Mad River, Orleans and Trinity Center:		
Individual	\$7.25	\$5.50
Two-Party	-	4.00
Suburban Five-Party	5.50	4.50
Extension	1.75	1.50

Proposed Mileage Rates: Rates for each one-quarter mile or fraction thereof, airline measurement, per month:

Individual line - \$0.50
Two-Party - \$0.35

Applicant states that the proposed rates are the same as those printed on the "Request for Service Forms" used in the commercial survey; that none of the rates are higher than already exist in applicant's Hoopa, Hayfork, Willow Creek, Alderpoint, Leggett and Piercy Exchanges; that the proposed rate for two-party residential service will be the same as the rate of four-party residential service and the proposed rate for five-party service will be the same as the rate for eight-party service in the exchanges listed.

Applicant's proposed rates are compared with rates in nearby exchanges of other companies in the following tabulation:

Comparison of Rates in Nearby Exchanges

Exchange	Business		Mileage Rates		Residence	
	Individual	Suburban	Individual	2-Party	Individual	2-Party
Mad River (Proposed)	\$ 7.25	\$5.50 ^d	\$.50/	.35	\$5.50	\$4.00
Bridgeville (Pacific ^a)	5.80	4.45 ^e	.50/	.35	3.70	3.00
Orleans (Proposed)	7.25	5.50 ^d	.50/	.35	5.50	4.00
Happy Camp (Siskiyou ^b)	4.75	3.75 ^f	.60/	.40	3.75	3.40
Orick (West Coast ^c)	12.15	8.60 ^e	.75/	.50	6.85	5.85
Trinity Center (Proposed)	7.25	5.50 ^d	.50/	.35	5.50	4.00
Dunsmuir (Pacific)	6.30	4.70 ^e	.50/	.35	3.95	3.25
Shasta Lake (Pacific)	6.30	4.70 ^e	.50/	.35	3.95	3.25
Lewiston (Pacific)	5.80	4.45 ^e	.50/	.35	3.70	3.00

- NOTES: a. The Pacific Telephone and Telegraph Company.
 b. Siskiyou Telephone Company.
 c. West Coast Telephone Company of California.
 d. 5-party.
 e. 10-party.
 f. 8-party.

The company's application has the following rate effects:

- (1) elimination of toll charges for calls within each of the proposed exchanges;
- (2) elimination of the monthly toll guarantee of \$5.50 for calls within and out of the proposed exchanges;
- (3) establishment of exchange rates for service within the proposed exchanges;
- (4) elimination of toll rate centers for the Forest Glen and Ruth Toll Station Service Areas and the establishment of toll

rate centers for the proposed Mad River, Orleans and Trinity Center Exchanges at the same locations as the present toll rate centers for the Mad River, Orleans and Trinity Center Toll Station Service Areas. The present toll station subscribers in the Forest Glen and Ruth Toll Station Service Areas will have a change in toll charges as a result of the establishment of a different toll rate center for these subscribers. Condition 7 of tariff schedule B-1, "Message Toll Telephone Service", will allow the company to provide toll station service in the proposed exchanges at its discretion.

Applicant states that there is at present little calling between toll stations within a toll station service area. On this basis, it is expected that many of the present subscribers will have an increase in their monthly bill.

Facilities, Present and Planned

Applicant states that engineering designs have been completed for Orleans and Trinity Center and that the central office design for Mad River is completed but the outside plant design has yet to be made. The facilities for each proposed exchange are described below.

Mad River

Applicant's plans are to serve the proposed Mad River Exchange by new microwave from applicant's existing system on Pratt Mountain which will connect to applicant's Garberville Toll Center. The new microwave will replace the present subscriber carrier over open wire lines from the Hayfork Central Office. This toll link will permit serving Mad River with more reliability than over the existing open wire lines and a significant amount of traffic will be more directly routed. Applicant states that a new central office building and dial equipment and additional outside plant must be provided and that the existing open wire and cable plant are nearly new and reusable. ✓

Orleans

Applicant states that the present microwave from Weaverville together with channelizing equipment is reusable for interexchange trunking; the existing building will be enlarged, dial central office installed and additional outside cable plant constructed. The toll center will be at Weaverville.

Trinity Center

Applicant states that the present microwave from Weaverville together with channelizing equipment is reusable for interexchange trunking; dial switching equipment will be installed in an existing building and required cable outside plant will be constructed.

Required Investment

Applicant states that the existing and estimated gross plant for 1971 after cutover in the proposed exchanges will be as shown in the following table, which also includes the costs per station derived from applicant's figures:

Existing and Estimated Gross Plant for 1971

Area	Existing Investment		Estimated Gross	
	Amount	\$/Station	Plant for 1971	\$/Station#
Mad River	\$12,600	\$ 470	\$227,760	\$1,060
Orleans	56,842	3,340	134,908	800
Trinity Center	59,671*	1,220	225,540	1,020

* Application incorrectly showed \$14,305 for Land and Buildings in New Construction instead of in Existing Plant. (According to Exhibit No. 1.)

Main Station.

The company-wide average telephone plant per main station is \$1,370. This amount includes toll plant.

A breakdown by per cent of total of the above investments is given below:

Breakdown of Existing and Gross Plant for 1971

Category	Proposed Exchange					
	Mad River		Orleans		Trinity Center	
	Existing	: 1971	Existing	: 1971	Existing	: 1971
Central Office Equipment	-%	35%	-%	23%	-%	22%
Land & Building	-	10	19	13	24(b)	6
Station Equipment	19	12	2	16	7	15
Outside Plant	81	40	20	19	32	44
Vehicles & Work Equipment	-	3	-	5	-	3
Microwave Equipment	-	-(a)	59	24	37	10
Total	100	100	100	100	100	100

NOTES: (a) Included with central office equipment.

(b) See note for preceding table.

Financing

Applicant plans to meet construction costs by a supplemental loan from the Rural Electrification Administration (REA), and by equity funds and company generated funds. Applicant expects approval of the REA loan soon. According to Exhibit G attached to the application, applicant had a total long-term debt of \$3,800,062 and total assets of \$5,712,345. The estimated loan funds, equity funds and company generated funds applicant plans to apply to its various construction projects over the next five years, including the proposed Mad River, Orleans and Trinity Center Exchanges, are as follows:

Estimated Company-Wide Investment Over Five Years

Total Investment	Source		
	Loan Funds	Equity Funds	Company Generated Funds
\$1,932,500	\$860,000	\$215,000	\$857,500

The per cent breakdown of funds that applicant plans to apply to the construction projects for each of the proposed exchanges over the next five years will be, according to the application, approximately 45% loan funds, 11% equity funds and 44% company generated funds. The corresponding

per cents for the total company-wide investment are the same. The equity funds will be provided by Continental Telephone Corporation from purchases of additional stock of applicant. According to Exhibit G attached to the application, capital stock outstanding was \$708,475 of which \$555,175 was common stock.

Estimated Results of Operation

Applicant's operations involve Bell-Independent (B-I) and Intracompany (I-I) toll operations. Applicant furnished company-wide estimated results of operations for local service only. These estimates appear incorrect in that federal income tax and other taxes are not included. Also, applicant's Exhibit G, attached to the application and used as the basis for applicant's estimates, does not show a \$13,389 Directory Expense which appears in the year 1965 Annual Report. Also, applicant estimates a so-called "Rate of Return" using local service revenues, instead of exchange revenues, with exchange expenses and exchange plant. The latter is the sum of beginning of the year telephone plant in-service plus construction work in-progress, including an interest bearing portion. On this basis, applicant's estimates of results of operation do not appear reliable.

An estimate of company-wide total results of operation from staff's Exhibit 1 based on the year 1965 Annual Report, unadjusted, is given below:

Estimated Results of Company-Wide Total Operations

<u>Item</u>	<u>Amount</u>
Operating Revenues	\$1,411,300
Operating Expenses	1,179,900
Net Revenue	231,400
Average Net Plant and Working Capital	4,879,600
Ratio: Net Revenue to Avg. Net Plant and Working Capital (Earnings Ratio)	4.74%

The proposed rates will produce an estimated revenue-per-station of only \$5 or 7% less than the company-wide average. If applicant encounters expenses that approximate the company-wide average, as estimated by applicant, and if toll usage approximates the company-wide average, the earnings ratio for each exchange will approximate the company-wide average. There appears no reason to believe that the earnings ratio in the proposed exchanges will be substantially different from the company-wide average.

Staff Recommendation

In Exhibit 1 the staff recommends exchange service for the three subject areas, and that the base rate areas be reviewed prior to filing.

Findings and Conclusions

The Commission finds that a public hearing is not necessary; that establishment of the Mad River, Orleans and Trinity Center Exchanges as set forth in the application is in the public interest; that the proposed exchange rates are reasonable; and that the resulting toll charges are reasonable.

IT IS ORDERED that:

1. Applicant is authorized to establish the Mad River, Orleans and Trinity Center Exchange areas and toll rate centers for same as proposed in the application.

2. Applicant is authorized to file with this Commission, after the effective date of this order and in conformity with General Order No. 96-A, the changes in tariff schedules for exchange and toll telephone service and maps of exchange and base rate areas substantially according to Exhibits A, B and C attached to the application and Section XI of the application.

3. The authorization granted herein will expire unless exercised on or before January 1, 1968.

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

Dated at San Francisco, California, this 18th day of OCTOBER, 1966.

John E. Mitchell
President

George T. Dwyer

Fredrick P. Hillhoff

Margaret

William W. Bennett
Commissioners