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ORIGINAL

Decision No. 72408

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 Ignacio and)
San Rafael exchanges, and to)
withdraw message toll telephone)
service rates now in effect between)
said exchanges.)

Application No. 46868
(Filed August 4, 1964)
(Amended June 22, 1965)

Application of WESTERN CALIFORNIA)
TELEPHONE COMPANY, a corporation,)
for authority to establish extended)
service between Novato and)
San Rafael Exchanges, and to)
withdraw message toll telephone)
service rates now in effect between)
said exchanges.)

Application No. 47256
(Filed January 15, 1965)

In the matter of the investigation)
on the Commission's own motion into)
the rates, rules, regulations,)
charges, tolls, classifications,)
contracts, practices, operations,)
facilities and service, or any of)
them, of THE PACIFIC TELEPHONE AND)
TELEGRAPH COMPANY and WESTERN)
CALIFORNIA TELEGRAPH COMPANY.)

Case No. 8151
(Filed March 23, 1965)
(Amended May 20, 1965)

Arthur T. George and Pillsbury, Madison & Sutro,
by Richard W. Odgers, for The Pacific Telephone
and Telegraph Company, applicant and respondent.
Bacigalupi, Elkus, Salinger & Rosenberg, by
Claude N. Rosenberg, with Robert C. Abrams and
George L. Tocalino, for Western California
Telephone Company, applicant and respondent.
City of Novato, by Clark M. Palmer and Robert Carrow;
Novato Medical Clinic, by A. W. Higbee;
Novato General Hospital, by Milton Scott;
California Farm Bureau Federation, by William L.
Knecht; San Rafael City Council, by Dr. Charles
W. Aby; Hamilton Air Force Base Communications,
by J. Paul Sibbitt; Dervin Ford Company, by
Laurence J. Dervin; Homeowners Association of
Marin Golf and Country Club Estates, by William
R. Bills; Novato Chamber of Commerce, by Andrew
Bretz and Ross M. Tankersley; Loma Verde
Homeowners Association, Inc., by Harriet A. Nelson
and James Simon; Medicine Chest Drugs, by

Lee E. Bond; Novato Unified School District,
by Eugene F. DeBrecht; Business Men of Novato,
by Frank E. Galli; Jon Robert Shop, by
Virginia Stratton; Novato Business & Professional
Women's Club, by E. Emilie Wasset; Paul Brindel,
Arlo R. Jones, Leo J. Wasset, in propria personae;
Loma Verde Homeowners Association, by John S.
Kilsby and Jack D. Martin; Bel Marin Keys
Homeowner's Association, by Roger Alan Hicks;
Marin Country Club Estates Homeowner's
Association, by James A. Sullivan; interested
parties.
Harold J. McCarthy and Ermet Macario, for the
Commission staff.

O P I N I O N

By its application, The Pacific Telephone and Telegraph Company (Pacific) proposes to provide extended-area service between its San Rafael and Ignacio exchanges and to increase rates therein in order to offset certain resulting costs and the loss of toll revenues between the two exchanges.

By its application, Western California Telephone Company (Western California) proposes to provide extended-area service between its Novato exchange and Pacific's San Rafael exchange and to eliminate toll charges between these two exchanges. Western California proposes to increase flat-rate monthly charges in its Novato exchange as a partial offset to the loss of toll revenues which would occur when the new service is established.

On its own motion, the Commission instituted an investigation into the matters for the general purposes of determining whether the services of either utility are inadequate or insufficient and whether either utility should be directed to provide extended-area service, and, if so, on what terms and conditions.

Twelve days of public hearings were held in these matters during the period November 5, 1964 to February 15, 1967, such

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protracted period resulting primarily from the inability of the two utilities to reach an agreement as to the basis of settlement for interchange traffic between the Novato and San Rafael exchanges. Submission was taken on February 15, 1967, subject to the receipt of late-filed Exhibit No. 55, received on March 9, 1967, and the matters are now ready for decision.

Generally, a telephone utility provides those grades and types of service which the public desires and for which it is willing to pay. In an extended-area service situation, toll revenues collected for calls between the affected exchanges are lost to the utility. Exchange rates are usually increased by amounts sufficient to produce an offset to such toll revenue loss plus a suitable return on the new plant investment required to accomplish the new serving arrangement. By so doing, the utility retains the same relative earnings position after extended service as it had prior to extended service. Where, as here, two utilities are involved, a joint service is provided and the matter of the division of revenues and of costs becomes a matter for a negotiated agreement between the two utilities. Pacific and Western California reached such an agreement on or about January 24, 1967.^{1/}

The settlement agreement is predicated on the "proposed" rates shown in the following comparison tabulations:

^{1/} As appears from Exhibit No. 53 in these proceedings.

IGNACIO EXCHANGE*

<u>Business Service</u>	<u>Present Rates (1-1-67)</u>	<u>Increase</u>	<u>Proposed Rates</u>
1-party	\$ 7.35	\$ 4.45	\$11.80
2-party	5.85	3.15	9.00
PBX trunk	11.00	6.50	17.50
Semipublic coin box	3.75	2.25	6.00
<u>Residence Service</u>			
1-party	4.25	1.00	5.25
2-party	3.55	.45	4.00
4-party	3.00	.45	3.45

NOVATO EXCHANGE*

Business Service - Zone 1

1-party	10.25	2.85	13.10
2-party	8.25	1.65	9.90
PBX trunk (msg)	5.00 (5c)	1.25	6.25 (5c)
Semipublic coin box	2.85	3.75	6.60

Residence Service - Zone 1

1-party	5.00	1.20	6.20
2-party	4.45	.30	4.75
4-party	3.70	.30	4.00

Business Service - Zone 2

1-party	11.00	2.85	13.85
2-party	8.75	1.65	10.40
PBX trunk (msg)	5.75 (5c)	1.25	7.00 (5c)
Semipublic coin box	3.60	3.75	7.35
Min. Chg. per day	.28		

Residence Service - Zone 2

1-party	5.75	1.20	6.95
2-party	4.95	.30	5.25
4-party	3.95	.40	4.35

SAN RAFAEL EXCHANGE**

Business Service

1-party (flat)	9.55	.70	10.25
1-party (msg)	4.10 (85)	.70	4.80 (85)
PBX trunk (flat)	14.25	1.00	15.25
PBX trunk (msg)	4.10	.70	4.80
Farmer line	2.15	.10	2.25
Semipublic coin box	4.10	.70	4.80

* Includes present extended service, Novato-Ignacio exchanges.
 ** Special Rate Area rates within this exchange would have rates shown plus one one-quarter mile suburban charge.

As a consequence of this Commission's Decision No. 71575 (Case No. 7409) having placed new telephone rates in effect as of January 1, 1967, the foregoing "proposed rates" for the Ignacio and San Rafael exchanges are in each instance less than those originally proposed for extended service between such exchanges. In all instances, the "proposed rates" contemplate non-optional extended service between Novato and San Rafael, between Ignacio and San Rafael and include the existing toll-free service between Novato and Ignacio.

Throughout the proceeding, public support for the expansion of existing toll-free calling areas has been widespread.

The Ignacio-San Rafael proposal raised enthusiastic support, with no opposing testimony from the Ignacio subscribers. It also was supported by witnesses from the San Rafael exchange whose business rates would be increased.

The Novato-San Rafael proposal also raised enthusiastic public support from Novato subscribers, though not to the practically unanimous extent apparent in the Ignacio exchange. The City of Novato, among others, supported Western California's position from the first, provided only that reasonable rate levels could be established.

A Commission staff engineer opposed Western California's proposal on the grounds that the Novato and San Rafael exchanges do not have a cross-boundary problem, are not contiguous, are more than six miles apart and, thus, such route would not fit the present pattern for extended service in the San Francisco-East Bay Extended Area. The evidence in this proceeding, however, is convincing that the particular circumstances require that the Commission should

depart from that pattern with respect to the Novato-San Rafael route, as it has heretofore when local conditions warranted.^{2/}

The staff engineer further objected to the proposal because he assumed that an apparent revenue deficiency of \$73,700 would have to be recouped from Western California's subscribers at some future time. This does not necessarily follow. The Commission places Western California on notice that any revenue deficiencies resulting from the proposed basis of intercompany settlement may not be recognized by the Commission for rate-fixing purposes in future proceedings.

The preponderance of the testimony of the many individuals, members of service clubs, community clubs, civic planners and business associations is in support of the two extended-area proposals and indicates a willingness to pay increased exchange telephone rates for the proposed toll-free service.

Further, it appears that the rates proposed by Pacific and by Western California, coupled with the January 24, 1967 agreement between them, will, in fact, provide revenues reasonably sufficient to maintain the same relative earnings positions after extended service as each utility had prior to extended service.

The evidence is clear that the two proposals will meet the desires of the great majority of subscribers in the exchanges and will better meet the public needs than the present service arrangement.

^{2/}

For examples: See Decision No. 67779 in Application No. 44899, issued August 25, 1964 and Decision No. 67883 in Application No. 45934, issued September 22, 1964.

From the evidence, the Commission makes the following findings:

1. Consummation of the serving arrangements proposed by Pacific and by Western California, whereby extended service between the Ignacio and San Rafael exchanges and between the Novato and San Rafael exchanges would replace toll charges between them, will not be unreasonable and will not be adverse to the public interest.
2. The increases in rates for exchange telephone service authorized herein are justified.
3. Present exchange rates, insofar as they differ from those authorized herein will become unjust and unreasonable on such date as extended service is provided.

The Commission concludes that the applications herein should be granted, with rates for exchange telephone service as hereinafter specified.

O R D E R

IT IS ORDERED as follows:

1. The Pacific Telephone and Telegraph Company and Western California Telephone Company are each 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 the rates for extended service between the Ignacio, Novato and San Rafael exchanges set forth as "proposed rates" in the tabulations contained in the foregoing opinion 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.

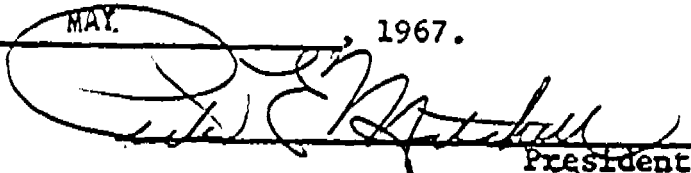
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2. Coincident with the effective date of the revised tariffs authorized above, applicants are authorized to cancel and withdraw present tariffs for message toll service applicable thereto.

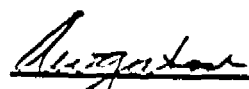
3. The authorizations hereinabove granted will lapse if applicants shall not have established extended service in the aforesaid exchanges prior to July 1, 1969.

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

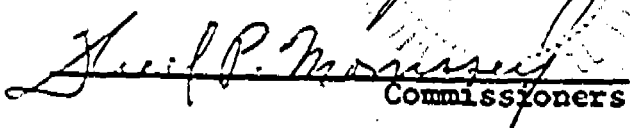
Dated at San Francisco, California, this 16th day of MAY, 1967.


President








Commissioners