

**ORIGINAL**Decision No. 73572

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Suspension and )  
 Investigation on the Commission's )  
 own motion of tariffs covering the )  
 furnishing of Alarm Reporting )  
 Telephone Arrangement (ART) by The )  
 Pacific Telephone and Telegraph )  
 Company. )

Case No. 8620  
 (Filed April 4, 1967)

Maurice D. L. Fuller, Jr., for The Pacific Telephone and Telegraph Company, respondent.  
W. C. Breeding and Arthur Livingston, for Dialalarm Corp., protestant.  
F. R. Edwards, for The Hermann Safe Company; Lessing E. Gold, for Western Burglar and Fire Alarm Association; Captain William B. Howell, for Los Angeles Fire Department; W. R. Moreland, III, for State Wide Home Owners' League and Robomonitor Corp. & Computer Security Systems; and K. D. Walpert, for City of Los Angeles, interested parties.  
George A. Amaroli, for Commission staff.

O P I N I O N

After hearing before Examiner Coffey, this suspension and investigation proceeding was submitted for decision on October 5, 1967, upon the receipt of respondent's late filed Exhibit No. 5.

On March 9, 1967, The Pacific Telephone and Telegraph Company (Pacific) filed under Advice Letter No. 9491, tariff sheets providing for the offering of a service known as "Alarm Reporting Telephone Arrangement" (ART). This new service is an arrangement which automatically transmits a single prerecorded voice announcement upon receipt of a signal from subscriber-provided detection equipment. When activated, ART seizes the line, dials a preset number and transmits a prerecorded message. The message transmission may be initiated and terminated from a remote control point.

A request for suspension having been received, the Commission, on April 4, 1967, instituted this investigation to determine if said tariff sheets are unreasonable or unlawful in any particular and to issue any order that may be appropriate. By order dated August 1, 1967, the suspension of said tariffs was extended from August 6, 1967, to February 6, 1968.

The initial opposition of the Western Burglar and Fire Alarm Association to ART was withdrawn after conferences with Pacific and upon agreement by Pacific to revise the tariff to the effect that ART is not recommended where so-called "fail-safe" operation is required.

Witness for Pacific testified that the public need for the ART is demonstrated by requests from many customers for service of this kind throughout the Bell System, by the fact that the service is already being furnished and used in most other states, and by the response received from customers of Pacific to Bell System advertisements carried in trade publications.

The device has been used in an unattended power station in a remote location to send an alarm to a central dispatcher when automatic equipment on circuit breakers fails to operate satisfactorily, by a turkey hatchery to give immediate warning of failure of power to the incubators, by a chain store to receive an alarm where a store refrigeration system fails, by a large lumber company to report sprinkling system failure, and by a rancher to give him warning that his electrified fence has been broken. In addition, ART may be used effectively to report unusual temperature changes in greenhouses, cold storage plants, warehouses, and mountain homes; to report unusual pressure changes in unattended pumping stations, industrial gas storage tanks, and water storage tanks; and to report unusual moisture conditions in warehouses and grain.

storage elevators. Inquiries about ART were received by Pacific from school districts interested in vandalism reporting, oil well operators concerned with pump and machinery breakdown, a bank chain in need of burglar alarms in locations where other burglar alarm services are not available, and from a manufacturing plant desiring plant security.

A vice-president of a company supplying protective and security equipment to the financial community recommended that these tariffs be permitted to become effective because of the availability of service by Pacific in rural or remote areas, the limitations on availability of facilities in some police departments to provide terminating equipment alarm systems, and the imminence of the use of microwave transmission for communication circuits in the metropolitan areas. The witness testified that bankers in remote areas desiring bank burglar alarms had requested his organization to provide such a device as ART which would eliminate the expense of long leased circuits, but that his organization could not provide a unit with complete maintenance in remote areas for the proposed tariff rate of \$10.75 per month.

The issue of competition of ART with existing burglar and alarm reporting devices was raised by representatives of independent manufacturers of such devices. ART does not use the external alarm coupler presently required by Pacific for nonutility alarm reporting attachments. The coupler installation charge is \$20 and the monthly charge is \$2.75. Further, since the coupler in use does not permit two-way communication, nonutility devices are foreclosed from providing features available with ART.

In Exhibits 4, 5 and 5-Supplement, Pacific sets forth the estimated cost basis for the proposed charges and rates for ART. The proposed charges and rates are based on the Western Electric Company

initial price<sup>1/</sup> for ART of \$300 in August, 1965, despite the fact that the Western Electric Company price in October, 1967, was \$372; the cost computation does not include an allowance for the recent 1 percent increase in California sales and use taxes. Expenses and installation costs are derived from arbitrary assumptions of location life, of total reusable material life, and of average wage rates applied to man-hours for the installation and maintenance of each unit. Subsequent to the preparation of Exhibit 4, wage rates have increased from the assumed rate of \$8.40 to \$8.75 per hour for installation labor and from \$8.05 to \$8.55 for removal labor. An allowance for return at 8 percent and income taxes is calculated by applying a factor of 14.7 percent to the assumed depreciated investment of 82 percent of total new investment. In this calculation, Pacific's witness testified, new plant is depreciated 18 percent the moment new equipment enters plant. The staff developed by cross-examination that with the use of current assumptions the installation charge would be \$50 instead of the proposed \$45 and that the monthly rate of \$10.75 would decrease to \$10.50. The proposed \$5 charge for installation and the \$0.55 monthly rate for each control point telephone would not change because of rounding of amounts.

Pacific's witness was unable to explain the derivation of factors and wage rates assumed for the purpose of charge and rate computations, and the record does not contain an adequate showing of the cost basis and reasonableness of the price charged Pacific by its affiliated supplier, Western Electric. Various loading factors have not been adjusted to reflect rate level adjustments made by the Commission in its Decision No. 67369, dated June 11, 1964, in

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<sup>1/</sup> Western Electric Company is affiliated with Pacific through stock ownership and control of both by the American Telephone and Telegraph Company.

Case No. 7409. Rates and charges proposed herein do not reflect exchange and toll revenue generated by ART.

A manufacturer of a device which competes with ART objected to the inference that such devices are not "fail-safe". Pacific and the Western Burglar Alarm Association agreed upon a modification of the tariff wording which would eliminate the term "fail-safe".

Pacific agreed during this proceeding to post a warning on the ART unit which would alert the subscriber to the limitations of use and utility responsibility set forth in filed tariffs for this service.

A representative of the Los Angeles Fire Department testified that ART, with the addition of a provision to activate an alarm bell on the premises protected by ART, would be acceptable to the department. It appears that fire and burglar alarm devices may have to comply with local fire and burglar alarm regulations.

This Commission is aware of the increasing frequency with which, in regulatory proceedings, the issue is raised of competition between public utility and nonregulated communication services. The provisions of the consent decree dated January 24, 1956, which settled the antitrust prosecution which sought judicial separation of the American Telephone and Telegraph Company and its wholly owned manufacturing subsidiary, Western Electric Co., Inc., (United States, v. Western Electric Company, Inc. and American Telephone and Telegraph Company, Civil Action No. 17-49 (D.Ct. N.J.) in effect placed on state and federal regulatory agencies the responsibility of determining the type, extent, and conditions of services the Bell

System would be permitted to offer in competition with competing nonutility communication services.<sup>2/</sup>

Because this record clearly demonstrates the public need for an alarm reporting system at reasonable cost to subscribers remote from metropolitan areas, we shall permit modified tariff sheets offering ART to become effective. From this record the Commission is unable to determine if the charges and rates proposed are, or are not, a burden on other subscribers and were, or were not, arbitrarily designed to meet the competition of nonregulated devices. Therefore, ART service will be permitted only on an experimental basis for a limited period unless Pacific shall have prior to the expiration of such period clearly demonstrated to the Commission the actual cost basis of charges and rates for ART, the reasonableness of such charges and rates, and the lack of burden of ART upon subscribers to other Pacific services. Its demonstration shall include a full showing of the reasonableness of prices charged by Western Electric Company for ART based on actual costs to Western Electric Company.

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2/ Part V of said consent decree orders:

"The defendant AT&T is enjoined and restrained from engaging, either directly, or indirectly through its subsidiaries other than Western and Western's subsidiaries, in any business other than the furnishing of common carrier communications services; provided, however, that this Section V shall not apply to (a) furnishing services or facilities for the plaintiff or any agency thereof, (b) experiments for the purpose of testing or developing new common carrier communications services, (c) furnishing circuits to other communications common carriers, (d) for a period of five (5) years from the date of this Final Judgment, leasing and maintaining facilities for private communications systems, the charges for which are not subject to public regulation, to persons who are lessees from defendants or their subsidiaries of such systems forty-five (45) days after the date of this Final Judgment, (e) directory advertising, (f) advice or assistance to other communications common carriers, or (g) business or services incidental to the furnishing by AT&T or such subsidiaries of common carrier communications services."

This record is not sufficient to make any determinations relative to the need for the use of couplers to connect nonutility-owned equipment to Pacific's system. Such determination would be appropriate in complaints or investigations in which specific equipment is considered for system compatibility.

Parties to this proceeding contend that the proposed tariff special conditions, Nos. 6 and 7, place Pacific in an advantageous competitive position since they require the subscriber to relieve Pacific of the risk of specified claims arising from the subscriber's actions and also limit the responsibility and liability of Pacific for the operation of its equipment. The matters of telephone utility indemnification and liability limitation are presently being considered by this Commission in its investigation, Case No. 8593.

Findings and Conclusion:

We find that:

1. A public need exists for an alarm at reasonable customer cost in nonmetropolitan areas of California.
2. ART is competitive with telephone alarm reporting devices offered to and used by the public, but which are not being regulated by this Commission.
3. Pacific has had no actual experience with ART on which to base its estimates of location life, total reusable material life, or installation and maintenance costs.
4. This record contains no convincing demonstration of the fairness and reasonableness of the Western Electric Company price to Pacific for ART.
5. It is reasonable and public convenience and necessity require that Pacific be permitted to offer its proposed ART service under the

modified tariff sheets on an experimental basis not to exceed three years unless otherwise ordered.

6. Pacific has not convincingly demonstrated the fairness and reasonableness of its proposed charges and rates for its proposed alarm reporting telephone service.

7. An experimental installation charge of \$50 and a monthly rate of \$10.50 for ART are appropriate pending a showing of costs based on actual experience.

8. An experimental installation charge of \$5 and a monthly rate of 55 cents for a control point telephone is appropriate pending a showing of costs based on actual experience.

9. It is reasonable to require Pacific to post a notice on ART of limitations imposed by tariff Special Conditions as hereinafter ordered.

We conclude that the tariffs filed under Advice Letter No. 9491 on March 9, 1967, should be permanently suspended and that Pacific should be permitted to file the tariff sheets shown in Appendix A attached under the conditions herein ordered.

O R D E R

IT IS ORDERED that:

1. On the effective date of this order the operation of the following tariff sheets of The Pacific Telephone and Telegraph Company are hereby permanently suspended:

SCHEDULE CAL. P.U.C. NO. 32-T

- a. 145th Revised Sheet 1
- b. 32nd Revised Sheet 1-A
- c. 21st Revised Sheet 2
- d. Original Sheet 48
- e. Original Sheet 49



2. Within thirty days after the effective date of this order Pacific may file the tariff sheets shown in Appendix A to this order which offer experimental alarm reporting telephone service for a period not to exceed three years. If prior to the expiration of this three-year period, Pacific shall have applied to have the service removed from experimental status and shall have offered a showing of the reasonableness of all costs of the service, including costs justifying related Western Electric Company prices, this service may be continued by further order of this Commission.

3. On each alarm reporting telephone device installed by Pacific the following notice shall appear legibly in a place readily observed by the subscriber to the service:

"For limitation of use and telephone utility responsibility, the subscriber should review the filed tariffs for this service available at the local business office of The Pacific Telephone and Telegraph Company."

4. If Pacific files the tariff sheets for experimental alarm reporting telephone service hereby authorized, it shall, within sixty days after the effective date of the tariff sheets, set up and maintain separate and readily identifiable accounts in which it shall record the revenues, expenses and plant related to said service. Pacific shall advise this Commission in writing of the numbers and

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letters of said accounts within ninety days after the effective date of said tariff sheets.

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

Dated at San Francisco, California, this 3rd day of JANUARY, 1968.

*[Signature]*  
President  
*[Signature]*  
*[Signature]*  
*[Signature]*  
*[Signature]*  
Commissioners

APPENDIX A  
Page 1 of 3

EXCHANGE TELEPHONE SERVICE  
SUPPLEMENTAL EQUIPMENT

ALARM REPORTING TELEPHONE ARRANGEMENT

APPLICABILITY

Applicable to alarm reporting telephone arrangement.

TERRITORY

Within the exchange areas as said areas are defined on maps filed as part of the tariff schedules.

CHARGES AND RATES

	<u>Installation Charge</u>	<u>Rate per Month</u>
(1) Alarm Reporting Telephone Arrangement		
(a) Each alarm reporting telephone	\$50.00	\$10.50
(b) Each signal source handset or separately mounted signal source for control point telephone . .	5.00	.55

SPECIAL CONDITIONS

1. The Alarm Reporting Telephone arrangement will be furnished at the above charges and rates which are in addition to the charges and rates for the associated business or residence individual line, PBX station or Centrex station service.
2. The subscriber shall furnish, install and maintain in a manner satisfactory to the Company a suitable housing, enclosure or location for the equipment and associated telephone station furnished.
3. The Alarm Reporting Telephone arrangement is not recommended for use for fire, burglar and other alarms where continuous surveillance of the reporting telephone is required. It is not furnished for announcements to the general public or to perform switching functions which are normally performed by the Company.
4. The Alarm Reporting Telephone:
  - a. Is activated by suitable subscriber-provided detection equipment.
  - b. When activated, dials the pre-set telephone number of the control point telephone up to a maximum of 14 digits, and transmits a prerecorded voice announcement. Any changes in the pre-set telephone number and/or the prerecorded voice announcement shall be made by the subscriber.

All material on this page expires in accordance with Special Condition 8.

(Continued)

(N)

(N)

APPENDIX A  
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EXCHANGE TELEPHONE SERVICE  
SUPPLEMENTAL EQUIPMENT

ALARM REPORTING TELEPHONE ARRANGEMENT - Continued

SPECIAL CONDITIONS - Continued

(N)

- c. May require commercial power.
  - d. Is furnished with an associated telephone station. Each extension station furnished with the service must be arranged for automatic exclusion of the Automatic Reporting Telephone and its associated service and other extension stations.
  - e. Is not furnished for use where operator assistance is required to complete calls to the pre-set telephone number of the control point telephone.
5. The subscriber must designate a control point telephone which is equipped with a signal source handset or separately mounted signal source furnished under CHARGES AND RATES (1)(b), above, or with another suitable signal source offered by the Company.
6. Obligation of the Subscriber

The operating characteristics of the subscriber-provided equipment shall be such that the equipment will function properly with the facilities of the Company and will not interfere with any of the services offered by the Company. Upon notice from the Company that the equipment of the subscriber is causing or is likely to cause hazard or interference, the subscriber shall make such changes as may be necessary to remove or prevent such hazard or interference.

The subscriber indemnifies and saves the Company harmless against claims for libel, slander or infringement of copyright arising from the improper use of material transmitted over its facilities and recorded; against claims for infringement of patents arising from combining with, or using in connections with facilities of the Company, apparatus or systems of the subscriber; against all other claims arising out of any act or omission of the subscriber in connection with facilities provided by the Company.

All material on this page expires in accordance with Special Condition 8.

(N)

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APPENDIX A  
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EXCHANGE TELEPHONE SERVICE  
SUPPLEMENTAL EQUIPMENT

ALARM REPORTING TELEPHONE ARRANGEMENT - Continued

SPECIAL CONDITIONS - Continued

(N)

7. Responsibility of the Company

Responsibility of the Company for mistake, omission, interruption, delay, error or defect in transmission, or failure or defect in the Company-provided equipment, shall be an allowance equivalent to the proportionate charge for the Telephone Company-provided equipment for the period during which service is so affected.

8. Expiration

The Alarm Reporting Telephone Arrangement offering expires with \_\_\_\_\_<sup>\*</sup> unless sooner canceled, changed, or extended.

\* Insert date three years from effective date of order.

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