

Decision No. 76395

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

CITY OF ANDERSON, and THE ANDERSON)
CHAMBER OF COMMERCE, a non-profit)
corporation,)

Complainants,)

vs.)

PACIFIC TELEPHONE AND TELEGRAPH)
COMPANY,)

Defendant.)

Case No. 8814
(Filed June 10, 1968)

Investigation on the Commission's)
own motion into the rates, rules,)
charges, tolls, classifications,)
contracts, practices, operations,)
facilities and service of The)
Pacific Telephone and Telegraph)
Company, Citizens Utilities Company)
of California and the Happy Valley)
Telephone Company.)

Case No. 8900
(Filed March 11, 1969)

Werner L. Ahrbeck, for Anderson Chamber of Commerce
and Cottonwood Chamber of Commerce; and John D.
Goodrich, for City of Anderson, complainants.
Robert E. Michalski, for The Pacific Telephone and
Telegraph Company, defendant in Case No. 8814 and
respondent in Case No. 8900.
Heller, Ehrman, White & McAuliffe, by Weyman I.
Lundquist, for Citizens Utilities Company of
California, respondent in Case No. 8900.
Kenneth J. Waters, for Happy Valley Telephone
Company, respondent in Case No. 8900.
John S. Cowgill, for Redding Chamber of Commerce;
Charles J. Gleeson, for Shasta Dam Area Chamber
of Commerce; Ralph Hubbard and W. L. Knecht, for
the California Farm Bureau Federation; and Robert
A. Rehberg, for the County of Shasta, interested
parties.
Leonard L. Snaider, Counsel, and Ermet Macario, for
the Commission staff.

O P I N I O N

The City of Anderson and the Anderson Chamber of Commerce
request The Pacific Telephone and Telegraph Company (Pacific) to

provide direct dialing service from Anderson to Redding and all other direct dialing areas and also to establish a unified rate area encompassing the Redding-Anderson area.

An investigation of Pacific, Citizens Utilities Company of California (Citizens) and Happy Valley Telephone Company (Happy Valley) was instituted on the Commission's own motion as Case No. 8900. The general purpose of the investigation was to determine whether respondents or any of them should be ordered to provide extended area telephone service (EAS) or any other type of telephone service or rate arrangement within or between the Redding area and vicinity.

After due notice, two days of public hearing on these matters were held in Anderson and San Francisco before Examiner Coffey. Case No. 8814 and Case No. 8900 were consolidated for purposes of public hearing and decision. The issue of extended area service by Pacific between its own exchanges was submitted upon receipt of the reporter's transcript on April 28, 1969. The issues of rates to be charged by Pacific and service and rates to be charged by Citizens and Happy Valley were submitted on June 10, 1969.

Pacific stated in its answer to the complaint that it had been concerned with the calling needs of the Redding area for some time and felt that any EAS proposal to be complete should include other Pacific exchanges in that area and contiguous exchanges of independent telephone companies. Pacific also alleged that it believed that the final solution to the EAS problem in the Redding area could be determined in a more uniform and expeditious manner after a decision was rendered in Pacific's rate increase request, Application No. 49142, pending at that time before the Commission.

The complaint was set for hearing on August 27, 1968, and at the request of the complainants was reset for hearing on December 5, 1968. In November, 1968, at the request of Pacific and with the concurrence of the complainants, the complaint was continued to April 8, 1969, for the purpose of permitting Pacific to conduct a customer opinion study not only in the Redding and Anderson exchanges, but also in the Shasta Lake, French Gulch, and Cottonwood exchanges of Pacific and the Olinda exchange of Happy Valley and the Millville exchange of Citizens for the purpose of determining whether an EAS proposal encompassing all of those exchanges would not be of greater benefit to the customers in those areas and be more feasible as a solution to the communication problems in the area.

Pacific proposes to establish EAS between the exchanges of Anderson and Redding, the exchanges of Shasta Lake and Redding, the exchanges of Cottonwood and Redding and French Gulch and Redding. Also, in collaboration with Happy Valley, Pacific proposes to establish EAS between Pacific's Redding exchange and Happy Valley's Olinda exchange. Pacific also proposes to join with Citizens to establish EAS between the latter's Millville exchange and Pacific's Redding and Anderson exchanges. All parties, complainants, respondents and the Commission staff, are agreed on the need for EAS between the exchanges enumerated in Pacific's proposal.

At the hearing on April 8, 1969, in Anderson, Pacific presented exhibits and testimony through two witnesses in support of its proposal and in response to the complaint and the order instituting the investigation. Evidence was presented in behalf of Pacific as to the present rates, the need for EAS between the seven exchanges, the requests for such service from customers over the past few years and

the strong dependence on Redding of the six exchanges surrounding the City of Redding, the major cultural, economic and social center for the entire basin. Pacific's witness testified that as a result of the recent California Public Utilities Commission Decision No. 74917,^{1/} Pacific will by December, 1971, eliminate the \$.10 toll charge for calls between Anderson-Cottonwood, between Anderson-Olinda and between Cottonwood-Olinda exchanges. He presented Exhibit No. 4 showing the present and proposed rates and incremental increases for each type, class and grade of service in each of Pacific's exchanges. This witness testified that the rates set forth in Exhibit No. 4 were computed according to the rate formula in Decision No. 74917 for extended area service areas which provides for the establishment of:

"...basic rates for EAS exchanges based upon the group rate of the exchange within its local calling area, with the greatest number of main stations, plus a rate increment dependent upon the mileage of the toll route replaced by the extended area service."

The witness further testified that Pacific's gross construction costs would be \$650,000, that Pacific's annual toll revenue loss would approximate \$500,000, that Pacific has programmed full direct distance dialing for the Redding Basin area so as to cut over at the same time as EAS is established and the ten-cent toll routes are eliminated.^{2/} He estimated that all of this work could be completed in about 24 months after authorization from the Commission. It was hoped that such work could be completed by August, 1971, so that all of the new improvements would become effective with the publication of the August, 1971, Pacific directory.

A second Pacific witness testified as to the results of a customer survey conducted by Pacific in the Redding Basin area for the purpose of determining the degree of acceptance of Pacific's proposed

1/ Dated November 6, 1968, Application No. 49142, and Cases Nos. 8608, 8609 and 8690. (Request of Pacific for increased rates.)

2/ The record does not disclose the amounts of the offsetting increases in exchange revenue.

EAS arrangement. Exhibit No. 6 contains a summary of customer opinions of the Redding EAS and Exhibit No. 7 contains copies of the customer survey materials sent to the customers in each of the seven exchanges. The evidence is that 79% of the questionnaires mailed out were returned, that business and residence customers in the Redding Basin area preferred the extended area service plan to their present service by about a margin of four to one, that in the Redding Basin area 72% of the residence customers preferred the EAS plan and 84% of the business customers preferred the EAS plan, that as a general rule preference for the EAS plans was higher in the satellite exchanges than in the Redding exchange, and that there were three main reasons why people preferred the EAS plan - (1) they can use the phones more freely, (2) the EAS plan offers a more convenient dialing arrangement, and (3) they save money by the EAS plan. We are impressed by the competence and clarity of Exhibit No. 6 and the supporting testimony, but note that subscribers were asked to express their preference only on the present mode of service and Pacific's proposed EAS plan. Subscribers were not afforded an opportunity to consider an optional EAS plan.

The General Commercial Manager of Citizens testified on April 8, 1969, that his company had cooperated with Pacific in the preparation of materials for the survey and that the results of the survey indicated substantial support for extended area service between the Millville exchange and the Anderson exchange. He testified that the rate information used in the survey, based on assumptions as to investment return and settlement method, would be tentative until settlement agreements had been signed with Pacific. On cross-examination he stated that he was hopeful that the settlements would produce rates no higher than those used in the questionnaire. Citizens can complete the necessary equipment additions by August, 1971,

provided the Commission authorizes extended area service by August of this year.

The President of Happy Valley testified, on April 8, 1969, that in his opinion the survey conducted by Pacific with the cooperation of Happy Valley indicated substantial support of EAS. He introduced Exhibit No. 8 which indicated present rates for service in the Olinda exchange and estimated rates for extended service from the Olinda exchange to the Redding exchange. He also testified that the final rates to be charged the customer were all dependent upon settlement agreements with Pacific but that the rates used in the survey were the ultimate rates to be charged the customer for such service. He stated his company is quite anxious to be included in the plan to provide free calling to the Redding Basin.

The County Counsel of Shasta County urged the establishment of EAS in accordance with the plan proposed by Pacific and the other respondent companies. He explained the need for EAS in the Redding Basin area and stated that the Board of Supervisors of Shasta County strongly supported the proposed plan.

A representative of the Anderson Chamber of Commerce and the Cottonwood Chamber of Commerce, and the City Attorney of the City of Anderson supported the proposed plan and stated that establishment of EAS, together with direct distance dialing, satisfied their complaint.

No one testified or appeared in opposition to the proposed EAS plan. No evidence was presented by the staff.

At the conclusion of the hearing on April 18, 1969, the matters were submitted for extended area service between exchanges of Pacific. Consideration of EAS for Citizens' Millville exchange and

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Happy Valley's Olinda exchange was held in abeyance pending negotiation of settlement agreements between Pacific and the two independent companies.

On June 10, 1969, at the adjourned hearing in San Francisco, the utilities stated that they had agreed upon a plan of settlement of the costs of interchanged EAS in the Redding area. Citizens and Happy Valley stated their willingness to render EAS at the proposed rates.

Exhibit No. 10 sets forth the conditions of a "modified satellite" plan for interchanged EAS settlements which reduces the normal revenue credit due from an independent utility under the so-called "satellite" plan heretofore advocated by Pacific.

Exhibit No. 9 demonstrates that under the satellite plan the effect of EAS would be to decrease the annual earnings of Happy Valley by \$9,980 and to decrease the annual earnings of Citizens \$64,864. The modified satellite plan reduces the amount of these decreases in earnings to \$3,518 and \$53,364, respectively.

Toll charges now apply over the proposed extended service routes. The initial period station toll rates presently in effect between the seven exchanges are set forth in Exhibit No. 3 and are as follows:

<u>Route</u>	<u>Miles</u>	<u>Rate</u>
Redding-Anderson	11	15¢
Redding-Cottonwood	14	20¢
Redding-French Gulch	16	20¢
Redding-Millville	12	15¢
Redding-Olinda	11	15¢
Redding-Shasta Lake	22	30¢
Anderson-Millville	10	15¢

Under Pacific's proposal and the proposal of the two independent company respondents, the toll rates would be canceled at the time

EAS is established. Appendix A attached hereto shows the proposed exchange rates for extended area service for the principal classifications of service in the Pacific exchanges.

In its rate proposals, Pacific relied upon the language in Decision No. 74917 which it interprets as approving a uniformly applicable rate formula for all future EAS, inasmuch as the decision stated that such formula "...will yield revenues which reasonably approximate the estimated increased costs and toll revenue losses occasioned by extended service". In considering the proposed EAS plan Pacific did not develop a results of operation study or any other type of economic study to test whether the proposed rates would actually yield revenues in the Redding area that would approximate the estimated increased costs of EAS and toll revenue losses. In response and in opposition to inquiry by the Examiner on April 8, 1969 as to availability of supporting economic studies and the time required to develop such studies, counsel for Pacific and for the Commission staff stipulated that cost data on Pacific's operations is not required in these proceedings.

On June 10, 1969, the Examiner directed that Pacific at a future hearing should demonstrate that its proposed rates are reasonably nondiscriminatory and that a survey of the public acceptance of optional EAS be made. Pacific, Citizens, California Farm Bureau Federation and the staff actively opposed the request. Pacific indicated it would appeal the Examiner's order to the Commission. Thereupon, the Examiner withdrew his order and submitted the matters, granting the request of parties to file briefs thirty days after receipt of the reporter's transcript of the hearing on June 10. The before-mentioned parties requested a proposed report and oral

argument before the Commission, en banc, 15 days after receipt of briefs. On June 12, 1969, the parties were advised that these requests were denied and that the submission of these proceedings would be as of the conclusion of the hearing on June 10, 1969 without briefs. The change in submission permits expeditious consideration of these matters and the Commission can best interpret its own decisions.

In arriving at their stipulation, counsel appear to have narrowly interpreted the language of Decision No. 74917 without considering the language of Decision No. 71575, dated November 23, 1966, Case No. 7409, which first used a rate formula for EAS outside of metropolitan areas. The Commission stated at page 45 of the latter printed decision:

"The adopted extended service rate plan has the same structure as that proposed by the staff but at substantially lower rate levels than those proposed by the staff. Inasmuch as staff proposed rates were substantially lower than those which would be dictated by full cost considerations, it follows that the adopted rates are not to be interpreted as being fully compensatory for extended service. We have considered the economic impact on existing subscribers of full cost extended area service and the need for rate simplification and order. These adopted rates are not to be interpreted as the rates which will be authorized in the future for proposed new extended areas where full cost would indicate revenue requirements substantially in excess of that which would be produced by the adopted rates. Also, subscribers receiving the benefits of the adopted extended service rate plan should not anticipate the revenue-cost relationships of the plan will be continued indefinitely. We shall continue to study the problems of expansion of calling areas and the cost of rendering such service."

In Decision No. 74917, the rate formula was simplified by reducing the number of group rates from 4 to 2, thus proportionally increasing the level of rates in the two smallest groupings more than those of the two larger groups. The Commission therein found:

"26. It is in the public interest to expand local calling areas and as means of accomplishing the same it is fair and reasonable to:

- (c) Establish basic rates for EAS exchanges based upon the group rate of the exchange within its local calling area, with the greatest number of main stations, plus a rate increment dependent upon the mileage of the toll route replaced by the extended area service."

The Commission noted at page 32 of the printed decision that the rate formula will yield revenues which reasonably approximate the estimated increased costs and toll revenue losses occasioned by extended service. More controlling, the Commission had previously noted at page 22, of the printed decision:

"Because of the paucity of data on actual revenues and actual costs, however, the staff has necessarily had to rely substantially on existing rate relationships and in general it has closely followed the rate patterns last established in Case No. 7409. In view of the present record, the Commission will largely adhere to such patterns in establishing the rates hereinafter authorized."

We reiterate from page 22 of Decision No. 74917:

"The plain fact is that 'cost' is an indispensable factor in the setting of fair and reasonable rates for service."

Further, the law requires that rates must be just and reasonable and that no undue discrimination is either created or, if discovered, is allowed to continue.

Although the Commission in Decision No. 74917 ordered the rate formula to be applied to extended service in lieu of toll and multi-message unit service between Pacific and independent telephone utilities where the toll distance is less than eight miles and the "EAS rate increment" is zero, the Commission is aware that the costs of such inter-company extended area service were not considered in

detail in the genesis of the formula approach, only the exchange costs of Pacific being considered. Here at Redding are being considered not only EAS between Pacific's exchanges but EAS between Pacific's central exchange in the area and the exchanges of two independent telephone utilities. It appears from Exhibit No. 9 that the proposed rates will not adequately recover independent telephone increased costs of EAS and toll revenue losses even if Pacific is impelled to modify its previously advocated satellite plan of settlements.

The Commission is also aware that the formula is applied to exchanges of widely varying revenue, expense and plant levels. However, the use of a formula for rate simplification should not be construed as an open invitation to offer EAS to grossly uneconomical areas, thus creating undue discrimination and burdens on other telephone service subscribers. A minimum requirement in an EAS proposal is a convincing showing that undue or unreasonable discrimination will not result from the proposal.

Findings

Upon consideration of the evidence the Commission finds that Pacific and the other respondents have not demonstrated that the rates and extended area service proposed for subscribers in the Redding area would not impose undue and unreasonable burdens and discrimination on subscribers outside the proposed EAS extended area.

The Commission concludes that submission of these matters should be set aside and the respondents required to make a further showing as set forth in the ensuing order.

While the EAS proposal was accepted by all parties to these matters, this Commission has the obligation to consider and protect the interests of that large body of subscribers who are not aware of the issues involved, or who cannot afford to actively participate, in these proceedings.

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ORDER

IT IS ORDERED that:

- 1. Submission of Case No. 8814 and Case No. 8900 is hereby set aside and further hearing will be held before Examiner Coffey at a time and place to be announced.
- 2. The Pacific Telephone and Telegraph Company, Citizens Utilities Company of California and Happy Valley Telephone Company shall present at said further hearing such cost data, economic studies or estimated results of operation as will demonstrate whether their proposed extended area service plan for the Redding area is discriminatory or reasonably nondiscriminatory.

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

Dated at San Francisco, California, this 4th day of NOVEMBER, 1969.

William Symons Jr.
President

August

[Signature]

[Signature]
Commissioners V.L.S.

Commissioner VERNON L. STURGEON
Present but not participating.

I dissent, that is no evidence in the record of the proceeding to justify denial or re-opening.
[Signature]

APPENDIX A

RATES

<u>Classification</u>	<u>Rate Per Month*</u>					
	<u>Anderson</u>	<u>Cottonwood</u>	<u>French Gulch</u>	<u>Redding Basic Rate Area</u>	<u>Redding Special Rate Area</u>	<u>Shasta Lake</u>
<u>Business</u>						
1-Party	\$10.25	\$10.70	\$10.70	\$ 9.70	\$11.00	\$13.15
2-Party	8.00	8.45	8.45	7.45	8.15	10.90
8-Party	7.50	7.95	7.95	6.95	6.95	10.40
Coin-Semipublic	5.25	5.50	5.50	5.00	6.30	6.75
PBX Trunks	15.35	16.05	16.05	14.55	15.85	19.70
Farmer Line	4.00	-	4.45	3.45	3.65	-
<u>Residence</u>						
1-Party	5.35	5.60	5.60	4.95	6.25	6.75
2-Party	4.25	4.50	4.50	3.85	4.55	5.65
4-Party	3.55	3.80	3.80	3.15	3.65	4.95
8-Party	4.05	4.30	4.30	3.65	3.65	5.45
Farmer Line	2.10	-	2.35	1.70	1.90	-

- Service not offered.

* Other rates and rules in accordance with tariff on file with the California Public Utilities Commission.