

Decision No. 76998

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; Henry F.  
Keefer, Robert A. Rehberg and Norman A. Wagoner,  
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

Further hearing was held before Examiner Coffey in Redding, California on January 21, 1970, on the request, Case No. 8814, of the City of Anderson and the Anderson Chamber of Commerce (Anderson) that The Pacific Telephone and Telegraph Company (Pacific) provide direct dialing service from Anderson to Redding and to all other direct dialing areas and also to establish a unified rate area encompassing the Redding-Anderson area, and on the Commission's investigation, Case No. 8900, of Pacific, Citizens Utilities Company of California (Citizens) and Happy Valley Telephone Company (Happy Valley). The general purpose of the investigation was to determine whether respondents 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. Case No. 8814 and Case No. 8900 are consolidated for the purposes of public hearing and decision.

Case No. 8814 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, hearing on 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 to determine if an EAS proposal encompassing all of these exchanges would be of benefit to the customers in those areas and be feasible as a solution to the communication problems in the area.

After two days of public hearing in Anderson and San Francisco these matters were submitted for decision on June 10, 1969.

On November 4, 1969, the Commission by Decision No. 76395, set aside submission of these matters and ordered the respondents to present at a further hearing cost data, economic studies or estimated results of operation which would demonstrate whether their proposed EAS plan for the Redding area is discriminatory or reasonably nondiscriminatory. The Commission noted that although the EAS proposal was accepted by all parties to these matters, the 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 participate actively, in this proceeding.

Decision No. 76395 sets forth a summary of the record prior to the further hearing and the summary will not be repeated here but official notice of it is taken.

Subsequent to the initial submission of these matters the Commission was informed that the EAS rate formula placed in effect by Decision No. 74917 in Application No. 49142 did not appear, as anticipated, to yield revenues which reasonably approximate the estimated costs and toll revenue losses occasioned by extended service.<sup>1/</sup> Therefore, the Commission delayed decision in these matters to afford Pacific's engineering cost study team an opportunity to develop the true economic result of conversion to EAS of the then pending EAS applications and formal complaints, and to afford its staff an opportunity to review the results of Pacific's studies.

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<sup>1/</sup> Rates in 40 existing extended areas outside the five largest metropolitan areas were determined using this formula.

The Commission was informed that Pacific's cost study analysis for eleven proposed EAS areas indicates that the revenue obtained by application of the present EAS rate formula would be 37% deficient with the introduction of EAS. As indicated by Exhibit No. 11 in this proceeding, after considering various recommendations based on Pacific's cost analysis, the Commission, on October 15, 1969, suggested to Pacific that a revised EAS rate formula be used for customer acceptance surveys in Pacific's pending EAS proceedings. Exhibit No. 16 indicates that the revised EAS rate formula will recover about 93% of the revenue deficiency resulting from EAS.

Pacific's Exhibit No. 13 purports to demonstrate that the annual increase in local exchange revenue produced by increased rates plus \$135,400 net decrease in annual expenses and \$45,700 net decrease in the annual cost of ownership charges would result in \$50,400 more than the annual toll revenue loss due to the conversion of toll message to calls within an EAS area.

The study of the income impact of EAS in Redding, summarized in Exhibit No. 13, is based on 1968 data. It is not possible to determine from this record if an allowance for any form of growth is included. Pacific's witness could not testify as to how the results of the study would change if the effect of future growth had been considered. The witness did not know the details of the methods of estimating the annual decrease in toll revenues, the decrease in annual expenses, the increase in exchange plant and the decrease in toll plant. Due to respondent's lack of adequate showing it is not possible from this record to make a determination of the reasonableness of the proposed rates which will be made effective approximately 24 months from the date of this decision. For instance, from this record it is not possible to determine if the changes in investment shown on

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Exhibit No. 13 are caused only by the establishment of EAS or if these changes also include the effects of the conversion of 10¢ toll routes to exchange service and the installation of full direct distance dialing for the Redding area. It appears that substantial questions still exist which must be answered before the validity of conclusions deduced from the studies summarized in Exhibits Nos. 13, 16 and 17 can be determined.

Pacific resurveyed by telephone its business customers to determine public response to EAS rates based on the revised rate formula set forth in Exhibit No. 11. Since residence customer rates were not affected by the revised formula, they were not resurveyed. Citizens did not resurvey since it now proposes rates, based on the modified satellite settlement plan, which are lower than those used in the earlier customer survey. Happy Valley also did not resurvey its customers since no change of the rates in the earlier customer survey is being proposed.

The following tabulation summarizes the relative preferences of business and residential respondents to the surveys.

<u>Business Customers</u>				
<u>Exchange</u>	<u>% Prefer EAS</u>		<u>% Prefer Present Plan</u>	
	<u>Original Survey</u>	<u>Resurvey</u>	<u>Original Survey</u>	<u>Resurvey</u>
Anderson	92	93	5	6
Cottonwood	92	88	5	9
French Gulch	100	100	-	-
Redding Main	84	71	12	27
Redding Special Rate Area (Crestwood)	74	43	21	55
Shasta Lake	82	70	16	30
Independents:				
Citizens				
Regular Customer	71	-	29	-
SRA	100	-	-	-
Happy Valley	80	-	20	-
Total Redding Area	84	72	12	26

<u>Residential Customers</u>		
<u>Exchange</u>	<u>% Prefer EAS</u>	<u>% Prefer Present Plan</u>
Anderson	89	6
Cottonwood	73	17
French Gulch	89	9
Redding Main	70	24
Redding Special Rate Area (Crestwood)	60	28
Shasta Lake	63	32
Independents:		
Citizens		
Regular Customer	79	19
SRA	85	13
Happy Valley	89	6
Total Redding Area	72	21

Present and proposed rates are set forth for Happy Valley area in Exhibit No. 8, for Citizens in Exhibit No. 13, and for Pacific in Exhibit No. 14 except for Pacific's Crestwood special rate area. The following tabulation delineates the major present and proposed Crestwood rates:

	<u>Crestwood Rates</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Business</u>		
Individual line	\$10.30	\$12.65
Two-party line	7.45	9.80
<u>Residence</u>		
Individual line	6.05	6.25
Two-party line	4.35	4.55
Four-party line	3.45	3.65

On resurvey, the relative number of Crestwood business customers who preferred the present service area increased from 21% to 55%. Pacific's witness observed that the substantial drop in EAS acceptance resulted from the relatively higher rates of the Crestwood special rate area. The witness stated that it was Pacific's intention to request the elimination of this special rate area on or before the time EAS is implemented in this area. The record does not disclose the revenue effects of the proposed elimination of special rates, nor does it convincingly disclose why the Crestwood customers were not so advised during the resurvey. Inasmuch as Shasta Lake rates are higher than those for Crestwood, it is not clear that this is an adequate rationalization. Comparing with Crestwood, we note that the resurvey of Shasta Lake business customers increased the percentage of those preferring the present service area from 16% to only 30%.

With 21% of residential customers and 26% of business customers in the Redding area preferring the present service area, it would have been appropriate to consider here optional one-way EAS as suggested in the Commission's letter, Exhibit No. 11. However, this record indicates that no substantial action has been taken to date to develop a firm rate formula for this service although the Commission has been advised that Pacific at staff request has developed an optional EAS plan which Pacific has indicated willingness to offer on a trial basis in a limited area.

Pacific's witness testified that if a majority of customers indicated approval of a rate plan it should be implemented; that Pacific does not have any standards or criteria which it uses in determining the reasonableness of a proposed EAS; that such decisions

are based on the judgment and expertise of a number of individuals employed by Pacific. Items considered by Pacific's witness in the evaluation of a proposed EAS area appeared to be the expressed demand made to Pacific's local people by the customers, route calling rates, common boundary development, FEX development and the dependency of a particular exchange on another exchange.

Findings and Conclusion

The Commission finds that:

1. Establishment of extended area service as proposed by Pacific and respondents in the Redding area is in the public interest and should be authorized.

2. Pacific has not convincingly demonstrated that its proposed rates for EAS service in the Redding area are reasonably nondiscriminatory.

3. The EAS plan proposed by Pacific and respondents did not evaluate the preference of subscribers for an optional EAS plan.

4. It is reasonable that rates for EAS service in the Redding area shall not be lower than those set forth in Exhibits Nos. 8, 14 and 18.

5. It is reasonable that authorization of rates for EAS in the Redding area shall not be considered as a determination of the reasonableness of rates for any EAS outside of the Redding area.

6. It is reasonable to expect Pacific to fully explain and justify at the hearing on one of its pending EAS applications the supporting cost data for the EAS formula if it wishes to utilize such means of determining rates for EAS service.

7. It is reasonable that Pacific be required to make customer acceptance surveys of an optional EAS plan for consideration in its



Application No. 51402 to establish EAS in the northern portion of San Diego County and for its Application No. 51496 to establish EAS between the Del Mar, Poway, Rancho Santa Fe and the San Diego exchanges.

The Commission concludes that the EAS plan proposed by respondents should be granted as set forth in the ensuing order.

O R D E R

IT IS ORDERED that:

1. Citizens Utilities Company of California, Happy Valley Telephone Company, and The Pacific Telephone and Telegraph Company shall immediately undertake all necessary action to initiate within twenty-four months of the date of this order extended area service between the Anderson and the Millville and Redding exchanges; between the Cottonwood and the Redding exchanges; between the French Gulch and Redding exchanges; between the Millville and the Anderson and Redding exchanges; between the Olinda and the Redding exchanges; between the Redding and the Anderson, Cottonwood, French Gulch, Millville and Shasta Lake exchanges; and between the Shasta Lake and Redding exchanges at rates proposed in Exhibits Nos. 8, 14 and 18. For the purpose of this order the Redding exchange shall be understood to include the Central Valley Project City Special Rate Area known as Crestwood and the Millville exchange shall be understood to include the Palo Cedro Special Rate Area.
2. Pacific shall make customer acceptance surveys of an optional EAS plan in its Applications Nos. 51402 and 51496 and shall report the results of said proposal at hearings on said applications.

3. Pacific shall periodically report to this Commission, in writing, at intervals no longer than three months, the status and progress of its compliance with this order.

4. Pacific, within six months of the establishment of extended area service in the Redding area shall report to the Commission, in writing, the actual revenue effect, actual expense change, actual incremental EAS and toll investment change, actual cost of ownership change and net effect based on the first full three months of EAS operations.

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

Dated at San Francisco, California, this 24th day of MARCH, 1970.

William S. Brown, Jr.  
President

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

John J. ...  
Thomas L. Sturgeon  
Commissioners

*I concur*  
*J. P. ...* I concur in extended area service for this area but I have serious reservations about the practice of ordering the nature and extent of evidence + showing to be required in other cases, as appears in ordering paragraph 2 herein.