ra

ORIGINAL

Decision No. 77311

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY for authority to establish Extended Area Service between the Salinas Exchange and the Gonzales and Chualar exchanges and to withdraw message toll telephone service rates now in effect between said exchanges.	Application No. 51114 (Filed May 27, 1969; Amended January 5, 1970)

Robert E. Michalski, for applicant.
William L. Knecht, for California Farm Bureau Federation, interested party.
Cyril M. Saroyan, Counsel, and Ermet Macario, for the Commission staff.

O P I N I O N

By this application, as amended, The Pacific Telephone and Telegraph Company (Pacific) seeks authority to establish extended area telephone service between its Chualar, Gonzales and Salinas exchanges and to set rates therefor.

After due notice, public hearings in the matter were held before Examiner Emerson on February 17, 1970 at Salinas and on February 18, February 20 and March 24, 1970 at San Francisco. The matter was submitted on the latter date.

Salinas is the county seat of Monterey County and is the economic, business, retail trade, social and cultural center for all of the surrounding farming communities. Pacific's Salinas telephone exchange has a population of about 80,000 and a telephone development of over 25,000 main stations. About ten miles south of Salinas lies the unincorporated farm community of Chualar with a population of about 450 and a telephone development of 140 main stations. The City of Gonzales lies about 20 miles south of Salinas, has a population of about 2600 and Pacific's Gonzales exchange has a telephone development of about 850 main stations.

Chualar and Gonzales telephone subscribers have sought toll-free calling to Salinas for several years. The evidence discloses that in 1963 Pacific received a petition for such service from 45 Chualar subscribers and in 1967 a second petition with 103 signatures was submitted to it by the California Farm Bureau Federation (the latter petition represented 78 percent of Pacific's Chualar subscribers). In Gonzales, Pacific's customers have complained to it regarding the lack of toll-free calling and the Gonzales Chamber of Commerce by petition to Pacific urged the herein proposed toll-free service. The City Council of Gonzales unanimously voted to support the proposal. The Salinas Chamber of Commerce also supports it.

Pacific's rate proposal is shown in the following tabulation.

Present and Proposed Rates for Principal Classifications of Exchange Service

	Rate Per Month					
	SALINAS		CHUALAR		GONZALES	
	Present	Proposed	Present	Proposed	Present	Proposed
BUSINESS						
1-party	$ 9.05	$ 9.75	$ 9.00	$10.75	$ 9.00	$13.00
2-party	6.80	7.50	6.75	8.50	6.75	10.75
Suburban	6.30	7.00	6.25	8.00	6.25	10.25
PBX trunks	13.55	14.50	13.50	16.00	13.50	19.50
Semi-Pub.Coin	4.75	5.00	4.50	5.50	4.50	6.50
Farmer Line	2.80	3.50	-	-	2.75	6.75
RESIDENCE						
1-party	4.75	4.75	4.75	5.35	4.75	6.10
2-party	3.65	3.65	3.65	4.25	3.65	5.00
4-party	2.95	2.95	2.95	3.55	2.95	4.30
Suburban	3.45	3.45	3.45	4.05	3.45	4.80
Farmer Line	1.50	1.50	-	-	1.50	2.85

When the "proposed" rates in the foregoing tabulation are applied to existing telephone subscribers in the three exchanges an annual exchange revenue gain of $61,300 results. The annual loss of toll revenue would amount to $90,500. The toll-free calling proposal would thus produce an apparent revenue deficiency of $29,200. However, when annual charges on EAS and toll investments for the plan are considered, together with accompanying expense reductions, the total net annual revenue deficiency (loss) becomes $29,862. This is illustrated in the following tabulation.

Annual Revenue Effect

Exchange revenue gain	$61,300
Toll revenue loss	- 90,500
Additional EAS investment charges	- 34,071
Reduction in toll investment charges	14,709
Operating expense savings	18,700
Net Annual Effect	$29,862 (loss)

This loss, attributable to the extended area service plan for Salinas, Chualar and Gonzales, represents an annual revenue deficiency of 33 percent. Pacific compared the impact of this deficiency with eleven other EAS proposals, three recently authorized by the Commission and eight pending applications. As shown in Exhibit No. 2, the weighted average effect of these eleven EAS situations falls within 0.3 percent, or $8,700, of the break-even point. Pacific urges that this overall result, rather than the individual EAS proposals, should form the base by which the revenue aspect of these proposals should be judged. Pertinent background information would thus seem to be appropriate at this point.

Extended area telephone service outside of the metropolitan areas of the state is not a new concept and a goodly number of Pacific's telephone exchanges have had toll-free calling between them for quite a few years. The Commission has consistently viewed these situations from the basic premise that if unreasonable discrimination between customers (or classes of customers) and unreasonable rate burdens on nonparticipating customers are to be avoided, the loss of toll revenues, which occurs when local free-calling areas are expanded, must be offset by reasonably increased exchange revenues. Where this basic premise could be met, EAS plans have been authorized. Where offsetting revenues could not be obtained at reasonable rates or where a return on the additional investment for an EAS plan could not be provided at reasonable rates, the plans have not been authorized. With EAS seeming to be a bargain, however, the desire for toll-free calling has placed increasing pressure on the telephone utilities to provide it. Many proposals, economic studies, customer surveys, rate proceedings and several Commission investigations have been devoted to finding a reasonable means by which the economic facts of life might be brought into balance with the public's desire for expanded local calling areas.

Insofar as Pacific is concerned, the latest attempt at reaching a balance between economics and public desires was made in Pacific's statewide rate-increase proceeding in which this Commission's Decision No. 74917 was issued on November 6, 1968. That decision set up a "formula" by which rates were determinable for non-metropolitan EAS. By it, the basic rate for an EAS exchange is that of the group rate of the exchange with the greatest number of main stations within its local calling area plus a rate increment dependent upon the mileage of the toll route being replaced by the extended area service. It was hoped that the formula would provide the desired balance to the complex problems of EAS on a system-wide basis and Pacific, using the formula, soon thereafter filed a number of applications to establish new EAS areas. Preliminary analysis of these applications for new EAS areas disclosed that, as applied to them, the formula increments would not produce reasonably offsetting revenues and that when viewed as a group the weighted average deficiency was on the order of 37 percent and amounted to approximately $486,400 for the eleven cases analyzed. Since it was known that Pacific intended to file a further large number of applications for EAS plans, the Commission had its staff devise a new set of rate increments which would produce a substantially lesser revenue deficiency and directed Pacific to use these new (increased) increments when conducting its customer-acceptance surveys. Pacific did so and presented in evidence in this proceeding the results of economic studies based on such new increments (Exhibit No. 2). It also presented an exhibit in evidence (Exhibit No. 3) which clearly confirmed the Commission's analysis of the effect of the original increments and establishes the fact that such increments would produce unreasonable results if applied to the new group of EAS plans. We shall in this proceeding, therefore, specify new rate increments for the existing formula as applicable to Salinas-Chualar-Gonzales and subsequent EAS plans of a similar nature. Until such time as the effect on the weighted average results of a group of new EAS plans may depart by more than five percent from the break-even point, we shall leave the rate increments hereinafter specified undisturbed.

There are, of course, factors other than the above-discussed revenue factor to be weighed before EAS proposals may be authorized. One of these, a most important one, is public acceptance of the EAS plan at the rates necessary therefor.

Basic telephone service is an unadorned means of vocal communication. EAS plans embellish that basic service. Some persons want it. Others do not, for varying reasons. For example, 22 percent of the residence subscribers and 19 percent of the business subscribers in the Gonzales exchange do not desire EAS service to Salinas. In the Chualar exchange, 6 percent of the residence subscribers have no desire for the service. In the Salinas exchange 33 percent of the business subscribers have no desire for EAS to Chualar and Gonzales. While we do not cite these percentages as being "typical" of customer responses, they are indicative of the fact that EAS proposals do meet subscriber opposition. In the most recently authorized EAS area (Redding-Anderson, etc., Dec. No. 76998 in Cases Nos. 8814 and 8900) wherein some nine exchanges were involved, the percentages of subscribers who did not want EAS ranged from 6 percent to 55 percent, with the overall average being greater than 20 percent opposed. It has been our experience that those who do want the service are most vocal. With the prospect of a telephone bill being reduced from $20 or $50 or as much as $150 per month to some such figure as $6 to $13 per month, people or businesses with such bills clamor for EAS and are ably represented by organizations such as Chamber of Commerce, the Farm Bureau, and other special-interest organizations or associations. Those who have no desire for the service and whose bills would be increased rather than lowered usually are not organized and are rarely vocal but when surveyed by the questionnaires which this Commission has the telephone company send to its subscribers, they state their objections to paying more so that others may be subsidized.

With the exception of "trial" or "experimental" plans in the two largest metropolitan areas, none of Pacific's EAS proposals have provided any option or alternative and, except for the plans rejected by the Commission, those subscribers who have not needed or wanted the service have been forced either to take Pacific's EAS plan or do without telephone service. Beyond "the majority rules" concept, Pacific seems to have no other standard or criterion by which it measures the reasonableness of an EAS proposal. It seems to overlook the problems of the unorganized minority, those who need basic unadorned telephone service and simply cannot afford the increased telephone bill which EAS would force upon them. These latter are perhaps best typified by those for whom "Lifeline" service was provided in Pacific's last general rate proceeding- the elderly, the poor, the infirm, the shut-in, those unable to pay more yet who desperately need the protection which basic telephone service can provide. These have been ignored in Pacific's EAS proposals.

In the instant proposal, Pacific claims that it will have to install 17 miles of 100-pair cable, add central office switching equipment and rearrange, reroute and re-engineer its facilities in order to provide the proposed EAS and it will expend at least $110,000 for the attendant construction. In Pacific's current EAS plans (eleven of which are included in the summaries in Exhibits Nos. 2 and 3) construction costs range from $101,000 to $1,270,000 yet not one of these plans contains any provision for meeting the wishes of those subscribers who do not want or cannot afford EAS. Pacific's witnesses have claimed that they have no solution to the problems associated with providing optional service for these subscribers, citing lack of facilities for automatic number identification, direct-distance dialing and absence of "metering" facilities, unsuitable central office equipment (step-by-step vs. crossbar offices), toll-ticketing and billing problems and the possible necessity to provide special prefixes or "split" offices, as the case may be. There is a solution, however, and there may be several appropriate solutions. The most obvious solution is the establishment of measured service. It is also the most desirable, as the Commission has heretofore indicated to Pacific in Decision No. 74917 in Application No. 49142 wherein the Commission stated that message-rate service (measured service) charges are more equitable than flat-rate charges in that they are proportional to the amount of services utilized and, further, that all extended areas should have measured-rate service. Another solution, although perhaps not universally appropriate, is the use of the "spotter dial" now used for party-line identification by the Independent telephone companies. So far as we know, Pacific has made no study of the use of this accessory. It should. Further, it may be that with an optional service Pacific's plant margins in some exchanges are already adequate to meet the resulting EAS traffic without the major expenditures which Pacific presently foresees. So far as we know, Pacific has made no study of this possibility either; at least, Pacific has not informed this Commission with respect thereto. It should do so, particularly in view of the testimony in the instant proceeding which shows a "stimulated traffic factor" considerably below any of those heretofore claimed for routes of the distances here involved.

We believe it to be essential that Pacific be required to assiduously pursue and definitively develop an optional EAS offering. Such an offering should be made for the Salinas-Chualar-Gonzales area herein specifically under consideration. To such end, we find it to be just and reasonable to hold this matter open for further consideration, of an optional EAS service offering, at least until such time as Pacific has responded to this Commission's directive (Decision No. 76998 in Cases Nos. 8814 and 8900) respecting an optional plan for Applications Nos. 51402 and 51496. In the instant proceeding, Pacific's witness expressed the company's willingness to limit EAS rate increases for four-party residential service to a maximum of $1.50 for multiple route plans (other party-line services would have proportionate maximums). While the Salinas-Chualar-Gonzales EAS would not be affected thereby, because the total increase due to multiple routes would not reach such sum, we find such limitation to be reasonable and will include it in the tariff revision hereinafter authorized.

As the Commission stated in 1966 (Decision No. 71575, Case No. 7409 reported in 66 CPUC 419, at 462), "...the future rate structure may well change from the present exchange-toll concepts to a pattern of minimum fixed charges plus variable metered charges based on the incremental cost of subscriber actual time and distance usage, tempered by humanitarian considerations." Solutions to EAS problems and their options must ultimately be viewed in such light. The time is now ripe for consideration of such new rate pattern.

Findings of Fact

1. After due notice, public hearing has been held, evidence has been adduced, and the matter herein has been submitted.

2. Establishment of extended area telephone service (EAS) between Pacific's Chualar, Gonzales and Salinas exchanges is in the public interest and should be authorized.

3. The EAS plan herein proposed by Pacific did not include any option for those subscribers who do not desire the proposed plan, nor did Pacific evaluate the preference of subscribers respecting the same.

4. It is reasonable to require Pacific to develop an "optional" EAS plan which will be applicable to this and to subsequent EAS proposals and, further, to require that such plan be presented to the Commission, prior to the actual physical establishment of the extended-area telephone service herein authorized.

5. The increases in rates and charges hereinafter authorized are justified and to the extent that existing rates and charges differ from those authorized herein, such existing retes will become unjust and unreasonable at such time as EAS is established in the Chualar, Gonzales and Salinas telephone exchanges.

6. Until further order of this Commission, the EAS rate formula increments hereinafter specified are just and reasonable for Pacific non-metropolitan EAS which may be established coincidentally with or subsequent to the effective date of this order.

Conclusion of Law

The Commission concludes that the application herein should be granted to the extent set forth in the ensuing order.

O R D E R

IT IS ORDERED as follows:

1. The Pacific Telephone and Telegraph Company (Pacific) is hereby authorized to establish extended area telephone service between its Chualar, Gonzales and Salinas exchanges within 24 months of the effective date of this order.

A. 51114 ra

2. After not less than five days' notice to the public and to this Commission, Pacific shall make effective in the affected exchanges on the date on which extended area service is established therein, tariffs revised to reflect the rate changes set forth in Appendix A attached to this order.

3. By not later than ninety days prior to establishment of the extended area service hereinabove authorized, Pacific shall by supplemental application herein present a plan and rate proposal which will provide a reasonable option or alternative for those of its subscribers who do not desire extended area service.

4. Until further order of this Commission, Pacific shall follow the extended area service rate plan for non-metropolitan areas set forth in Appendix B attached to this order.

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

Dated at San Francisco, California, this 3rd day of JUNE, 1970.

William Symons Jr.
President

[signature]

[signature]

Vernon L. Sturgeon
Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Appendix A

The following rates shall apply to extended area service for the named telephone exchanges:

	Rate Per Month		
	SALINAS	CHUALAR	GONZALES
BUSINESS			
1-party	$ 9.75	$10.75	$13.00
2-party	7.50	8.50	10.75
Suburban	7.00	8.00	10.25
PBX trunks	14.50	16.00	19.50
Semi-Public Coin	5.00	5.50	6.50
Farmer Line	3.50	-	6.75
RESIDENCE			
1-party	4.75	5.35	6.10
2-party	3.65	4.25	5.00
4-party	2.95	3.55	4.30
Suburban	3.45	4.05	4.80
Farmer Line	1.50	-	2.85

Appendix B

Extended Area Service Rate Plan for Outside Metropolitan Areas

This plan is for use in determining exchange rates for future extended area service (EAS) applications. Rates for existing EAS exchanges outside metropolitan areas remain unchanged.

The base rate for an extended area service exchange is the group rate of the exchange with the greatest number of main stations within its local calling area. The EAS rate is the sum of the base rate and the EAS rate increment. The EAS rate increment is the sum of the increments for each EAS route of an exchange determined from the following table.

EAS Rate Increment Table

Main Station Ratio Small Exch. / Large Exch.			Toll Rate Milcage					
			9-12		13-16		17-20	
Over	Up To	Exch.	Bus.	Res.	Bus.	Res.	Bus.	Res.
0	0.15	Small	$1.75	$0.60	$2.50	$0.85	$4.00	$1.35
		Large	.25	-	.35	-	.45	-
0.15	.50	Small	1.20	.40	1.80	.60	2.70	.90
		Large	.60	.20	.75	.25	1.35	.45
.50	.80	Small	1.05	.35	1.65	.55	2.40	.80
		Large	.75	.25	.90	.30	1.65	.55
.80	1.00	Small	.95	.30	1.35	.45	2.10	.70
		Large	.90	.30	1.20	.40	1.95	.65

Exceptions:

CSP rate equals one-half individual line business rate rounded to the next higher 25¢ multiple.

PBX trunk rate equals one and one-half times the individual line rate rounded to the next lower 25¢ multiple.

Residence four-party increases shall not exceed $1.50

Residence two-party shall not be higher than $1.00 above the four-party rate.

Residence one-party shall not be higher than $2.50 above the two-party rate.