

ORIGINAL

Decision No. 79771

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of The Pacific Telephone and Telegraph Company and the Citizens Utilities Company of California for authority to establish Extended Area Service between the Pacific Exchange of Sacramento Main District Area and Citizens Elk Grove Exchange and to withdraw message toll telephone service rates now in effect between said exchanges.

Application No. 52592
(Filed April 30, 1971;
Amended December 27,
1971)

Richard Siegfried, Attorney at Law, for The Pacific Telephone and Telegraph Company; Heller, Ehrman, White & McAuliffe, by Weyman Lundquist and Paul Mundie, Attorneys at Law, for Citizens Utilities Company of California, applicants.

William L. Knecht, Attorney at Law, and Ralph O. Hubbard, for California Farm Bureau Federation; Neal C. Hasbrook, for California Independent Telephone Association; and Robert L. Pleines, Attorney at Law, for County of Sacramento; interested parties.

Ermet J. Macario, for the Commission staff.

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific) and the Citizens Utilities Company of California (Citizens) request authority to establish extended area service between Pacific's Main district area of the Sacramento exchange and the contiguous Elk Grove exchange of Citizens.

After due notice, public hearing was held in Elk Grove before Examiner Coffey on January 4, 1972. The matter was submitted for decision on January 18, 1972, upon the receipt of the transcript. The entire record of Case No. 9029 is by reference a part of this record.

In Case No. 9029, the California Farm Bureau Federation requested that Citizens be ordered to present plans for eliminating the cross-boundary telephone toll charges between Pacific's Sacramento exchange and the Elk Grove exchange of Citizens. Decision No. 77574, dated August 4, 1970, required Pacific and Citizens to complete a study of the costs, revenue requirements, appropriate basic rate changes, customer acceptance and appropriate additional matters of extended area service between Pacific's Sacramento Main district and Citizens' Elk Grove exchange and to file an application requesting authorization of said EAS.

The interexchange mileage and the initial station rate for message toll telephone service over the route herein considered for conversion to extended area service is as follows:

<u>Between Exchanges</u>	<u>Miles</u>	<u>Rate</u>
Sacramento Main - Elk Grove	13	\$.20

The geographical relationship between the exchanges is set forth on the map attached to the application as Exhibit A.

The following tabulation shows the present and proposed exchange rates in Pacific's Main district area of the Sacramento exchange with the initiation of extended area service:

	<u>Rate Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
	<u>Sacramento Main District Area</u>	<u>Sacramento Main District Area Only</u>
<u>Business</u>		
Individual Line-Msg (80)	\$7.55	\$8.55
Trunks-Msg	3.75	4.25
Suburban	8.55	9.55
Farmer Line	4.00	5.00
Coin Semipublic	7.55	8.55
<u>Residence</u>		
Individual Line	\$5.65	\$5.65
Two-Party Line	4.95	4.95
Four-Party Line	4.05	4.05
Suburban	4.55	4.55
Farmer Line	2.00	2.00
Trunks-Flat	8.45	8.45

Pacific does not propose to increase rates for residence service with the initiation of extended area service.

The present and proposed rates for exchange service in Citizens' Elk Grove exchange with the initiation of extended area services follow:

	<u>Rate Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
<u>Business</u>		
Individual Line	\$6.50	\$10.30
Two-Party Line	5.25	8.30
Trunks	9.75	15.45
Four-Party Suburban	5.75	9.10
Ten-Party Suburban	4.75	7.50
Coin Semi-Public	.23 per day	.35 per day
<u>Residence</u>		
Individual Line	\$4.05	\$ 6.40
Two-Party Line	3.50	5.55
Four-Party Line	2.95	4.65
Four-Party Suburban	3.95	6.25
Ten-Party Suburban	3.45	5.45

Pacific made a customer survey in its area to determine customer acceptance of the proposed extended area service plan.

Forty-two percent of the business customers in the Main district area of the Sacramento exchange favored the proposed plan if the monthly increase is \$1.00. At this rate, 42 percent of the customers were against the EAS plan and 16 percent had no plan preference.

If the monthly increase were \$.50, an additional 9 percent of the customers favored the EAS plan. Thus, at the lower price, about half (51%) of the customers are for the proposed plan, 39 percent are against the plan and 10 percent have no preference.

A customer survey was taken in the Elk Grove exchange area to determine customer acceptance of a proposed extended area service plan. All subscribers to Elk Grove exchange service were polled. This survey presented calling to all of Sacramento with

proposed rates substantially higher than the rates shown above. The results showed 57 percent in favor and 43 percent against the plan. Citizens believes the acceptance would approximate 80 percent under the rates proposed herein and the extended service area being limited to the Sacramento Main area.

The total net annual revenue effect of this proposal is a loss of \$100,900 to Pacific, including settlement effects, compared to the present service arrangements. An increase of \$1.35 in business rates would be required to eliminate this net loss. These figures are based on conditions expected to prevail in 1973, the calendar year in which it is anticipated that extended service might first be introduced. Applicants are in agreement on the method of satellite settlement.

Decision No. 78851, dated June 22, 1971, prescribed the same primary station rates for all exchanges in the Los Angeles, San Francisco-East Bay, Orange County and San Diego extended areas. The rates proposed herein by Pacific deviate from the pattern established by Decision No. 78851.

The staff endorses the introduction of extended area service as proposed herein, with unstated reservations as to the rate designs proposed but on balance endorsing the rates proposed herein.

The County of Sacramento and the California Farm Bureau Federation urged the authorization of the proposed extended area service.

Findings and Conclusions

We find that:

1. The proposed extended area service plan has sufficient public support to justify its establishment.
2. Establishment of the proposed extended area service is in the public interest.
3. Increases in exchange rates as herein authorized are justified.

4. Present exchange rates insofar as they differ from those authorized herein, will become unjust and unreasonable upon the establishment of the extended area service plan for which rates are hereinafter prescribed.

5. The rates herein prescribed for extended area service are fair and reasonable for such service.

We conclude that this application should be granted to the extent set forth in the following order.

The increases will not contribute to inflationary expectations; the increases are reduced to reflect productivity gains; the increases are the minimum rates which are necessary to assure continued and adequate service; and any increase in the rate of return above that allowed previously either is required by an increase in the cost of money, including equity capital, or is necessary to assure continued adequate service and provide for necessary expansion to meet future requirements, and it is the minimum rate of return needed to attract capital.

This proposed new service does not become effective for at least two years; therefore, the information required by Price Commission regulation Section 300.16 is not presently available nor applicable. When the rates authorized herein become effective and if such price regulations require a certificate, it will be then made.

O R D E R

IT IS ORDERED that:

1. Citizens Utilities Company of California (Citizens) and The Pacific Telephone and Telegraph Company (Pacific) shall immediately undertake all necessary action to initiate within twenty-four months of the effective date of this order extended area service (EAS) between Citizens' Elk Grove exchange and Pacific's Main district area of its Sacramento exchange at the rates proposed in Exhibits Nos. B, E and F attached to the amended application filed in this proceeding on December 27, 1971.

2. Citizens and Pacific, within six months of the establishment of extended area service in the Elk Grove - Sacramento 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 25th
day of FEBRUARY, 1972.

William J. Moran
Chairman
Vernon L. Stenger
Commissioners

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.