

Decision No. 83524

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CONTINENTAL TELEPHONE COMPANY OF
CALIFORNIA, a California corporation,
for Authority to Establish Extended
Area Service Between the Linden
Exchange of Applicant and the
Stockton Exchange of The Pacific
Telephone and Telegraph Company and
to Withdraw Message Toll Telephone
Service Rates Now in Effect Between
Said Exchanges.

Application No. 54929
(Filed June 5, 1974)

O P I N I O N

Authorization Requested

Continental Telephone Company of California (Continental) requests authority to establish extended area service (EAS) from its Linden exchange to the adjacent Stockton exchange of The Pacific Telephone and Telegraph Company (Pacific) and to withdraw the message toll telephone service rates now in effect between these exchanges. Pacific by Application No. 55004 is requesting authority to offer Optional Calling Measured Service (OCMS) from its Stockton exchange to the Linden exchange. Pacific's request will be considered in a separate decision.

Exchange Service Area

The Linden exchange encompasses an area of approximately 87.5 square miles. The Linden base rate area is less than one-half square mile in area. The exchange is geographically located in San Joaquin County with a small portion of one corner of the exchange in Calaveras County. The main highway through the exchange is State Highway 26. The exchange land area is mainly devoted to agrarian uses, a large portion being foothill pasture. The town of Linden can be considered to be divided into four basic demographic configurations:

low density housing, retail and office areas, highway service areas, and light industrial development. There are approximately 90 businesses and 750 residences in the exchange.

Except for local events, Linden is tied to Stockton, less than 15 miles away, for cultural events, higher education, major shopping, and for hospital and medical facilities. Because of the close ties good communication facilities between the two exchanges are of primary importance. There are 627 main stations in Linden, including both business and residence service. Seventy-eight customers in Linden have Stockton Foreign Exchange Service. Thus, subscribers to FEX service are 12 percent of the existing Linden total station count.

Rates

Continental seeks to establish as the applicable base telephone rates for Linden those base telephone rates now charged by Pacific in its Stockton exchange or those base rates that will be in effect in Pacific's Stockton exchange at the time EAS is established.

In support of its proposal to adopt Stockton base rates applicant argues:

"By instituting Stockton base rates as the applicable base rates for the Linden exchange, Linden customers will pay a similar amount for the same type of telephone service as now offered in the Stockton exchange. The service may be considered equivalent for the Linden exchange as compared to the Stockton exchange because of this application requesting the institution of extended area service. Extended Area Service will substantially increase the purview of toll free calling available to the Linden customers to a point where station availability for the Stockton and Linden customers will be substantially similar."

Continental has similarly requested that EAS rates be based on Pacific's exchange rate in the Fresno, Modesto, and Lodi

areas. In each instance the Commission, based on staff recommendations, has rejected the request and ordered EAS rates based on applicant's exchange rates.^{1/}

Set forth below is the interexchange mileage and initial period station rate for message toll telephone service over the route herein proposed for conversion to EAS:

| <u>Between Exchanges</u> | <u>Miles</u> | <u>Rate</u> |
|--------------------------|--------------|-------------|
| Linden-Stockton | 12 | 15¢ |

The following tabulation summarizes present Linden exchange rates, proposed base rates, the increments for EAS service set forth in Decision No. 78851, and the resulting proposed total exchange rates:

| | <u>Existing Base Rates</u> | <u>Proposed Base Rates</u> | <u>Formula EAS Increment</u> | <u>Applicable Total Tel. Rate Proposed</u> |
|------------------------|------------------------------------|------------------------------------|--------------------------------------|--|
| Business | | | | |
| Single Party | \$8.25 | \$11.25 | \$1.75 | \$13.00 |
| Two Party | 7.00 | 8.25 | 1.75 | 10.00 |
| Multi-Party | 6.50 | 7.55 | 1.75 | 9.30 |
| Semi-Public Paystation | 4.15 | 5.75 | .75 | 6.50 |
| Residence | | | | |
| Single Party | \$4.30 | \$ 4.80 | \$.60 | \$ 5.40 |
| Four Party | 2.90 | 3.20 | .60 | 3.80 |
| Multi-Party | 3.50 | 3.70 | .60 | 4.30 |

The total net annual effect of using formula rates is an estimated annual loss of \$41,883 to Continental. This amount includes settlement effects to Continental assuming that the so-called "California Plan" of EAS settlements is the governing settlement plan in effect at the time of institution of the service.

Because of the magnitude of the computed loss established in the conversion of this and previous toll routes to extended area service, Continental will in the future seek ways to adjust the rate structures of previously granted EAS routes and establish compensatory increments on all such future proposals. Continental has not in this

^{1/} Decision No. 81670 dated July 31, 1973; Decision No. 81767 dated August 21, 1973; and Decision No. 82390 dated January 29, 1974.

application proposed additional incremental rate charges to minimize the forecasted losses because of previous customer commitments to the outlined rate structure implied in the conduct of its two customer surveys.

Customer Surveys

Continental has conducted two customer surveys to test acceptance of rate structure and route conversions to EAS. An outline of survey methodology, basic facts, and results of both surveys is included with this application as Exhibit D.

The first survey was conducted to establish customer reaction to the conversion of the existing toll route to extended area service and to the amounts of the applicable "Salinas" EAS increments. The second survey was made to determine customer reaction to the total applicable proposed rate structure, i.e. Pacific's base rates plus the appropriate "Salinas" EAS increments. Customer reaction to both surveys is in excess of 95 percent acceptance.

The computed community of interest factors based on a toll usage study of the December 1973 billing round for traffic from the Linden exchange to the Stockton exchange are as follows:

| <u>Service Category</u> | <u>C.I. Factor</u> |
|-------------------------|--------------------|
| Business | 24.5 |
| Residence | 15.3 |
| Total | 16.6 |

Findings and Conclusion

1. The proposed EAS service from the Linden exchange to the Stockton exchange has sufficient public support to justify its service.
2. Establishment of the proposed one-way EAS is in the public interest.
3. Increases in exchange rates herein authorized are justified.
4. Present Linden exchange rates, insofar as they differ from those authorized herein, will become unjust and unreasonable upon the establishment of the EAS plan for which rates are hereinafter prescribed.

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

6. The proposed new service may not be available within twenty-four months.

7. The estimated net annual effect of converting toll to EAS from the Linden exchange to the Stockton exchange is a net loss in excess of \$41,883 to Continental.

8. Public hearing on the application is not necessary.

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

O R D E R

IT IS ORDERED that:

1. Continental Telephone Company of California shall immediately undertake all necessary action to initiate, within twenty-four months of the effective date of this order, one-way extended area service (EAS) from its Linden exchange to the Stockton exchange of The Pacific Telephone and Telegraph Company at the rate increments in Exhibit B attached to the application. The rate increments hereby authorized shall be added to the Linden exchange rates in effect when the EAS service is initiated.

2. Continental, within six months of the establishment of extended area service in the Stockton area, shall report to the Commission, in writing, the actual revenue effect, actual expense

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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 1st day of OCTOBER, 1974.

Vernon L. Stinson
President
William J. ...
J. ...
J. ...
...
Commissioners