

ORIGINAL

Decision No. 87509 June 28, 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the applications of TUOLUMNE TELEPHONE CO., a California corporation, for an order authorizing it to publish, file, and place in effect rates in an exchange to be known as Anza-Borrogo in San Diego County, California.

Application No. 56509
(Filed May 26, 1976;
amended November 22, 1976)

Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for authority to expand the Julian Exchange.

Application No. 56647
(Filed July 28, 1976;
amended August 17, 1976 and
November 19, 1976)

Mazzera, Snyder & De Martini, Inc., by J. Calvert Snyder, Attorney at Law, and John R. Wise, for Tuolumne Telephone Company; and Christopher Lee Rasmussen and Clay C. Burton, Attorneys at Law, for The Pacific Telephone and Telegraph Company; applicants.

Chester O. Newman, for the Commission staff.

O P I N I O N

This matter involves competing proposals by Tuolumne Telephone Company (Tuolumne) and The Pacific Telephone and Telegraph Company (Pacific) to serve a sparsely developed area in northern San Diego County generally known as Anza-Borrogo. Tuolumne, in Application No. 56509, seeks authority to establish an Anza-Borrogo exchange which will encompass 223 square miles, including 27 square miles of Pacific's existing Julian exchange. Pacific, in Application No. 56647, seeks authority to enlarge its Julian exchange by 59 square miles. Virtually all of the present development is within that latter area.

The nearest Anza-Borrego development to the Julian exchange is Earthquake Valley which is ten miles from the community of Julian and two miles from the Julian exchange's eastern boundary. It consists of approximately 120 houses and house trailers, of which only about 50 are permanently occupied. The next development, about eight miles south of Earthquake Valley, is Butterfield Ranch, a mobile home park with a permanent building housing an office, a restaurant, a general store, and a recreation room. There are 337 trailer spaces with a transient fill changing according to the season. There are about 30 permanent residents. At Canebrake, situated approximately 15 miles easterly of Butterfield, there are about 65 establishments and 30 permanent residents. Under either Tuolumne's or Pacific's proposal these three locations would be served.

In approximate configuration Pacific's proposed additional area is a 59 square mile strip situated generally along State Highway S-2 which is primarily where some development has taken place. About 35 of the 59 square miles are within Anza-Borrego State Park and San Diego County Park Systems. Tuolumne's proposed area in extending far beyond the 59 square miles covers much more undeveloped and remote territory.

Consolidated hearings on Applications Nos. 56509 and 56647 were held before Examiner Main in Butterfield on September 29 and 30, 1976 and in Los Angeles on November 29 and 30, 1976, December 8 and 9, 1976, and January 13 and 14, 1977. Each applicant presented several expert witnesses in support of its respective proposal. A communications engineer testified on behalf of the Commission staff and a number of Anza-Borrego residents testified in their own behalf. At the conclusion of the hearings on January 14, 1977 the matters were submitted subject to receiving concurrent briefs. The briefs have been received and the matters are ready for decision.

Background

In the past Pacific has offered to provide service to parts of Anza-Borrego with applicable toll station rates and construction charges from its Julian exchange. Those charges, which were intended to cover costs, were considered excessive by residents of the area.

Eventually, the residents had their situation brought to the attention of the Rural Electrification Administration (REA). That federal agency then encouraged Tuolumne to file with this Commission an application to serve Anza-Borrego. Tuolumne, a California corporation, is one of the small independent telephone companies financed by the REA. It presently serves two basic areas, both in northern California. One encompasses the unincorporated town of Tuolumne and surrounding territory in Tuolumne County and the other includes the unincorporated communities of Fern, Oak Run, Shingletown, and Whitmore in Shasta County and surrounding territory in Shasta and Tehama Counties. The two basic areas are about 200 miles apart and cover several hundred square miles. Tuolumne serves about 2,000 customers (main stations) and has 25 employees.

In May 1976 Tuolumne filed its application for Anza-Borrego. Two months later Pacific filed its application. It thus appears that Tuolumne's filing spurred Pacific into further action. In its revised application Tuolumne commented:

"Pacific Telephone and Telegraph Company has filed a conflicting Application (No. 56647) for granting service in this area, but has refused requests for service until this applicant filed its application raising the issue of whether Pacific had previously refused to supply adequate service to the area in the past."

In contrast a Pacific witness put the matter in this light:

"Historically, Pacific has not felt that the area in question warranted the high cost of exchange telephone service by reason of low population

density and the resulting burden placed upon the general ratepayers of California due to a noncompensatory plant investment. Pacific, of course, recognizes its duty as a public utility to provide service in a timely fashion in the most economical manner to all of California citizens. Pacific believes that its proposal for service to this area has been made at the appropriate time and in the most economical manner."

According to the staff "The key to this entire case is toll settlements. Because of toll settlements, an independent telephone company can go into an otherwise unprofitable venture and provide telephone service at the expense of all the other telephone subscribers in the state. ...while one such venture may not be an unreasonable burden on the state's other ratepayers, what will the overall impact be when other unprofitable areas demand service?"

As the staff sees it, a fundamental issue is thus whether the Commission should, upon reviewing the extent to which rates would be noncompensatory and service to the area thus subsidized, authorize any service at this time (i.e., at this stage of the area's development). If so, should the utility that makes its request first prevail or should it be the one that will cost the other ratepayers in the State less.

Many of the potential customers in Anza-Borrego prefer Tuolumne because it was first to offer to serve on a basis affordable to them. Although recognizing that there is a need for telephone service in Anza-Borrego, the staff has concluded that requests to serve may be premature because the area is not sufficiently developed to economically justify the service at this time. If nevertheless the area is to be served now, the staff supports Pacific's proposal with some minor changes.

Tuolumne's Proposal

Tuolumne estimates the demand for telephone service in its proposed Anza-Borrego exchange to be about 100 subscribers for the first year of operation and about double that number in five years. It plans to construct a central office building at Butterfield which will house a 230-line equipped Stromberg-Carlson XY switching unit. It proposes to operate the office as an unattended dial office with operator and information service handled from Pacific's Escondido toll center. One full-time permanent employee is to reside within the exchange to provide installation and maintenance functions. Business office functions are to be handled from the company headquarters at Tuolumne, which is about 400 miles from Anza-Borrego. Construction and major repair equipment together with necessary crews would be drawn from the Tuolumne headquarters as needed after the original construction.

Tuolumne proposes to establish a toll rate center at Butterfield. The toll connecting facility would be a 22-gauge compartmented core cable with PCM trunk carrier, with Tuolumne's portion of it extending from Butterfield to the interface with Pacific at the eastern boundary of the Julian exchange. Initially, one 24-channel system of carrier would be used.

Tuolumne's outside plant will be underground. It will consist of buried feeder and distribution cable and buried services.

Tuolumne has projected that its plant investment in Anza-Borrego will be \$768,000 after the first year and \$793,000 after five years, the \$25,000 difference being for station equipment. Tuolumne plans to finance the project with an REA loan which it claims is assured because it is an established borrower with that agency and because it was the REA which encouraged Tuolumne to undertake serving the area. Tuolumne anticipates that the necessary telephone plant can be installed and service provided to subscribers within one year of Commission approval of its proposed Anza-Borrego exchange.

Tuolumne proposes to establish base rate areas (BRA's) within the Anza-Borrego exchange at Canebrake, Butterfield Ranch, and Earthquake Valley where one-party residence service will be \$10 per month and one-party business service will be \$18 per month. Beyond the BRA's the proposed rates for these services are \$2 per month more and two-party residential service will be offered at \$10.50 per month.

Pacific's Proposal

The Julian exchange, encompassing within its present boundaries 278 square miles of territory in northern San Diego County, serves 189 business and 839 resident customers. Under the serving arrangement proposed by Pacific this exchange will be extended to serve an additional 59 square mile area.

Pacific will expand its existing dial central office located in the community of Julian to serve the proposed additional territory. Pacific's full service business office is located in the community of Ramona which is about 20 miles west of Julian. It has a payment agency in Julian. Its installation and repair center is located in the city of Escondido which is about 20 miles from Ramona. Operator services are also in Escondido.

To extend service into the new area from the Julian central office, feeder cable will be extended from that office down the Banner Grade to the Banner Queen Trading Post on Highway 78. At that point the feeder would be divided into two branches. One branch will be buried and continue along Highway 78 to serve the Earthquake Valley area. The other branch will be a 25-pair aerial cable placed on an existing pole line route of San Diego Gas & Electric Company down Rodriguez Canyon and will intersect Highway S-2 at Butterfield Ranch. The cable will be reduced to 11 pairs just south of Butterfield and continue along Highway S-2 to serve Agua Caliente Springs and Canebrake. The plant required

for the expansion of the Julian exchange includes station equipment, outside plant, additions to toll facilities, and additions to central office equipment. It is estimated to cost \$440,000.

According to Pacific the demand for service in Earthquake Valley, Butterfield Ranch, Agua Caliente Springs Park, and Canebrake, which are the four developed areas within its proposed additional territory, will be about 80 services as of January 1, 1978. Growth for the foreseeable future is expected to average less than ten additional services per year.

Pacific has limited its request for additional area to 59 square miles which encompasses the presently existing known demands for service in this area. Should demand develop in the future outside the 59 square miles, Pacific indicates it would consider expanding the exchange further, creating a new exchange, or providing toll station service, taking into consideration the needs of the individuals as well as the cost of providing the service.

Residents of Earthquake Valley and Butterfield Ranch have some need to communicate with the community of Julian which provides elementary and high schools, doctor and ambulance service, hardware, groceries, and other services or interests. Inherent in Pacific's proposal is local calling between all points within an expanded Julian exchange.

Pacific proposes establishing for exchange service special rate points (SR points) at Earthquake Valley, Butterfield Ranch, and Canebrake. It will offer one- and two-party flat rate at mileage charges from the SR points, and four-party suburban (no mileage charges) service to all residential subscribers, and in addition to those grades of service, will also offer semipublic and PBX services to businesses. Toll calls from within the requested area would be rated from the existing Julian toll rate point.

All outside plant for distribution will be aerial line making joint use of existing San Diego Gas & Electric Company's power poles. Services will also be above-ground. Pacific estimates that it will take up to 12 months after approval by the Commission to install the necessary facilities and fully establish service.

Need for Telephone Service

There is no telephone service of any kind in Anza-Borrego. The nearest public pay station is about eight miles from Earthquake Valley at Banner Ridge in the Julian exchange.

At the initial hearings held at Butterfield Ranch several hundred people attended in order to advocate telephone service being provided without delay to this area. Tuolumne has about 100 signed applications for telephone service. Pacific estimates that during the initial year of operation approximately 30 subscribers would be served.

It is clear that some telephone service is needed in this area especially for public health and safety purposes. It is equally clear that this sparsely developed area will not produce sufficient revenues to come very close to meeting the estimated cost of providing the service.

Subsidy

Compensatory rates for Anza-Borrego are not feasible because the costs to serve this remote area equate to prohibitively high rates. Thus, if telephone service is provided to the Anza-Borrego area, the losses from the unprofitable venture must be absorbed by the serving company, be passed on in large part for distribution through toll settlements which will ultimately have an impact on ratepayers elsewhere, or be absorbed in part and passed on in part.

In this regard Tuolumne argues "that subscribers in less populated exchanges cannot reasonably be expected to pay for the entire plant necessary to serve them. All subscribers benefit when toll facilities are made available in high cost rural areas; and, all subscribers should, therefore, share the cost for providing the facilities." In recognition of such benefits to subscribers generally while at the same time taking into account the fact that a disproportionate share of costs otherwise ultimately will have to come from toll users outside Anza-Borrego, the examiner inquired whether Tuolumne would undertake to serve Anza-Borrego if intrastate toll revenues after settlement were not permitted to exceed twice the intrastate toll billing to Anza-Borrego customers, i.e., an intrastate toll revenue ceiling of twice the intrastate toll originating in Anza-Borrego would be imposed. This ceiling would reduce Tuolumne's toll revenues substantially. The extent of the reduction is shown in comparing the ceiling with Tuolumne's estimate of its toll revenues being about 4.5 times the toll originating in Anza-Borrego (i.e., \$136,000 after settlement and \$30,000 before settlement) under present settlement procedures. Tuolumne responded that it would decline to serve Anza-Borrego if that condition were imposed.

In Pacific's case, to test the feasibility of shifting some of the expected burden from ratepayers outside the Anza-Borrego area to the telephone serving company, it appears more appropriate, because of intermingling of toll originating in the existing Julian exchange area with that originating in the requested additional area for that exchange, to focus upon the main feeder system for the area addition. The feeder represents over one-half of Pacific's total proposed investment of \$440,000. Pacific proposes to install that backbone feeder at its own expense and apply its line extension rule only to the distribution system.

An important purpose of the line extension rule is to limit the utility's investment in uneconomical extensions that may be a burden to its other ratepayers. Pacific, when asked by the examiner, indicated that it would still serve the proposed area if the main feeder system, defined consistently with Exhibits 5 and 9, is to be excluded for ratemaking from depreciation expense, ad valorem taxes, and rate base. Pacific, however, opposes such a condition which it considers to be unreasonable.

In any event, exchange and outgoing toll revenues from the proposed area will be insufficient to cover operating expenses and at the same time provide a reasonable rate of return on rate base regardless of which utility were to serve. The degree of subsidy will obviously be less, however, in the case of the company which can provide adequate service with the lower plant investment and annual operating expenses.

Comparative Investment and Cost of Service

As brought out earlier Tuolumne plans to build a central office at Butterfield Ranch, to underground its outside plant, and to interconnect with Pacific's toll facilities. To do this, Tuolumne estimates its plant investment will be \$768,000. Such an expenditure would result in an average plant investment by Tuolumne per subscriber, based upon serving 217 customers in the fifth year of operation, of \$3,650. This figure is more than three times Tuolumne's average investment per subscriber in its existing systems of \$1,036.

In addition, however, to Tuolumne's plant investment, Pacific must expend an estimated \$183,000 to interconnect with Tuolumne's facilities. Consequently, the total combined investment of Pacific and Tuolumne, if Tuolumne is authorized to serve, would be \$951,000.

Under its proposed serving arrangement, Pacific plans to expand its central office at Julian and to install underground cable to Earthquake Valley and overhead cable on existing poles of San Diego Gas & Electric Company to Butterfield Ranch and to Canebrake. The estimated plant investment for this proposed exchange expansion is \$440,000, a figure which includes an estimated cost of \$22,000, as compared with the above specified \$183,000 if Tuolumne serves, for interconnecting the additional area into the toll system.

The combined total annual expense for operating expenses, taxes, and interest to provide Anza-Borrego with telephone service under Tuolumne's proposal would approximate \$198,000, of which about \$57,000 represents Pacific's annual expense to provide toll facilities. This compares with total annual expenses of \$138,000 if Pacific is authorized to serve.

Although there may be infirmities in either applicant's array of estimated operating expenses, it appears that Pacific's would have a substantially lower cost because of its substantially lower plant investment and the fact that its serving arrangement reflects the utilization of existing personnel and equipment for maintenance, business office, and central office functions. In contrast Tuolumne, being headquartered some 400 miles from Anza-Borrego, must add personnel and buy land, erect a building, install central office equipment in that building, and incur all of the associated start-up costs of opening a new exchange.

Opening a new exchange also requires assigning one of the available (unused) prefixes or ABC codes, thereby tying up 10,000 potential usable numbers for only, in this case, a few hundred customers for the foreseeable future.

Settlements

Settlement revenues for toll service are distributed on a company-by-company basis. Thus, each company in the State is paid out of the settlements pool an amount equal to its total expenses allocated to intrastate toll service for all its exchanges. Then the remaining revenues are divided up among all the companies so that each company will receive an equal rate of return (i.e., actually settlement ratio) on total investment allocated to intrastate toll service for all its exchanges.

Service to Anza-Borrego, as we have previously indicated, will not add enough revenue to the toll pool to cover the additional expenses and the rate of return on the additional investment. Thus, whether Tuolumne or Pacific serves Anza-Borrego the result will be that the statewide rate of return on the total statewide intrastate telephone plant investment would be reduced.

Each nonserving company would receive less revenue from intrastate toll settlements as a result of service to Anza-Borrego than it would receive if Anza-Borrego were not served. The amount of settlement revenues that each of the nonserving companies receives is reduced by the downward change in settlement ratio (lower because Anza-Borrego toll expenses exceed originating toll revenues and the additional Anza-Borrego plant investment) times its respective toll investment and the related change in income taxes.

This difference or loss is borne by the nonserving companies approximately in proportion to the percentage that their total intrastate toll allocated plant investment bears to the total intrastate toll allocated plant investment of all the State's telephone companies. The serving company, either Tuolumne or Pacific, would similarly have to absorb its share of the difference as its intrastate toll rate of return is also lowered.

Since the serving company only makes up a percentage of the loss equal to its percentage of total industry intrastate plant investment, the loss will show up more with respect to Pacific than Tuolumne. Pacific's share of the total industry intrastate plant investment runs between about 70 and 75 percent. Because Tuolumne's share of that plant investment is minimal (i.e., less than one percent), it is positioned to receive enough new additional settlements revenue to cover its new expenses and its rate of return on its new investment. This is the reason why a small independent telephone company finds it attractive to serve an otherwise economically nonviable area.

Another important consideration is that Pacific by virtue of its lower capital investment and annual operating expenses to serve Anza-Borrego will draw considerably less from both the interstate toll pool and the intrastate toll pool for service to that area than would Tuolumne.

In estimating toll revenues Tuolumne allocated estimated operating expenses and taxes between toll and local exchange service according to approximately an 80/20 division and applied a 7.7 percent rate of return on the plant assigned to the toll operation. The resultant estimate of toll revenue for the first year of operation is \$136,100 which compares with estimated toll billings of \$30,000. The difference of \$106,100 would come from the toll settlements pool.

In its showing Pacific estimated the toll portion of its annual cost of \$137,900 to serve Anza-Borrego to be \$82,740. This was based on an estimated 60 percent toll usage which was a lower usage ratio than used by Tuolumne and was consistent with calls to Julian being local calls under Pacific's proposed serving arrangement. Pacific further estimated that the locally generated toll revenue would be \$12,120, resulting in a net loss to the toll

settlement pool of the difference, or \$70,620. This would represent the cost to all the telephone companies in the State for Pacific to serve the Anza-Borrego area. Pacific's share of the loss would be on the order of \$51,550, i.e., about a 73 percent share.

If Tuolumne serves, the amount, as indicated above, that would have to come from the toll settlement pool is \$106,100. At Pacific's 73 percent share this would result in its contributing \$77,450. Accordingly, Pacific's loss will be \$25,900 less if it serves rather than Tuolumne, the loss to the independent telephone companies will be \$9,580 less, and the revenues from intrastate toll users will be \$35,480 less, while achieving the same rate of return on toll.

When unprofitable areas demand service, an unreasonable burden should not be placed on the State's other ratepayers. While one such area obviously is not significant in this regard, unprofitable areas in the aggregate, especially if a proliferation occurs, may be another matter. This is a good reason for scrutinizing proposed serving arrangements to ascertain whether the lowest cost of service consistent with adequate service is contemplated.

Proposed Exchange Rates

Rates for local service will not be compensatory regardless of which applicant serves. In Tuolumne's case, the local exchange rates proposed would produce by Tuolumne's own estimates only a 1.7 percent rate of return in the first year. If, moreover, toll use is less than reflected in those estimates, the local exchange net revenue would also have to be less, because less operating expenses would be allocable to toll, and could actually turn out to be a loss. Similarly, but with substantially more impact, if toll settlements were to be based upon a formula that provided twice the toll billings as an upper settlement limit, a much higher level of rates would have to be proposed for local exchange service. Although this would be more equitable for ratepayers elsewhere in the State, it could be expected to result in prohibitively high rates for local service.

In Pacific's case, the estimated revenue deficiency from local exchange service in the first year is \$49,300. To remove this deficiency Pacific would need to serve, according to a series of illustrative computations by the staff, 695 customers at its proposed rates or 290 customers at rates 2.4 times those proposed. The 290-customer figure was projected for the year 2000 in Pacific's forecast, and the staff's illustrative computations used a simple projection of revenues, which ignored any increases in expenses, taxes, or rate base resulting from the additional customers.

Tuolumne's proposal for local service, as stated earlier, provides for BRA's at Earthquake Valley, Butterfield Ranch, and Canebrake, where one-party residence service will be \$10 per month and one-party business service will be \$18 per month. Beyond the BRA's the rates proposed for these services are \$2 per month more and a two-party residential service will be offered at \$10.50 per month.

Types and grades of service from Pacific would be the same as in the Julian exchange. Pacific proposes to establish SR points at Earthquake Valley, Butterfield Ranch, and Canebrake. Pacific's proposed rates are shown, on the next page, in relation to its rates for the BRA of the Julian exchange.

<u>SERVICE</u>	<u>JULIAN BRA</u>	<u>EARTHQUAKE VALLEY SR POINT 3/4 INCREMENT</u>	<u>BUTTERFIELD SR POINT 4/4 INCREMENT</u>	<u>CANEBRAKE SR POINT 5/4 INCREMENT</u>
<u>MONTHLY RATE</u>				
<u>Business</u>				
1FB	\$14.55	\$16.50*	\$17.15*	\$17.80*
2FB	10.75	11.80*	12.15*	12.50*
Suburban B	-	11.00	11.00	11.00
Semipublic	6.80	8.75	9.40	10.05
<u>Residence</u>				
1FR	5.70	7.65*	8.30*	8.95*
2FR	4.75	5.80*	6.15*	6.50*
Suburban R	-	4.90	4.90	4.90

*Additional suburban mileage charges of 65 cents per quarter mile per month for one-party service and 35 cents for two-party service are applicable.

It is the staff's position that the exchange rates should be consistent with statewide standards, should be more than those paid in urban areas that must subsidize the Anza-Borrego service, and should be the same regardless of which applicant is authorized to serve the area. According to the staff, Tuolumne's density criterion for establishing a BRA of 30 to 50 establishments per square mile is much too low. In this regard the staff witness testified that the Commission has set a guideline of 100 to 150 establishments per square mile for application where an area is contiguous to an established BRA. In this density range the utility may expand its BRA. When the density exceeds 150, the utility is required to expand the BRA.

He further testified that special rate areas (SRA's) may be established in remote areas when the density exceeds 100 establishments per square mile and must be established when it exceeds 150. Such remote areas are to be converted to BRA's when the density exceeds 300. Under the foregoing criteria espoused by the staff none of Anza-Borrego qualifies for either BRA or SRA treatment.

SR points are another matter. The staff concurred with Pacific on their being appropriate for Anza-Borrego but took exception to the specific rate increments applied by Pacific. Such increments have as their purpose to increase rates to customers in sparsely developed areas because it costs more to serve them. The staff recommended a doubling of the number of quarter-mile increments used by Pacific in rating the SR points. The recommended doubling

is intended to compensate for Pacific's having applied without adjustment increments in effect for SRA's. Thus, Pacific has used increments relating to a density of at least 100 establishments per square mile or about twice the 50 establishments per square mile for an area surrounding a SR point. In making this recommendation the staff recognizes that raising the one- and two-party service rates would tend to result in more customers taking suburban service (i.e., four-party service) and that four-party service is not appreciably less costly for the utility to provide initially; it has merit, however, in that it should lengthen the time before the utility would need to make additional plant investment to meet future growth.

Environmental Impact

Under Tuolumne's proposal all construction, including feeder and distribution cable and services, will be underground. Under Pacific's proposal, there is both aerial and buried cable and all service drop wires will be aerial. However, wherever Pacific proposes aerial construction, there are existing overhead lines and power poles of San Diego Gas & Electric Company. Accordingly, the visual impact of overhead construction will exist whether or not Pacific's project is carried out.

The record indicates that the Anza-Borrego State Park will not permit overhead construction and the record is equally clear that there would not be overhead construction in that State park under either proposal.

Dispositive Summary

In sparsely developed remote areas the cost of providing telephone service is usually prohibitive unless there is a large subsidy. Anza-Borrego is just this kind of an area. More importantly, it is also one which, we are persuaded, has reached a point in its development where public health and safety now require that some telephone service be provided.

When telephone service is made available in Anza-Borrego, a heavy subsidy will automatically result under toll settlement procedures. This is because the telephone usage, although expected to be very small in Anza-Borrego, would be predominantly toll. The venture thus has appeal to Tuolumne whose estimated annual toll revenues after settlement of \$136,100 would be about 4.5 times its estimated toll billing to Anza-Borrego customers.

Either Tuolumne or Pacific, if authorized to serve Anza-Borrego would meet the public need. In our view, however, the general public interest dictates that Pacific provide the service. Its levels of plant investment and operating expense are expected to be substantially lower than Tuolumne's and calls to Julian will be local or free calls rather than toll calls as is the case under Tuolumne's proposed serving arrangement. In essence, Pacific's proposal is preferred because it will result in adequate service with a lesser burden being imposed on ratepayers outside Anza-Borrego. Interestingly, even the calls to Julian have an effect in the latter regard in that by being local they result in a lesser burden being placed on the toll settlement pool by Anza-Borrego.

In most respects, we will authorize Pacific's proposal. We will depart from it, however, to give effect to the staff-recommended higher rate levels for urban grades of service. Those rate levels reflect increments which are more in keeping with a density of about 50 establishments or less per square mile in the areas surrounding the SR points.

As brought out earlier in this opinion, Pacific proposes to use its funds to build the backbone feeder system. To do that, it seeks a deviation from its line extension rule to exclude approximately 32 miles of line extension facility (the backbone feeder route) from the line extension distance. The deviation appears, as Pacific contends, to be appropriate for a project of this nature and will be authorized. In all other respects, the current line extension rule is to be applied without variance.

We turn now to a contention by Tuolumne that granting Pacific's application will discourage future applications by independent telephone companies to serve unfiled territories. That of course would not be undesirable to the extent a tendency exists to make requests prematurely. In instances involving timely requests, however, it conceivably could also have that effect. But we do not think so. We consider it much more likely that the REA will continue to promote the introduction of telephone service into remote areas and that the independent telephone companies will continue to be receptive so long as substantial subsidies through toll settlements are available.

However, to shed more light on how marginal areas are monitored and evaluated for service-readiness and to prevent unduly discriminatory results from occurring as between various parts of the State, we expect Pacific to examine in some depth criteria which determine when it will file an application or otherwise seek to serve adjoining unassigned territory. Toward this end we will order Pacific to file a comprehensive report setting forth its present practices in timing the introduction of service into new areas, any contemplated changes in those practices, and the criteria it employs in evaluating the service-readiness of marginal areas.

Findings

1. There is a need for telephone service in the Anza-Borrego area.

2. The 59-square mile area proposed as an expansion of the Julian exchange by Pacific includes essentially all of the present development. The 223-square mile area for the Anza-Borrego exchange proposed by Tuolumne is excessive.

3. Toll settlements will exceed toll billings to Anza-Borrego customers no matter which utility serves the area. Through toll settlements, Pacific and the independent telephone utilities, and ultimately their customers, will bear much of the cost burden of service to Anza-Borrego. That burden will be less if Pacific serves because its investment and operating expenses will be lower than Tuolumne's.

4. Expanding the Julian exchange is preferable to starting a new exchange because it requires less investment, provides broader toll-free calling, and aids in more efficiently using the existing Julian ABC code (i.e., the Julian prefix).

5. Pacific's proposed serving arrangement utilizes existing personnel and much existing equipment.

6. Pacific's proposed rate structure for one-party and two-party exchange service (i.e., the urban grades of service) is based on three SR points and line mileage charge rates. The structure should be modified to accommodate at the SR points higher rate increments, which are responsive to the higher cost incurred in providing exchange service where density levels are 50 establishments or less per square mile.

7. The rates proposed by Pacific for the suburban grade of exchange service (i.e., four-party service) are the same as those used by Pacific throughout California.

8. To introduce service into the 59-square mile expansion of the Julian exchange, a deviation by Pacific from its line extension rule, which will permit an exclusion of the backbone feeder route of approximately 32 miles from the line extension distance, is warranted.

9. It can be seen with certainty that there is no possibility that the expansion of the Julian exchange may have a significant effect on the environment.

Based upon the above findings the Commission concludes that the Pacific application should be granted to the extent set forth in the following order and that the Tuolumne application should be denied.

O R D E R

IT IS ORDERED that:

1. The authority sought by Tuolumne Telephone Company in Application No. 56509 is denied.

2. The Pacific Telephone and Telegraph Company (Pacific) is authorized to expand the Julian exchange within twelve months after the effective date of this order to include approximately 59 square miles of additional area as delineated on the map which is Exhibit C attached to amended Application No. 56647, to deviate from its line extension rule to exclude the approximately 32-mile backbone feeder route from the line extension distance, and to establish special rate points at Earthquake Valley, Butterfield Ranch, and Canebrake with rate increments and conditions as prescribed in Appendix A to this decision.

3. Pacific shall (1) undertake an examination of criteria which determine when it is to file an application or otherwise seek to serve adjoining unassigned territory and (2) file with the Commission within six months after the effective date of this order a comprehensive report thereon. This matter is discussed on page 20 of this decision.

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

Dated at San Francisco, California, this 28th day of JUNE, 1977.

Robert Bateman
President
William Seymour J.
Gregory L. Sturgeon
Richard D. Grewaltz
Commissioners

APPENDIX A

Special Rate (SR) Point Rates

<u>SERVICE</u>	<u>JULIAN BRA</u>	<u>EARTHQUAKE VALLEY SR POINT 6/4 INCREMENT</u>	<u>BUTTERFIELD SR POINT 8/4 INCREMENT</u>	<u>CANEBRAKE SR POINT 10/4 INCREMENT</u>
1FB	\$14.55	\$18.45	\$19.75	\$21.05
2FB	10.75	12.85	13.55	14.25
Suburban B	-	11.00	11.00	11.00
Semipublic	6.80	10.70	12.00	13.30
1FR	5.70	9.60	10.90	12.20
2FR	4.75	6.85	7.55	8.25
Suburban R	-	4.90	4.90	4.90

Standard suburban mileage charges are applicable on urban grades of service outside of rate areas or to SR points.

Four-party suburban service is available only outside of rate areas and suburban mileage charges do not apply.

SR points carry twice the usual SRA increments.

Four-party urban residential and eight-party suburban services are being phased out state-wide and will not be introduced in the Julian exchange area addition.