

ORIGINAL

Decision No. 87960 OCT 12 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of DUCOR TELEPHONE COMPANY for an )  
order authorizing it to establish )  
one exchange to be designated )  
Rancho Tehama, Tehama County. )

Application No. 56450  
(Filed May 3, 1976;  
amended May 14, 1976)

Application of THE PACIFIC )  
TELEPHONE AND TELEGRAPH COMPANY, )  
a corporation, for authority )  
to establish a new exchange to )  
be designated Rancho Tehama. )

Application No. 56600  
(Filed July 7, 1976;  
amended November 19, 1976)

David M. Wilson and Alvin H. Pelavin, Attorneys at Law, for Ducor Telephone Company; and Duane G. Henry, Attorney at Law, for The Pacific Telephone and Telegraph Company; applicants.  
Ralph O. Hubbard and James Geoffrey Durham, for California Farm Bureau Federation; Barry S. Mitchell, for McBob, Inc., Developer of Rancho Tehama Reserve; Maxine Carol Harris, for herself; and August J. Stock, for himself, as a Rancho Tehama resident; interested parties.  
Dean J. Evans, for the Commission staff.

O P I N I O N

On May 3, 1976 Ducor Telephone Company (Ducor) filed Application No. 56450 seeking authorization to establish an exchange to be known as Rancho Tehama Exchange in a previously unfiled territory in Tehama County and to establish rates for such service.

On June 3, 1976 The Pacific Telephone and Telegraph Company (Pacific) filed a letter with the Commission to protest Ducor's application and to inform the Commission that Pacific was going to file an application within 30 days seeking similar authorization to establish a Rancho Tehama Exchange. Pacific requested that public hearings be scheduled on a consolidated basis after receipt of Pacific's application. Pacific's Application No. 56600 was filed on July 7, 1976 with an amended filing made on November 19, 1976.

Both applicants seek authority to establish a Rancho Tehama Exchange covering approximately 75 square miles of which some six square miles is occupied by a subdivision known as Rancho Tehama Reserve (RTR) established in 1969. The proposed exchange is located 15 miles southwest of the town of Red Bluff and is surrounded by Pacific's Red Bluff exchange to the north, Gerber exchange to the east, Corning exchange to the south, and the Paskenta exchange to the southwest with some unassigned territory to the west. There are about 75 permanently occupied homes in RTR and about 170 homes owned by weekend or seasonal residents. The remainder of the proposed exchange area is composed of approximately 10 large farms engaged in dry land farming.

After due notice, the applications were consolidated for hearings and public hearings were held before Examiner Parke L. Boneysteele in Red Bluff on November 29 and 30 and December 1 and 2, with additional hearings in San Francisco on December 20 and 21, 1976. Ducor presented a consulting engineer and a certified public accountant as witnesses in support of its application, and Pacific had its district engineer testify on its behalf. A communications engineer testified for the Commission staff as did several residents of RTR. At the conclusion of hearings on December 21, 1976 the matters were submitted subject to receipt of concurrent opening and reply briefs. The briefs were received, and the matters are ready for decision.

Background

Shortly after the establishment of RTR in 1969, the local residents as well as the original subdivider requested telephone service from Pacific. In April 1970 Pacific made a tariff proposal to revise the Red Bluff exchange area boundary to include Unit 1 of RTR. Under the proposal, the estimated cost to be borne by the developer would have been \$40,000 for multiple party-line service. Pacific estimated that there would be three subscribers initially, increasing to twelve subscribers within five years. The proposal was withdrawn in September 1970 due to lack of action by the developer. Subsequent requests for service were also made; however, the costs were too high for the lot owners. In 1976 several independent telephone companies were contacted by the Rancho Tehama Association which eventually resulted in Ducor's filing an application on May 3, 1976 requesting authorization to establish an exchange in RTR.

Ducor currently provides exchange and toll telephone service to approximately 240 main stations in the Ducor exchange area, which serves the town of Ducor and 108 square miles of the surrounding area. Ducor is located in the southern part of Tulare County, 45 miles north of Bakersfield and is approximately 400 miles from the proposed Rancho Tehama Exchange.

As mentioned earlier, Ducor's filing led to a filing of a protest by Pacific and also the filing of a similar application by Pacific on July 7, 1976 seeking authorization to establish

a Rancho Tehama Exchange. As admitted by Pacific's engineer under cross-examination, Ducor's action spurred Pacific into taking an action it refused to do in the past. Pacific, however, contends that there were insufficient subscribers in the past to provide service to RTR other than through assessment of long-line extension charges; that in 1975 there were approximately 40 potential subscribers, whereas in 1976 that number had doubled thereby making the establishment of a separate exchange economically feasible; and further that Pacific reviews unfiled territory adjacent to its exchanges to determine when service expansion is warranted. In theory this is desirable; however, the circumstances of this case indicate that Pacific has been lax in this regard. As a result, (1) the residents are without phone service, (2) an independent phone company has expended unnecessary time and money, and (3) an expensive and lengthy public hearing process has been initiated.

Ducor's Proposal

Ducor estimates that it will be serving 60 subscribers to one-party service and 21 subscribers to four-party service at the end of the first year of operations and that there would be 152 subscribers to one-party service and 25 two-party subscribers in the fifth year of operations. Ducor proposes to provide service within six months by installing a temporary 100-line switchboard already in stock and that it would order and install a new 300-line board as soon as it became necessary. Ducor further proposes to use buried cables in the proposed exchange and to include the entire RTR subdivision in its base rate area.

TABLE 1

Ducor Telephone Company  
(Rancho Tehama Exchange)  
Proposed Rates

<u>Class and Grade of Service</u>	<u>Monthly Charge</u>
One-Party Business	\$11.00 <sup>1/</sup>
Semi-Public Pay Station	7.50 <sup>2/</sup>
One-Party - Residence	7.00 <sup>1/</sup>
Two-Party - Residence	6.00
Four-Party - Residence	5.00
Extensions - Business	2.00
Extensions - Residence	1.25

Notes:

- <sup>1/</sup> Plus mileage at \$.60 per 1/4 mile beyond BRA.
- <sup>2/</sup> Guaranteed minimum from local exchange calling.

As shown in Table 1, Ducor proposes to offer one-party residential service for \$7 within the base rate area with an additional charge of \$0.60 for each quarter mile the subscriber is beyond the base rate boundary. Two-party or four-party service within the exchange area would be provided at flat charges of \$6 and \$5, respectively. Ducor proposes not to assess line extension charges for subscribers within the exchange. Ducor also indicates that it will have an on-site maintenance person who would be a resident of RTR and would be on 24-hour call. Ducor proposes to obtain emergency and vacation assistance from neighboring independent telephone companies. ✓

Ducor plans to finance installation of necessary facilities with a Rural Electrification Administration (REA) loan at 2 percent annual interest rate. Ducor indicates that since it is already an REA borrower it will be able to obtain REA funds readily.

#### Pacific's Proposal

Pacific proposes to provide service to the same territory requested by Ducor. It proposes to establish a dial central office in RTR which would allow residents of Rancho Tehama to place direct dialed calls to each other or to place toll calls by dialing the operator similar to Ducor's proposal. Distribution facilities to individual applicants would be provided by using predominantly aerial cable facilities on existing Pacific Gas and Electric Company (PG&E) pole lines. The central office will be initially equipped to handle 200 subscriber lines and 300 telephone numbers and is readily expandable to handle 600 lines and 800 numbers when needed.

TABLE 2

The Pacific Telephone and Telegraph Company  
 Proposed Rancho Tehama Exchange  
Proposed Exchange Rates

<u>Residence</u>	<u>Rate Per Month</u>
1-Party Flat*	\$ 5.70
2-Party Flat**	4.75
Suburban***	4.90
<u>Business</u>	
1-Party Flat*	14.55
2-Party Flat**	10.75
Semi-Public	6.80
PBX Trunks	21.75
Suburban***	11.00

- \* Plus 65¢ per quarter mile from the closest base rate point.
- \*\* Plus 35¢ per quarter mile from the closest base rate point.
- \*\*\* 4-Party improved rural service (no mileage applicable).

Note: Other rates and rules would apply in accordance with tariffs applicable for exchange service or as may be authorized by the Public Utilities Commission of the State of California.

As shown in Table 2, residence subscribers will be offered a choice of one-party flat-rate service, two-party flat-rate service, or four-party flat-rate service. Four-party flat-rate service would be available anywhere in the exchange at \$4.90 a month with no mileage charges. One-party and two-party residence service would be available at \$5.70 and \$4.75 per month plus mileage charges of \$0.65 and \$0.35, respectively, for each quarter mile from the closest base rate point. Monthly rates for one-party residential service within the RTR sub-division could vary from \$6.35 to \$9.60. Pacific also proposes to charge a maximum of \$28 for service connection and installation of a single telephone instrument for a residence and \$41 for a business. No line extension charges will be applied within RTR subdivision.

Pacific will supply 24-hour repair service out of Red Bluff. The Red Bluff business office will provide customer assistance. Toll calls will be made by dialing "operator" with all calls other than person-to-person, third number, and credit card calls being charged at the same rates as if dialed direct. Pacific further states that personnel available in adjoining exchanges would provide direct support to the new exchange and that telephone service will be available in approximately six months after Commission approval. Pacific estimates that the exchange will have 85 subscribers at the end of the first year of operation and will require a capital investment of \$258,751 (Exh. 25).

#### Staff Position

The staff engineer in his report concludes that since the proposed exchange contains a growing community of 250 permanent residents there is a need for exchange service for health, safety, economic, and convenience reasons; approximately one-half of the potential subscribers appear to be retirees on fixed income, some with health problems who need the privacy of single-party service at reasonable rates; there should be several public/semi-public



pay-phone stations to accommodate weekend or seasonal residents; single-party exchange rates should be consistent with Commission policy for low-density exchanges throughout the state and be based on base rate points with additional mileage charges in quarter mile increments from base rate points; and that the stated preference of residents for Ducor to be the serving company was based on the fact that Ducor was the first company to offer to establish exchange service in RTR. The staff did not indicate a preference for either applicant but concluded that either applicant can and will provide reasonable and satisfactory service.

#### Issues

The central issues in this proceeding are:

- (a) Does public convenience and necessity require the establishment of exchange service?
- (b) Which company will provide the better service?
- (c) Which company will provide the most economic service?
- (d) What exchange rates and other charges should be authorized?

#### Environmental Impact

Under Ducor's proposal all exchange and toll plant will be underground. Pacific proposes aerial facilities relying chiefly on existing PG&E poles and adding additional poles where necessary. Both applicants stated in their respective applications that the proposed construction would not have a significant effect on the environment. In response to the ALJ's request, both applicants submitted letter responses setting forth their reasons why they believed the construction would have no significant effect on the environment. These responses were reviewed by the Environmental Impact Branch of the Commission. The staff environmental impact engineer issued a memorandum concurring that the project will have no significant

impact on the environment and that no Environmental Impact Report was necessary. No evidence was introduced in the proceedings to indicate that such conclusion was not correct.

Public Convenience and Necessity

Ducor, Pacific, members of the public, and the Commission staff agree that there is presently a need to establish exchange service in the proposed Rancho Tehama service area. Ducor estimates that there will be approximately 80 subscribers by the end of the first year and Pacific estimates approximately 85 subscribers. Since there is no telephone service of any kind in the proposed service area and in view of the increasing number of residents and estimated subscribers, it is obvious that there is need for telephone service for public health, safety, and convenience reasons.

There was no overwhelming expression from the public as to which company they preferred; however, Pacific's refusal to provide service in the past except under line-extension charge arrangements which made service too expensive for the residents, resulted in a slightly higher response (6 to 4) in favor of Ducor. The chief concern of the residents was to obtain good, reasonably priced service at the earliest date possible.

Service and Cost Comparison

Although applicants' proposals differed in that Ducor proposed to go underground as opposed to Pacific's use of aerial cables, an analysis of the record indicates that the total combined investment for a Ducor-Pacific interconnect system would not be significantly different if Pacific alone was authorized to establish the exchange (\$289,900 for Ducor versus \$284,190 for Pacific). Moreover, Ducor testified that by use of a temporary 100-line board, it can provide service in six months which Pacific also indicates it can match. However, should Ducor be authorized to establish an exchange, it is apparent that the 100-line board will soon be inadequate and therefore in such circumstance it should be required to order the new 300-line board.

In making service comparisons, Ducor indicates that its service will be superior because it will have a part-time office person and a maintenance/installer actually residing in RTR and therefore available for call 24 hours a day. Emergency and vacation assistance would be obtained from Ducor or from the nearby independent telephone companies.

Pacific claims that its service proposals are superior in that personnel from not only the Red Bluff exchange but the surrounding exchanges as well will be available to service the new exchange.

We find that while Pacific has a greater pool of technical and personnel resources available, this advantage is diminished by the fact that they will have potentially greater maintenance problems with their aerial installation and none of their personnel will actually be stationed within the exchange. We also find that Ducor's advantage of its lower maintenance buried facilities and its two employees residing within the exchange is diminished by the fact that any emergency equipment and/or relief personnel is located some 400 miles away. In summary the two proposals we feel on balance are equal and that service under either proposal will be adequate.

It is obvious from the record in this proceeding that revenues generated from this exchange will not be sufficient to cover operating costs plus providing a return on the investment. It is further evident that under the toll settlement provisions, service to this area will be made possible by a subsidy from the rest of the State's telephone ratepayers and telephone companies. Both applicants submitted Results of Operations figures for Rancho Tehama. However, since Ducor's study was based on incremental costs, whereas Pacific's was on fully allocated costs, the figures are not directly comparable. It does appear, however, that operating costs and investment figures for both applicants are not significantly different, and the subsidy from intrastate toll settlements would be approximately in the same magnitude whether Pacific or Ducor is authorized to establish the exchange.

Proposed Rates

Ducor proposes to provide one-party residential service at a uniform \$7 charge within the RTR subdivision with an additional charge of \$0.60 for each quarter mile the subscriber is beyond the boundary of the subdivision. Ducor also proposes to charge a \$5 installation charge and to waive any line extension charge in the proposed exchange area.

Pacific's proposal provides for the establishment of three base rate points within the subdivision with a basic charge of \$5.70 at these points plus additional mileage charge of \$0.65 for each quarter mile from the closest base rate point. In addition, Pacific will require a \$28 installation charge for residential subscribers as well as line-extension charges for service outside the subdivision. Four-party suburban service will be available at \$4.90 per month without regard to location of the subscriber within the exchange.

The staff initially offered a different base rate point proposal from Pacific's limiting the maximum mileage charge within the RTR subdivision to \$5.70 plus three \$0.65 increments. However, the staff in its brief withdrew its proposal and recommended that regardless of which company is authorized to establish the exchange, Pacific's base rate point plan should be adopted. The staff opposed the use of Ducor's base rate area concept as being inconsistent with current Commission policy of using a base rate area approach only after certain density criteria have been met. The current standards more or less uniformly applied in California permit consideration of a base rate area concept only when density exceeds 100 establishments or more per square mile. Obviously, this will not be met in RTR in the near future. We, therefore, agree with the staff and will require that Pacific's base rate point plan be adopted.

The staff also recommended that no waiver of line-extension charges be permitted after the initial establishment of the Rancho Tehama Exchange. The question of the need and reasonableness of line-extension charges has been carefully considered in Case No. 5337, an industry-wide investigation on line-extension charges. No new evidence was introduced to justify abandoning a practice uniformly followed in the rest of the State. We will require that, subsequent to establishment of service, appropriate line-extension charges be made for service outside of RTR subdivision. This will result in a balancing of the interests of present subscribers and future subscribers, as well as those of the utility.

Competition for Service Area

In determining which utility should be authorized to establish the Rancho Tehama Exchange, serious consideration should be given to the question of whether Pacific was laggard in not proposing exchange service earlier and whether Pacific's current application was to discourage future applications by independent telephone companies to serve unfiled territories surrounded by Pacific exchanges. The record is clear that residents of RTR have attempted to get service from Pacific as early as 1970. It is also true that because of the scarcity of possible subscribers, service could only be offered under line-extension provisions requiring substantial outlays by customers. Although there has been a substantial growth in the number of residents in RTR, there is still not a sufficient amount of customers in the proposed exchange area to generate enough revenues to cover operating costs and to provide a reasonable return on investment. However, it appears that there is substantial growth occurring in the area and the subsidy necessary to provide service will not be excessive and will decrease. It is expected that the area will eventually become economically viable.

Pacific's witness testified that the company has a policy of annually monitoring marginal areas for service readiness and that the growth occurring in RTR between 1975 and 1976 would have been recognized and an application for exchange service would have been filed even if Ducor had not filed. The witness further testified that Ducor's application only accelerated the filing of Pacific's application. While we are unable to prove one way or another whether this would have been the case, we do see the need for Pacific's filing 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. It is hoped that with these practices spelled out in detail future competition for adjacent unfiled areas can be more efficiently decided.

Ordering Paragraph 3 of Decision No. 87508 dated June 28, 1977 in Applications Nos. 56509 and 56647 requires Pacific to file such a report within six months after the effective date of the order.

Decision No. 87508, involving competing proposals by Tuolumne Telephone Company and Pacific to serve the Anza Borrego area in San Diego County, can be distinguished from this proceeding because of the substantial difference in costs between the proposals of the two companies. Such is not the case in this proceeding.

The Commission is desirous of encouraging the upgrading of service in remote areas. One way of achieving this goal is not to discourage independent telephone companies from filing applications to serve new territories when such territories are ready for service. Established utilities serving the neighboring area are placed on notice that it is incumbent on them to constantly monitor marginal areas for service readiness and to act on a timely basis rather than react to applications filed by independents.

Findings

1. There is need for telephone service in the proposed Rancho Tehama Exchange service area encompassing approximately 75 square miles of previously unfiled territory.

2. Public witnesses showed a slight preference for service by Ducor although the main emphasis was to get quick service at reasonable rates.

3. The investment and operating cost for providing service to RTR is approximately the same for either Pacific or Ducor.

4. Ducor's service proposal for underground installation is preferable to Pacific's use of aerial facilities from both an esthetic and maintenance viewpoint.

5. It can be seen with certainty that neither Pacific's nor Ducor's proposals for establishment of telephone service in RTR will have a significant effect on the environment.

6. Pacific's primary incentive for applying to serve this exchange was the application by Ducor and the desire by Pacific to reduce its losses through the toll settlement process.

7. Pacific's proposed base rate point plan subsequently adopted by the staff is reasonable.

8. Ducor's rate structure is not reasonable, cannot be applied to the base rate point plan, and therefore rates as set forth in Appendix A of this decision are reasonable.

9. Installation charge shall be \$5.00 for a single telephone instrument for a residence and \$6.00 for a business as set forth in Ducor's filed tariffs.

10. Ducor's proposal to waive line extension charges are reasonable only during the initial installation of the exchange. After establishment of service, line extension charges as set forth in Ducor's filed tariffs should be assessed in order to balance the interests of the utility with that of all subscribers.



Conclusion

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

O R D E R

IT IS ORDERED that:

1. The authority sought by The Pacific Telephone and Telegraph Company in Application No. 56600 is denied.

2. Ducor Telephone Company (Ducor) is authorized to establish an exchange designated as Rancho Tehama to include the approximately 75 square miles of territory set forth in Exhibit C-1 of its amended application.

3. Ducor's used 100-line switching equipment if installed as proposed will be recorded in the plant account with a zero book value.

4. Within thirty days from the effective date of this order, Ducor will provide certification to the Commission that its new 300-line switching unit has been ordered together with an expected delivery date.

5. Until the new 300-line switching unit is installed the sum of one- and two-party services will be held at 60 lines on a first ordered first assigned basis.

6. Ducor is authorized to establish a toll rate center at its central office and two other base rate points as follows:

(1) A point located at the intersection of Oakridge Road and Rancho Tehama Road in Unit 1 of Rancho Tehama Reserve.

(2) A point located at the intersection of Humboldt Drive and Placer Court in Unit 2 of Rancho Tehama Reserve.

7. Ducor is authorized to file with this Commission after the effective date of this order and in conformity with General Order No. 96-A, a schedule of rates shown in Appendix A to this decision and upon not less than five days' notice to the Commission and to the public, to make such rates effective coincident with the establishment of service.

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8. Ducor will file quarterly General Order No. 133 "Standards of Telephone Service" reports on its new Rancho Tehama exchange after establishment of service.

9. Ducor will submit a separated results of operations study on the Rancho Tehama exchange for the second full calendar year after establishment of service based on actual investment, expenses, and revenues.

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

Dated at San Francisco, California, this 12<sup>th</sup> day of OCTOBER, 1977.

*I dissent.*  
*William S. Jones, Jr.*  
Commissioner

*Robert Batminal*  
\_\_\_\_\_  
President

*Richard D. Howell*  
\_\_\_\_\_  
*Clair T. Smith*  
Commissioners

*I dissent*  
*Yvonne L. Sturgeon*  
Commissioner

APPENDIX A

Rancho Tehama Exchange  
Rate Schedule

<u>Service</u>	<u>Residential</u>	<u>Business</u>
1 party	\$5.70*	\$14.55*
Semi-Public Pay station	-	7.50
2 party	4.75**	10.75**
4 party	5.00	not offered
Extension	1.25	2.00

\*Plus \$.60 per 1/4 mile from nearest base rate point. (Mileage charge in Ducor's filed tariffs.)

\*\*Plus \$.45 per 1/4 mile from nearest base rate point. (Mileage charge in Ducor's filed tariffs.)