

Decision No. 89734 . DEC 12 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of THE PACIFIC TELEPHONE AND
TELEGRAPH COMPANY for authority
to split and rearrange the present
Yellow Pages sections of the
San Mateo County and the Palo Alto
Directories into three Yellow Pages
directories to be known as Pacifica,
San Bruno Yellow Pages, Burlingame,
San Carlos, San Mateo Yellow Pages,
and Menlo Park, Palo Alto,
Redwood City Yellow Pages.

Application No. 57980
(Filed April 7, 1978)
(Amended August 24, 1978)

O P I N I O N

By application filed April 7, 1978, amended August 24, 1978, The Pacific Telephone and Telegraph Company (Pacific) is requesting authority to rearrange the present yellow page sections of the San Mateo County and Palo Alto telephone directories into three yellow page directories to be known as the Pacifica-San Bruno yellow pages, Burlingame-San Carlos-San Mateo yellow pages, and Menlo Park-Palo Alto-Redwood City yellow pages. White page coverages for subscribers in these areas would be substantially unchanged.

The San Mateo County directory has been published by Pacific in essentially its present form since 1929. In 1961 Pacific filed Application No. 43560 (June 30, 1961) to split the San Mateo County alphabetical and classified directory into three sections and the Commission by Decision No. 62629 (October 3, 1961) denied the application, noting the divisions of the book across strong lines of community interests, substantial community opposition, and the attendant decrease in yellow and white page listings distributed to users. In its decision, the Commission specifically left open the possibility of splitting the directory in the future should circumstances warrant.

In an attempt to make classified directory boundaries suit the shopping habits of their users more closely, Pacific has instituted a series of shopping habits studies. In each study an independent firm surveys a representative sample of subscribers in a selected area to determine (1) the areas in which residence customers most frequently shop, (2) the areas in which customers most frequently call businesses and other residences, and (3) the foreign directories most often requested by residence customers. The results of the study are used to suggest and evaluate possible directory reconfigurations that might lead to more rational directory area boundaries, i.e., customers receiving yellow pages more closely aligned with their shopping habits and the advertisers reaching a larger percentage of potential buyers.

In support of its request to revise boundaries for the San Mateo County and Palo Alto directory areas, Pacific has attached to its application as Exhibit D a portion of the results of a shopping habits study done by an independent consulting firm. The study indicates that there are many areas with little community of interest joined within the present San Mateo County directory, and areas with high community of interest segregated into the San Mateo County and Palo Alto directory areas. As an example of the former, one percent or less of Pacifica and San Bruno residents' shopping is done in Moss Beach-Half Moon Bay-La Honda-Pescadero, or San Carlos-Belmont, or Redwood City, or Menlo Park-Woodside, yet all these areas are included in the yellow pages distributed to Pacifica and San Bruno residents in the current San Mateo County directory. Similarly, a very small proportion of the shopping done by Moss Beach-Half Moon Bay-La Honda-Pescadero, San Carlos-Belmont, Redwood City, and Menlo Park-Woodside residents is done in Daly City and Pacifica. Thus, businesses in these areas which wish to expose their potential customers to yellow page advertising must pay for far more extensive coverage than they require.

At the other extreme, La Honda-Pescadero residents do 16% and Redwood City residents 25% of their shopping in Palo Alto, and Palo Alto residents do 22% of their shopping in Redwood City and Menlo Park-Woodside, yet these areas are segregated into two different directories. Thus businesses in these areas which wish to target their yellow pages advertising at the residents who shop in their areas must purchase advertising in both the San Mateo County and Palo Alto directories and pay for and cover a far greater geographic area than they need in most cases.

There will no doubt be some advertisers and some shoppers for whom the present directory setup more closely parallels their needs than would the proposed rearrangements; however, the shopping habits study matrix shows that they are at most a small minority and that the proposed rearrangements would be an improvement for most advertisers and shoppers.

For those shoppers who do need a greater area of yellow page coverage, Pacific's present directory distribution practices allow them to request and receive free of charge directories for their areas of interest. For the minority of advertisers who require geographic coverage beyond the boundaries of the proposed new directories, there remains the option of subscribing to advertising in more than one of the proposed directories, albeit at somewhat higher cost than at present. We are persuaded that Pacific's proposed directory areas represent a much improved and more reasonable arrangement than the present directory areas which are based upon historical and outdated boundaries.

In general, any split of a large classified directory into two or more smaller directories will result in some paper savings, and often the savings will be significant. This is true because, in the case of one directory area split into two, even if all customers in the new areas require both new directories they will

have approximately the same number of pages as they did previously. Of course, not all customers will require or request both new directories and thus the paper savings. There will, however, be some offsetting effect due to businesses which choose to advertise in both new books.

Pacific has presented as Exhibits G and H to this application summaries of the expected paper savings due to the proposed rearrangements under both the present tariffs and the tariffs proposed by Pacific in its Application No. 57465. In each case, Pacific would need to print a greater number of smaller directories than at present, and the total number of pages, and thus paper usage would be less. Pacific claims that there would be a saving of 34 tons of paper (4%) without considering effects of the proposed rate increase in Application No. 57465.

We are persuaded that, in the case of the San Mateo County directory user, receiving a smaller yellow page directory with fewer unneeded listings would make that directory much more convenient and usable. Likewise, from the standpoint of the Palo Alto yellow page directory user, receiving a directory with listings which more completely cover his shopping area of interest would make that directory more convenient and usable. From the standpoint of the advertiser in any of the three proposed directory areas, when the user finds the directories more usable and convenient, the advertiser realizes more value from the ad.

Pacific's application details the number of utility telephone and network access lines in each of the existing and proposed directory areas. Under present tariffs, the San Mateo County directory is in rate group 19 and the Palo Alto directory is in group 17; for the proposed directories, Pacifica-San Bruno would be in group 14, Burlingame-San Carlos-San Mateo would be in group 17, and Menlo Park-Palo Alto-Redwood City would be in group 18.

Under the tariffs proposed by Pacific in Application No. 57465 and now before the Commission, the present San Mateo County directory would be in group 42 and the Palo Alto directory would be in group 30. This proposed rearrangement would put the Pacifica-San Bruno directory in group 28, and the Burlingame-San Carlos-San Mateo and Menlo Park-Palo Alto-Redwood City directories in group 35.

Thus, advertisers in the present San Mateo County directory who chose to advertise in only one of the proposed new directories would realize a reduction in their advertising charges and a reduction in their area of coverage with this proposed rearrangement. Advertisers in the present Palo Alto directory would realize an increase in their directory advertising charges and an enlargement in their directory area coverage.

Pacific states in the application that the rearrangements as proposed would have resulted in a \$359,000 increase in revenues and a \$205,000 increase in expenses for the 1978 issues under the present rates. Similarly, this rearrangement, together with the rate increase proposed in Pacific's Application No. 57465, would have caused an increase in revenues of \$1,233,000 and an increase in expenses of \$182,000 for the 1978 issues under the A-57465 proposed rates.

Pacific's tariffs 17-T (Exchange Telephone Service - Directory Listings) and 39-T (Classified Telephone Directory Advertising) provide that each business subscriber is entitled to one free Service Regular Listing (SRL) in the yellow pages. Under Pacific's proposed rearrangement plan, all business SRL's appearing in the existing San Mateo County directory would be included in each of the three proposed yellow page configurations with the exception of Daly City businesses' SRL's. Daly City would continue to be part of the San Francisco yellow pages area, and Daly City

businesses, most of which are in the San Francisco exchange and which now receive an additional SRL in the San Mateo County book, would henceforth receive that SRL in the Pacifica-San Bruno yellow pages. Businesses in the old Palo Alto directory area would receive an SRL in the proposed expanded Menlo Park-Palo Alto-Redwood City yellow pages, thus increasing their free coverage.

Pacific's application states that the white pages sections of the existing San Mateo County and Palo Alto directories would not be changed under this proposal. To accomplish this, Pacific would issue editions tailored to the location of the subscriber: Pacifica-San Bruno subscribers would receive the Pacifica-San Bruno yellow pages, bound together with the existing San Mateo County white pages and issued in April.

Burlingame-San Carlos-San Mateo subscribers would receive the Burlingame-San Carlos-San Mateo yellow pages, bound together with the existing San Mateo County white pages and issued in April.

Menlo Park-Redwood City-La Honda-Pescadero subscribers would receive the Menlo Park-Palo Alto-Redwood City yellow pages issued in March, and the existing San Mateo County white pages bound separately and issued in April.

Palo Alto subscribers would receive the Menlo Park-Palo Alto-Redwood City yellow pages, bound together with the existing Palo Alto white pages and issued in March.

Publication of the revised directories under this proposal would begin with the 1980 editions of each directory.

It is apparent from the preceding that Menlo Park-Redwood City-La Honda-Pescadero businesses which advertise in the April 1979 through March 1980 San Mateo County yellow pages will need to renew their advertising in the March 1980 Menlo Park-Palo Alto-Redwood City yellow page directory in order to have continuous coverage in their local areas, and thus they will of necessity have

advertising in both books during March 1980. Although some of these advertisers undoubtedly are targeting their ads at a wider area and would continue to receive value from the 1979 book, most are local advertisers and the value of their advertising in the 1979 San Mateo County yellow pages directory would be greatly diminished by its supersedure by the proposed new Menlo Park-Palo Alto-Redwood City directory. It would be unreasonable to charge them for their March 1980 advertising in the San Mateo County yellow page directory. Forgiveness of these charges is provided herein.

Most advertisers from the proposed Pacifica-San Bruno and Burlingame-San Carlos-San Mateo directory areas can be presumed to be targeting their advertising at their local areas or to San Mateo County as a whole. The value of their advertising would be much less diminished by one month's supersedure of a portion of the directory, and thus for them no special one-time adjustment of charges would be warranted.

Pacific's tariff 106-T (Alphabetical Telephone Directory Advertising) sets forth rates for white bold listings. In general, white bold listing rates for local advertisers are determined by the coverage and rate group of the local yellow page directory, even though the white page directory may be common to and cover the areas of two or more yellow page directories. For non-local advertisers, in contrast, the tariff rates for white bold listings are established by the rate group of the largest yellow page directory area served by those common white pages in which the white bold listing will appear. We believe this to be entirely proper for Pacific's present directories.

For this proposed rearrangement, however, such a method presents difficulties. As explained above, Menlo Park-Redwood City-La Honda-Pescadero subscribers will continue to receive white pages covering the existing San Mateo County directory area, while Palo Alto

subscribers will continue to receive white pages covering the existing Palo Alto directory area, although both will receive the same yellow page coverage. White page advertisers in the Palo Alto edition should have their rates based not upon the entire Menlo Park-Palo Alto-Redwood City yellow pages coverage, but rather upon the smaller Palo Alto portion of that area which their white pages listing reaches.

Similarly, white page local advertisers in the Menlo Park-Redwood City-La Honda-Pescadero area should have their rates based upon only that local coverage area rather than including Palo Alto circulation. White page advertisers from outside the area of the San Mateo County common white pages should continue to have their rates based upon the highest of the white page advertising rates of the three areas reached by their bold listing.

Letters of Protest

1. Thomas J. Hays

Thomas J. Hays, Executive Director of the California Moving and Storage Association, expressed concern that General Telephone Directory Company's newly introduced unregulated directories in Santa Clara County, along with Pacific's intention to rearrange and split directories in many areas, would increase advertising costs manyfold for his industry.

We must decline comment on the matter of General Telephone Directory Company's unregulated directory sales, as these are beyond our regulatory jurisdiction. We note that nowhere in his letter did Mr. Hays specifically refer to the proposed directory rearrangements contemplated by this application. It is clear that Mr. Hays' concern is not with this specific application, but rather with the general concept of splitting and rearranging Pacific's directories.

As noted in the preceding discussion, advertisers in the present San Mateo County directory who choose to advertise in only one of the proposed new directories would realize a reduction in their advertising charges and a reduction in their area of coverage with this proposed rearrangement. Advertisers in the present Palo Alto directory would realize an increase in their charges and an enlargement in their coverage. The moving and storage industry is apparently one which feels it must advertise more widely than in just one local directory, and thus would benefit from the lower per capita coverage cost offered by directories which cover as large an area as possible. We noted that there would no doubt be some advertisers for whom the present directory setup more closely parallels their needs than would the proposed rearrangements, but that they are at most a small minority and the proposed rearrangements would be an improvement for most advertisers and shoppers.

2. Shirley Hort

Shirley Hort of Millbrae protested the rearrangements on the basis that she shops in many other areas outside her proposed local directory boundaries; that this would be an inconvenience to the customer and a deprivation to small businesses that derive new business via the yellow pages; and that the present arrangement is necessary because there is no single newspaper that provides advertising coverage to the entire area.

In response to the first two of her points, we refer to Pacific's shopping habits matrix, Exhibit D to the application, which indicates that San Mateo-Burlingame-Millbrae residents on the average do 86% of their shopping within the proposed directory area, 7% more within the boundaries of the existing San Mateo and Palo Alto directory areas, and the remainder outside those areas.

Pacific does not dispute that a portion of directory users' shopping is done outside the proposed directory area boundaries; that is self-evident and supported by the shopping habits matrix. Pacific argues, and we agree, that the proposal would benefit most users and advertisers by eliminating many unneeded ads from businesses far removed from potential shoppers and allowing businesses to more accurately target their advertising. We also pointed out in our previous discussion the fact that the minority of shoppers who need a greater area of yellow page coverage may request and receive directories for their areas of interest without charge, and that the minority of advertisers who require greater geographic coverage still have the option of subscribing to advertising in more than one directory.

Ms. Hort's third point that there is no single newspaper that covers the entire area, if true, would be a further indication that there is little community of interest encompassing the entire area. We see little of relevance in this argument which would support maintaining the existing directory boundaries in light of the very persuasive arguments to the contrary.

3. Dr. and Mrs. Donald Belt

Dr. and Mrs. Donald Belt of Atherton protested the rearrangements on the grounds that the present San Mateo County directory is useful because it is comprehensive, and it would be necessary to hunt through two directory volumes if the proposal were authorized. They further noted that this appears to be an ill-disguised attempt by Pacific to generate more directory advertising revenues.

No reasonably sized directory, no matter how well arranged, can possibly cover all the shopping needs of all users. There will always be those very near the directory boundaries who require

additional coverage and others with special interests who need even wider coverage. The best we can hope for is to configure directories to serve the greatest number possible with a book of reasonable size. It is of special interest to note in this regard that the City of Atherton lies astride the present boundary between the San Mateo County and Palo Alto directories, and is split half into each directory. Atherton would lie near the center of the proposed Menlo Park-Palo Alto-Redwood City directory. It would be reasonable to conclude that fewer Atherton residents, not more, would need two directory volumes if the proposal were authorized.

With regard to Dr. and Mrs. Belt's second point, our decision herein does not hinge upon the revenue and expense effects of Pacific's proposal and we make no explicit finding as to their magnitude. We shall, however, take those effects into full consideration during the course of future rate making.

4. Attorney Edward A. Kent, Jr.

Attorney Edward A. Kent, Jr. of Palo Alto protested the proposal on the basis of increased charges. Mr. Kent states that he advertises in four books and this proposal would increase that number to six. He further states that the proposal would result in directory advertising cost increases to all small businesses and ultimately to their customers.

It is true that this proposal may cause some advertisers to increase the number of directories they advertise in by one, from one book to two, or from two to three. In these cases advertising charges will increase. As we have previously discussed, however, most businesses in Palo Alto, Redwood City or Menlo Park, for instance, do not draw an appreciable portion of their customers from distant parts of the directory areas. Palo Alto businesses which wish to reach potential customers in

adjacent Menlo Park or Redwood City must presently advertise in both the San Mateo County and Palo Alto directories. Under Pacific's proposal these advertisers could reach those areas at a significantly lower cost by advertising in just the proposed Menlo Park-Palo Alto-Redwood City yellow pages. If they require wider coverage they could choose any two of the three proposed directories and pay no more than at present, and in most cases less. We doubt that a large proportion of businesses advertise in four books as does Mr. Kent presently. We reject his contention that advertising charges will increase to all small businesses, or even more than a small fraction of them.

5. Fred Krinsky

Fred Krinsky of Ad Visor, Inc. put forth a protest on the general concept of splitting directories. He correctly points out that those businesses which must cover the entire directory area will incur higher advertising charges in a greater number of smaller directories. Mr. Krinsky offers to provide "... signatures of 25 or 2,500 persons ..." or whatever is necessary to ensure that this and other pending directory split proposals are brought to hearings. He further maintains that Pacific may have a duty to publish only wide area directories and leave the smaller directories to independent, non-regulated directory publishers.

Ad Visor has been offered the opportunity to address the general concept of directory splits in OII-5 currently being heard, and indeed has cross-examined staff and company witnesses extensively on that subject. We are here dealing with one specific directory reconfiguration proposal, not with the general concept, and have addressed the arguments for and against granting it. We believe the proposed rearrangements in this specific case to be in the best interests of the public as a whole, while recognizing that they may work to the disadvantage of some.

Mr. Krinsky mentions wide area directories and the smaller directories put out by independent publishers. We find no merit in any argument which maintains that the directories of a regulated telephone utility must be less than convenient as possible lest they inadvertently draw users and advertisers from non-regulated directories. Our conclusions in this matter rest in major part on the usefulness of the directories for the public and not the utility's ability to meet competition.

6. David L. Wilner

David L. Wilner of Consumers Lobby Against Monopolies (CLAM) opposed this application on the grounds that Pacific did not furnish notice to its advertisers and the Commission did not hold public hearings. He points to the competitive nature of the classified directory business and proposals seeking deregulation as factors supporting the need for public hearings. Mr. Wilner suggests that this application be consolidated with Pacific's Application No. 57465 for increased directory rates, which is currently before us.

Pacific has given adequate notice of the proposed directory rearrangements to all subscribers in the affected area by bill inserts and has published notices in local newspapers.

As we stated when addressing the protest of Ad Visor, Inc., our conclusions in this matter rest in major part on the usefulness of the directories and not upon the ability to meet competition. The proposals concerning deregulation to which Mr. Wilner refers are being considered in OII-5, and as we also noted in connection with Ad Visor's protest above, that is the proper forum in which to contest the general concept of directory rearrangements. We note that Mr. Wilner is an active party in that proceeding.

Pacific's Application No. 57465 was filed on July 20, 1977 and has been the subject of 19 days of hearing thus far. While we could consolidate this application with the earlier one as Mr. Wilner suggests, we see no advantage to doing so. On the contrary, to further burden that proceeding by consolidation with this amended application which was filed 13 months later would be unreasonable and unnecessary.

Letters of Support

1. Russell E. Mason

Russell E. Mason, Ph.D., of Portola Valley wrote in support of the application. He notes that the cities to be included in the proposed Menlo Park-Palo Alto-Redwood City yellow pages are one socio-economic unit. Dr. Mason recommends that Portola Valley, Woodside and Atherton be included in that directory, and suggests that San Carlos residents might well prefer inclusion.

Pacific's proposal incorporates Dr. Mason's suggestion of including Portola Valley, Woodside and Atherton in the proposed Menlo Park-Palo Alto-Redwood City directory. The shopping habits matrix indicates, however, that San Carlos is more closely associated with its neighbors to the north, and thus it has been properly included in the proposed Burlingame-San Carlos-San Mateo directory.

2. Roy Bradford, Jr.

Roy Bradford, Jr. of American National Insurance Company in Santa Clara also wrote in support of Pacific's proposal. Mr. Bradford states that he has lived over 50 years in Burlingame, San Mateo and Palo Alto and urges that the application be granted.

Public Hearings

Pacific has given notice of the proposed rearrangements to all subscribers in the affected area by bill inserts and has published notices in local newspapers. Only six protests and two supporting letters have been received from the hundreds of thousands of subscribers notified. We have addressed the main thrust of each of the protests and explained why they should not prohibit the ex parte approval of Pacific's request.

Under the circumstances, we conclude that no public hearing is necessary.

Findings

1. The San Mateo County and Palo Alto yellow page directories as presently constituted are based upon historical boundaries and do not reflect the present-day shopping habits of users or the coverage needs of most advertisers.
2. Pacific commissioned a study to determine the shopping habits of users and thus the advertising coverage needs of advertisers in these directory areas. This study indicates that the rearrangement of the San Mateo County and Palo Alto directories along lines similar to those proposed will result in directories which more closely match the shopping needs of customers and the advertising needs of businesses than do the present directories.

3. The resulting directories would be less bulky and more convenient for the user. The resulting directories would use less paper and thus promote conservation of that resource.

4. Under Pacific's present directory advertising tariffs 39-T and 106-T, present San Mateo County directory advertisers who choose to advertise in one of the proposed new directories would realize a reduction in their advertising charges from group 19 to group 14, 17, or 18 depending upon the directory chosen and a commensurate reduction in directory area coverage; present Palo Alto directory advertisers would realize an increase in their directory advertising charges from group 17 to group 18 and a commensurate enlargement in their directory area coverage.

5. Under Pacific's tariffs proposed in Application No. 57465, present advertisers in the San Mateo County directory who choose to advertise in one of the proposed new directories would realize a reduction in their advertising charges from group 42 to group 28 or group 35, depending upon the directory chosen, and a commensurate reduction in directory area coverage. Present advertisers in the Palo Alto directory would receive an increase in their advertising charges from group 30 to group 35 and a commensurate enlargement in their directory area coverage.

6. The 1979 San Mateo County directory would be used from April 1979 through March 1980. The proposed new Palo Alto yellow page directory would be published in March 1980. Thus, yellow page advertisers located in the existing San Mateo County directory area who are to be included in the proposed new Palo Alto directory area would be covered in both directories during March 1980. Since the value of their advertising in the 1979 San Mateo County directory would be greatly diminished by its supersedure by the proposed new Palo Alto directory covering their area, it would be unreasonable to charge these local advertisers for their March 1980 yellow page advertising in the 1979 San Mateo County directory.

7. For local advertisers, white page bold listing rates should be based upon coverage in the area common to the local yellow and white directory sections. For non-local advertisers, white page bold listing rates should continue to be based upon the highest local rates applicable within the area covered by the white listings.

8. Pacific's proposal to split the present yellow page sections of the San Mateo County and Palo Alto directories into three yellow page directories to be known as Pacifica-San Bruno yellow pages; Burlingame-San Carlos-San Mateo yellow pages, and Menlo Park-Palo Alto-Redwood City yellow pages, and to publish and distribute the three new directories in March and April of 1980, the normal publication dates of the existing Palo Alto and San Mateo County directories, is reasonable and should be approved.

9. No public hearing is necessary.

O R D E R

IT IS ORDERED that:

1. The Pacific Telephone and Telegraph Company (Pacific) is authorized to split the present yellow pages sections of the San Mateo County and Palo Alto directories into three yellow page directories to be known as Pacifica-San Bruno yellow pages, Burlingame-San Carlos-San Mateo yellow pages, and Menlo Park-Palo Alto-Redwood City yellow pages, and to publish and distribute the three new directories in March and April of 1980. Pacific is authorized to file and make effective in accordance with General Order No. 96-A revisions to its alphabetical and classified directory advertising tariffs to reflect these changes.

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2. Charges for yellow page advertising in the San Mateo County directory for March 1980 shall be forgiven for advertisers located in the existing San Mateo County directory area who are to be included in the new Menlo Park-Palo Alto-Redwood City directory area, due to one month of advertising duplication.

3. For local advertisers, Pacific shall charge white page bold listing rates based upon circulation in the area common to the local yellow and white page directory sections. For non-local advertisers, Pacific shall charge white bold listing rates based upon the highest local rates applicable within the area covered by the white pages.

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

Dated at San Francisco, California, this
12th day of DECEMBER, 1978.

Robert Behrman
President
William J. Jensen Jr.
Veron P. Stinson
Richard D. Howell
Walter T. Smith
Commissioners