

(Decision No. 73263)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * *

RE: INVESTIGATION AND SUSPENSION OF)
PROPOSED CHANGES IN TARIFF--COLORADO)
PUC NO. 5, MOUNTAIN STATES TELEPHONE)
AND TELEGRAPH COMPANY, 930 - 15TH)
STREET, DENVER, COLORADO, FILED)
PURSUANT TO THIS COMMISSION'S)
DECISION NO. 72921, DATED APRIL 28,)
1969.)

INVESTIGATION AND SUSPENSION

DOCKET NO. 636

July 18, 1969

Appearances: Akolt, Shepherd, Dick & Rovira, Esqs.,
Denver, Colorado, by
Luis D. Rovira, Esq., Denver, Colorado,
and
Denis G. Stack, Esq., Denver, Colorado,
for Mountain States Telephone and
Telegraph Company;
Joseph F. Nigro, Esq., Denver, Colorado,
for Telephone Answering Service of
the Mountain States, Inc., and
Telephone Answering Service, Inc.,
Protestants;
H. L. Thurtell, Esq., Denver, Colorado,
Hart T. Mankin, Esq., Denver, Colorado,
Leonard M. Shinn, Esq., Denver, Colorado,
Iris Bell, Esq., Denver, Colorado, and
Marvin H. Morse, Esq., Denver, Colorado,
for the General Services Administration
and Executive Agencies of the United States;
John P. Holloway, Esq., Boulder, Colorado, by
Eric W. Jorgenson, Boulder, Colorado, for
the Board of Regents of the University
of Colorado;
Carl J. Rite, Denver, Colorado, of
Control, Inc., pro se;
Leonard M. Campbell, Esq., Denver, Colorado,
and
Ken Bueche, Esq., Boulder, Colorado,
for the Colorado Municipal League;
C. Hamilton Evans, Denver, Colorado,
for Colorado-Wyoming Hotel Association
and Greater Denver Hotel Association;
Girts Krumins, Esq., Denver, Colorado,
for the Staff of the Commission.

S T A T E M E N T

BY THE COMMISSION:

The Commission, by Decision No. 72921, permanently suspended and ordered to remain permanently ineffective tariff revisions filed by Mountain States Telephone and Telegraph Company (Company) pursuant to Commission Decision No. 72385 of January 7, 1969. It further ordered the Company, inter alia, to file a new Rate Schedule in conformity with the Findings of Decision No. 72921, such rates to raise the revenues authorized in Decision No. 72385 and to be just and reasonable and not unjustly discriminatory; and that an appropriate Advice Letter should be attached to the revised filing, in accordance with Rule No. 20 of the Rules of Practice and Procedure before the Public Utilities Commission of the State of Colorado, setting forth in detail the changes proposed, the revenue effect of each change and the percent increase or decrease involved for each such change.

Pursuant to said Order of the Commission, the Company filed on May 29, 1969, its Advice Letter No. 507 accompanied by a new schedule of rates, rules and regulations consisting of approximately 447 new or revised tariff sheets to become effective July 1, 1969, hereinafter sometimes referred to as Proposed Rate Schedule.

Pursuant to Commission Decision No. 73079 of May 29, 1969, entered by the Commission on its own motion, the effective date of said Proposed Rate Schedule was suspended and the matter set for a hearing before the Commission at 10 o'clock a.m. on June 16, 1969, in the Commission Hearing Room, 507 Columbine Building, 1845 Sherman Street, Denver, Colorado, all of which is more fully set out in said decision.

Formal protests were duly entered by the Regents of the University of Colorado, by the Telephone Answering Service of the Mountain States, Inc. and Telephone Answering Service, Inc.

At the time and place set forth above, pursuant to proper notice to all interested parties, the matter was duly heard by the Commission, and,

at the conclusion of the hearing, the matter was taken under advisement.

Exhibits 1 through 19 were received in evidence. Applicant's Exhibit No. 1, which is the Proposed Rate Schedule, was slightly modified during the hearing by Exhibit No. 3.

Decision No. 72385 of the Commission authorized the Company to file new rate schedules to raise additional revenues as follows:

- a. \$3,745,004 to offset the 10% federal income tax surcharge.
- b. \$2,133,957 to augment the Company's earnings in order that it might realize a fair return.

The combined authorization amounts to approximately 4.85% increase in overall revenues and is based upon 1967 test year. In many cases, the proposed rates involve increases substantially in excess of the overall percentage increase. The Company has, however, by adequate evidence shown the necessity for such action, usually because of the cost of service (revenue requirements) involved in each particular case. In many cases, however, such as toll diversion, secretarial boards and other services, the impact to the customers involved if rates were raised to the full revenue requirements would be so severe that the Company has proposed an intermediate step. Generally speaking, the Company's position with respect to the Proposed Rate Schedule has been that increases must be minimized upon basic services while other services that might be termed as "luxury", "vertical", or "premium" services should bear the full cost burden. The Commission generally agrees with this principle. We also recognize that customer impact cannot be too severe or serious dislocations will occur; and that it is not always easy to define a "luxury" service.

Some of the highlights of the Proposed Rate Schedule which have, incidentally, also aroused protests as they affect particular customers are:

1. Packaging of PBX and multi-line or key telephone services. At the present time many items connected with PBX or key equipment are rated on a "hardware" basis, i.e., the various components of the system

are charged separately, such as switches, buttons, selectors, connectors, lights, etc. The proposed "packaging" by the Company will simplify this schedule and make it more understandable to customers and, in our opinion, will provide better service without penalizing the customer who does not always have the requisite knowledge to economize in his selections. It is equally true, however, that such packaging will have different effects on different customers. Some will receive increases while others will receive decreases. This situation is unavoidable but, in our view, is necessary and reasonable. The customers involved who now receive the services to be packaged may be entitled, without additional charge, to certain services they do not now receive. In these situations the customers should have reasonable opportunity to obtain the additional services without an installation charge. Also, in packaging PBX services, as well as in certain other areas, the Company undertakes to provide the equipment necessary to provide an acceptable level of service without the customer being charged for each specific hardware item that may be necessary to provide such service. The tariff, however, in several instances states that these requirements will be determined by the Company and that if the customer requests additional facilities that are considered unnecessary by the Company, he will be assessed additional, sometimes unspecified, charges. We feel that this provision should be corrected to provide for an objective test of adequacy rather than the subjective opinion of the Company.

2. The multi-party services, generally, receive almost no increase, and many of them will get decreases. This too is appropriate in our view as, generally speaking, these services are used by people to whom the better grade of service is not available or the costs involved are unacceptable.

3. The proposed ten-group classification of exchanges appears to be equitable. As might be expected, exchanges including cities of recent rapid growth may receive proportionally larger increases after regrouping. A classification in a lesser number of groups would

necessarily result in a more severe impact to subscribers in some such exchanges.

4. Specific rate items to which protests were directed, such as toll diversion, PBX extensions and secretarial boards, received substantial increases but were properly and adequately justified by testimony of Company witnesses and by the exhibits introduced.

5. Reduction of one-time charges for color and princess telephones and elimination of one-time charges for 9-foot cords is justified, as the costs involved do not warrant the existing charges any longer. The primary purpose of extra charges for these items is and has been for inventory control purposes. These costs have served their purpose well, but no need exists to continue them at present levels.

6. The rate increase in connection with the 10% federal income tax surcharge is equitably distributed over most of the local service revenue.

7. Intrastate toll receives a small increase while the times for "bargain" calling in the evening and night are made to conform with the interstate schedule. This is most appropriate.

The University of Colorado bases its protest mainly on the fact that it would receive a rate increase (exclusive of the surcharge increment) of 5.9%, or about three times the average increase of 1.78%. It should be noted that this includes only the Boulder Campus, which appears to have a rather high station to trunk ratio. This may or may not be the case if other campuses of the University were included. Also, this computation of the percentage does not consider intrastate toll charges.

One of the reasons why certain subscribers will experience larger rate changes than others arises from the fact that 54 exchanges are now out of the proper rate group. No adjustments in this regard have been made since 1954. The Company, therefore, has suggested in this filing that it will apply to the Commission for a change in rates to the subscribers in any exchange after such exchange has been out of group by at

least 5% for at least six months. The Commission feels this is appropriate; however, such applications should be consolidated and not made more than once each year so that all the changes proposed in any given year can be considered by the Commission at one time coincidental with its program of continued surveillance regarding the Company's earnings.

Two public witnesses testified with respect to exchange boundaries involving Erie and Elbert exchanges.

The Company advanced no adequate justification for freezing the measured PBX service as proposed, nor did the Company support its proposal to freeze the offering of certain manual Private Branch Exchange Switchboards, now subject to availability "from existing stock only."

F I N D I N G S

THE COMMISSION FINDS THAT:

1. Mountain States Telephone and Telegraph Company is a public utility subject to the jurisdiction of the Commission with respect to its Colorado intrastate operations, and the subject matter of this proceeding is within the jurisdiction of the Commission.
2. The Proposed Rate Schedule will provide additional revenues to the Company not in excess of the revenues authorized by our Decision No. 72385.
3. The Commission is fully advised in the premises, and the above Statement is incorporated in these Findings by reference.
4. The provision in the Proposed Rate Schedule that measured PBX will be frozen to existing customers is unjustly discriminatory and should be corrected to make this service available to both existing and new customers. Likewise, the provision that certain manual PBX installations no longer manufactured "will be maintained for existing subscribers only until such time as the subscriber disconnects, changes location or subscribes to another type of service" is unjustly discriminatory and should be removed from the Proposed Rate Schedule.

5. The tariff provisions of the Proposed Rate Schedule relating to the determination by the Company of the equipment necessary for adequate service should be changed, in conformance with the Statement above, to provide for an objective test of adequacy.

6. The proposed Metro-Pac offering is of an experimental nature and should be made an experimental offering for a period of not to exceed one year in the five exchanges now included; namely, Erie, Bailey, Elizabeth, Longmont and Fort Lupton. Before expiration of this experimental offering, the Commission should be advised as to the success or failure thereof, and if successful and meeting with customer acceptance, this offering should then be made available to all of the exchanges in the State of Colorado not later than 18 months from the effective date of this Order.

7. The Proposed Rate Schedule, after corrections as discussed in Findings Nos. 4, 5 and 6 above, does and will provide for rates and charges that are just, reasonable and not unjustly discriminatory, and should be permitted to become effective when so corrected upon not less than one day's notice to the Commission.

8. The study of exchange boundaries, as provided for in our Order and Decision No. 72921, shall specifically include the Erie exchange and that part of Douglas County that is in part of the Elbert exchange.

9. Customers now using telephone services that will be involved in packaging, as set forth in the Proposed Rate Schedule, should have reasonable opportunity to obtain additional services included in the package at no installation charge, and that the provisions of the Order hereinbelow will provide such reasonable opportunity.

10. The Proposed Rate Schedule is in conformance with our Decision No. 72921, except as noted herein.

O R D E R

THE COMMISSION ORDERS THAT:

1. The Proposed Rate Schedule, when corrected and modified in

accordance with the Findings herein, be, and hereby is, permitted to become effective upon not less than one day's notice to the Commission.

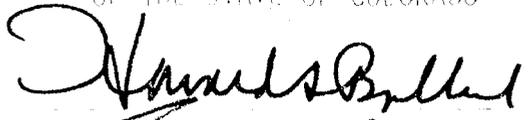
2. The study of the exchange boundaries previously ordered shall specifically include the Erie exchange and those parts of the Elbert exchange which are located in Douglas County, Colorado.

3. The Company shall within a reasonable time contact or notify all customers who, under the Proposed Rate Schedule and the packaging of PBX and multi-line services provided thereunder, would be entitled to additional services without an increase in rates, and shall advise the Commission in writing of the date such contacts have been completed within three days of such date. The customers involved shall have the option to obtain such additional services without paying any installation charge, and such option shall extend for not less than 60 days after the date all of the contacts as provided herein have been completed. Any customer desiring such additional services who shall notify the Company before the date such option expires shall within a reasonable time receive such additional services without installation charges.

4. The Company shall make an appropriate filing with the Commission, not oftener than once each year, requesting rate adjustments for exchanges that have moved out of their group by more than 5% for a period of more than six months; such filing shall not be made before May 1 of any calendar year, starting with the calendar year 1970. The Company shall also file with the Commission, on or before February 15, 1970, and each year thereafter, a schedule showing the number of terminals in each exchange as of the last day of the previous calendar year.

This Order shall be effective forthwith.

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO



COMMISSIONER

QUALIFIED TO FILE A PETITION FOR RECONSIDERATION

Filed in the Office of the Secretary of State
this 12th day of February, 1970.

CHAIRMAN HENRY E. ZARLENGO DISSENTING.

I respectfully dissent to the charges approved for all groups receiving 8-party residential service.

The concept of the value of service is based on the theory that the service to a subscriber increases in value as the number of potentially callable terminals or stations increases. The theory itself postulates that the more terminals or stations a subscriber may call, or be called from, the more will his phone be used, and, therefore, the more valuable is the service to him. Bearing in mind, however, that only one line serves 8 subscribers, it is obvious that the more, use of the line is made by his 7 co-subscribers, the less will his phone be actually available for his own use. The theory, as here applied, disregards the fact that as the number of potentially callable terminals or stations increases the subscriber to an 8-party residential service actually suffers a decrease in the availability of the use of his phone for outgoing and incoming calls which offsets any theoretical increase in value of the service by virtue of having more potentially callable terminals or stations. Of what greater value is it to have hundreds, and even thousands, of potentially callable terminals or stations added if by the very fact of such addition the availability for use of his phone to any one subscriber is actually decreased?

Mr. Watson, a recognized rate expert, testified as follows, to-wit:

"Q. You heard my questions to Mr. O'Boyle about the 8-party service?

A. Yes I did.

Q. Would you care to comment as an expert whether or not the advantages of increasing the number of callable phones to a subscriber on an 8-party line -- whether the advantages are equal to, greater than, or less than the disadvantages resulting from the consequent less opportunity to have the line available for his use.

A. I am strongly of the opinion that any broadening of the local calling area would deteriorate 8-party service below the point of reasonable service, so from this it would be my opinion that whatever value comes from broadening the local calling area would be more than negated by the deterioration of the service itself.

Q. In other words, then it would work in reverse?

A. That would be my opinion "

It is obvious that this deterioration in service is real and actual and that such deterioration, if not more than, at the very least offsets any theoretical enhancement in the value of the service predicated on the addition of more terminals or stations.

With respect to 8-party residential service, I would approve of the proposed charge for group 1 of \$2.50 monthly for all 10 groups and would disapprove as unjust, unreasonable and discriminatory any increases as proposed.


Chairman

Dated at Denver, Colorado,
this 18th day of July, 1969.
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