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# Rural Telephone Service in California: The Impact of AT&T's Breakup and Related Regulatory Decisions

Assembly Committee on Utilities and Commerce

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Interim Hearing  
of  
Assembly Utilities and Commerce Committee

RURAL TELEPHONE SERVICE IN CALIFORNIA:  
THE IMPACT OF AT&T'S BREAKUP AND  
RELATED REGULATORY DECISIONS



State Office Building  
2550 Mariposa Mall  
Fresno, California

October 3, 1983

CHAIRWOMAN: Assemblywoman Gwen Moore

Thurman White and Robert Jacobson, Committee Consultants

Yvonne Wilson, Committee Secretary

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1984  
no. 1

No. 055-A

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Bruce Bronzan  
Vice Chairman  
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Mike Roos  
Byron Sher  
Cathie Wright



**California Legislature**

**Assembly Committee  
on  
Utilities and Commerce**

**GWEN MOORE**

**CHAIRWOMAN**

**MEMBER OF THE ASSEMBLY  
FORTY-NINTH DISTRICT**

**Fresno, October 3, 1983**

**RURAL TELEPHONE SERVICE:  
THE IMPACT OF AT&T'S BREAKUP AND RELATED REGULATORY DECISIONS**

**Agenda**

- I. Introduction: Assemblwoman Gwen Moore, Chairwoman  
Assemblyman Bruce Bronzan, Vice-Chairman
- II. Invited Speakers

**Public Utilities Commission**

**Mr. Dean Evans  
Communications Division**

**Telephone Companies**

**Mr. Norman J. Phillips  
General Manager, Northern District  
Pacific Telephone Company**

**Mr. Tom Quaintance  
Revenues Director  
General Telephone Company**

**Mr. W.P. Ewing  
General Manager  
Ponderosa Telephone Company**

**Mr. William G. Sebastian  
President  
Kerman Telephone Company**

**STAFF**

**Thurman White  
Principal Consultant**

**Bob Jacobson  
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**Yvonne Wilson  
Committee Secretary**

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Rural Community Representatives

Representative, County of Fresno

Representative, City of Fresno

Mayor, City of Orange Cove

Ms. Diane Oren  
Older Americans Organization  
Fresno, California

Representative, Displaced Homemakers  
Fresno, California

III. Public Testimony

(Individuals With Prior Requests  
To Address the Committee)

Earl Goss  
Clyde Jones  
Rudy Lopez  
Ann B. Maris  
Florence Smith  
Margie Wilson

IV. Adjournment



#### MEMBERS

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85-1-412



# California Legislature

## Assembly Committee on Utilities and Commerce

GWEN MOORE  
CHAIRWOMAN  
MEMBER OF THE ASSEMBLY  
FORTY-NINTH DISTRICT

Fresno, October 3, 1983

### RURAL TELEPHONE SERVICE: THE IMPACT OF AT&T'S BREAKUP AND RELATED REGULATORY DECISIONS

#### Background

On February 14, 1983, the Utilities and Commerce Committee held an informational hearing in Sacramento to investigate the issue of "Telephone Deregulation." Fourteen witnesses spoke to likely consequences of the impending breakup of AT&T -- to be finalized on January 1, 1984 -- and associated rulings of the Federal Communications Commission (FCC).

#### The Committee identified six important possible outcomes:

- (1) The viability of California's local telephone companies may be in jeopardy.
- (2) California can expect to pay substantially higher rates (150%+ of current rates) for local telephone service beginning in 1984.
- (3) Many Californians may be forced to do without accustomed telephone service.
- (4) California's unified telephone network is being fragmented, causing concern for the integrity of the system.
- (5) Federal action is circumscribing Public Utilities Commission jurisdiction.
- (6) The state's economy may undergo significant shocks as it responds to turbulence in the telecommunications industry.

#### STAFF

Thurman White  
Principal Consultant

Bob Jacobson  
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These issues take on special urgency in the rural context. California's rural communities are especially dependent on telecommunications for the conduct of their economic, civic, and social life. If uncertainties affect the provision of telephone service or the state loses its ability to regulate telephone service, as it has the provision of air and bus transportation, there could be severe repercussions for rural telephone service.

### The Rural Telephone Environment

Nearly 75 percent of all Californians receive telephone service, both local and long distance, from Pacific Telephone Co. The remaining 25 percent receive service from one of 24 independent telephone companies, the largest of which are General Telephone Co. (4,168,844 subscribers) and Continental Telephone Co. (290,814 subscribers). The smallest independent telephone company is Pinnacles Telephone Co. (250 subscribers).

Most of the independent telephone companies have modern facilities that are fully compatible with other systems. Although some independents provide long distance service, most use the Pacific Telephone and AT&T networks for long distance connections.

Providing rural telephone service is expensive. With the exception of General Telephone Co., the independent telephone companies serve mainly rural markets -- 50 percent of California's geography. (See Chart 1.) While the density of General Telephone's service area is approximately 375 telephones per square mile, the density of the typical rural-based independent's service area is only about 14 telephones per square mile. Low population density and the high capital cost of serving spread-out agricultural populations and rugged mountain areas are two primary reasons for the high cost of providing rural telephone service in California.

This high cost has been set off, in the past, by subsidies provided from long distance and urban services. These subsidies may not be continued in the future.

With this background, the hearing will focus on the impact of the AT&T breakup and related regulatory decisions on rural telephone service.

## Issues

### I. Establishing Local Access and Transport Areas (LATA's)

Pursuant to the AT&T antitrust settlement, Pacific Telephone's existing service area has been divided into 10 geographic zones termed "Local Access and Transport Areas," or LATA's. (See Chart 2.)

Beginning in 1984, calls between the LATA's, or "inter-LATA" long distance calls, will be handled by competitive long distance carriers such as AT&T, MCI, Sprint and others. Calls within the LATAs, or "intra-LATA" long distance calls, will continue to be handled by Pacific Telephone. The Public Utilities Commission (PUC) will soon determine whether the inter-LATA long distance carriers may also offer their services within the LATA's designed for Pacific Telephone (see below, Issue II-B).

The judge's decision in U.S. v. A.T.&T. did not indicate if or how independent telephone companies were to be included in the LATA's. If customers of independent telephone companies are not integrated, in a non-discriminatory fashion, into the restructured national telephone system, they could face some difficulty in accessing inter-LATA and intra-LATA services.

#### Questions of interest to the committee are:

- How do the independent telephone companies fit into the post-divestiture LATA scheme?
- What effect, if any, will these new arrangements have on rural telephone service?
- Assuming an independent telephone company wanted to join a LATA grouping, what would it be required to do?

### II. Shaping the Competitive Marketplace

A. Telephone Equipment. The separation of Pacific Telephone from the Bell System, required by settlement of U.S. v. A.T.&T., allows Pacific to reenter the equipment marketplace from which it was barred by an earlier FCC ruling. This earlier ruling prohibited AT&T and its subsidiaries from simultaneously providing monopoly telephone service and selling telephone equipment. Separated from AT&T, Pacific is no longer bound by the strictures of Computer II.

Independent telephone companies were never constrained by Computer II. The parent companies of California's two largest independents, General Telephone Co (GTE Corp.) and Continental

Telephone Co. (CONTEL, Inc.), have been and are now selling residential telephone equipment and interconnect (business) telephone systems in California.

Questions of interest to the committee are:

- How will this new marketplace serve telephone customers in rural regions of the state? Will they be attractive prospects to vendors of state-of-the-art technology?
- Will smaller independents continue to have access to state-of-the-art technology? Who will provide this technology?
- What are the advantages of so-called "measured service" technologies for telephone companies or their customers? Can the PUC require independent telephone companies to install these technologies without imposing crushing debt burdens on the companies and excessive rates on their customers?
- Will smaller independent telephone companies be able to compete in this marketplace? If not, will their revenues be affected by sales to their customers by outside vendors?
- Will the integration of externally-produced equipment affect the quality of telephone service to rural customers, now that there will be no single "AT&T standard" against which to test new equipment offerings?

B. Telephone Service. Competition to provide telephone service between the LATA districts created by U.S. v. A.T.&T. will begin in 1984. (See Article 1, attached.) Customers will be able to select among competing inter-LATA carriers -- for example, among AT&T, MCI, Sprint, and others -- to make calls between areas served by local telephone companies.

The Public Utilities Commission, in OII 83-02-01, is considering whether to permit competition within the LATA districts. For example, MCI or Sprint, as "intra-LATA" carriers, might be allowed to offer service in competition with Pacific and other existing telephone companies. PUC staff has recommended that competition be allowed under certain conditions.

Pacific Telephone, General Telephone, and other opponents of competition within LATA's contend that one likely outcome of intra-LATA competition will be "cost-based pricing" -- that is, telephone companies charging for each service exactly what it costs to provide. Under a cost-based pricing regime, rural

customers would pay extremely high charges for telephone service since competition would prevent telephone companies from charging long distance and urban customers higher-than-true-cost rates to subsidize rural service. Opponents of competition cite the results of airline and bus deregulation -- fewer, more expensive flights and bus routes to rural destinations -- as an example of what might happen to rural telephone service in a competitive environment.

Additionally, employees of currently non-competitive telephone companies claim service will suffer if competition drives down wages and better qualified workers leave their jobs.

MCI, Sprint, and other proponents of competition argue that urban customers should never have been forced to subsidize rural customers in the first place. If service to rural customers is deemed socially important, they maintain, taxes or other subsidies should be provided by the state to fund rural service. They also claim intra-LATA carriers will eventually serve the entire state, including rural areas; it is only a matter of time until they build up sufficient capital to finance more extensive systems serving rural customers. In a competitive marketplace, they believe, prices will fall and services improve for everyone.

Questions of interest to the committee are:

- What are the economic and social advantages or disadvantages of competition between LATA's, from the perspective of rural customers and the telephone companies now serving them?
- What are the economic and social advantages or disadvantages of competition within LATA's?
- Have rural interests been sufficiently represented before the PUC in its deliberations? Who should represent the rural telephone ratepayers?
- How can service be preserved or enhanced within rural areas, and extended to areas currently unserved by existing telephone companies?

### III. State and Federal Legislative Developments

A. State Legislation. With the signing into law last week of the Moore Universal Service Telephone Act (AB 1348) this year, the state took a major step toward guaranteeing available telephone service for all Californians. AB 1348 provides that as of July 1, 1984, every telephone corporation in the state will provide a "universal category" of telephone service. The PUC, after holding public hearings, is to define "universal service" and specify qualifications for its receipt on or before May 1, 1984. Included among factors the PUC is to take into account when defining the new category of service is the cost of providing service to different parts of the state.

The Legislature also passed AB 1424 (Moore), AB 1425 (Moore), and AB 2064 (Peace and Moore) to provide consumers and policymakers with information regarding current and future telephone service. These laws require, among other things, the provision of consumer information in the telephone service and equipment markets.

According to the National Conference of State Legislatures and the National Governors' Association, California is the only state to have seriously addressed the telephone issues being discussed today. In a rapidly changing, often turbulent regulatory and technological environment, the Legislature may wish to take further actions to protect California's telephone customers.

B. Federal Legislation. Faced with adverse consumer reaction to news of impending rate hikes, both the Senate and the House are now considering bills to reverse the Federal Communications Commission's highly unpopular "Access Charge" ruling. (See Article 2, attached.) Issued in December 1982, this decision will take effect in 1984 unless overturned by Congress. It will replace subsidies built into long distance charges with local "access charges" imposed on every residential and business customer. Though long distance rates may then be reduced, local rates will certainly rise by several dollars each month (\$2-8 for residential lines, \$4-8 for each business line).

Because relatively few telephone customers make a large proportion of long distance calls, the access charges imposed by the FCC generally would be "regressive" -- that is, smaller customers would pay a larger share of costs associated with maintaining the national telephone network. The National Federation of Independent Business believes small businesses would be hurt the worst by this decision: while their access charge assessments would be larger than residential users', as infrequent users of long distance service they would reap few benefits from falling long distance rates. The same might be true of small agricultural enterprises.

Though the FCC would create a "Universal Service Fund" to support telephone service in high-cost regions, the estimated \$500 million annually contributed to the fund would not offset the billions of dollars of local subsidies lost -- in California, a several-billion dollar loss -- each year.

Strong lobbying by AT&T and large long distance customers who stand to benefit from the "Access Charge" decision may prevent Congress from passing compromise legislation before its January 1, 1984, deadline. In that case, the FCC's "Access Charge" rule immediately would go into effect. Even if it succeeds, the federal legislation does not deal with the larger problem of reconstructing the national telephone system so that customers in rural areas are not penalized by higher rates or termination of telephone service.

Questions of interest to the committee are:

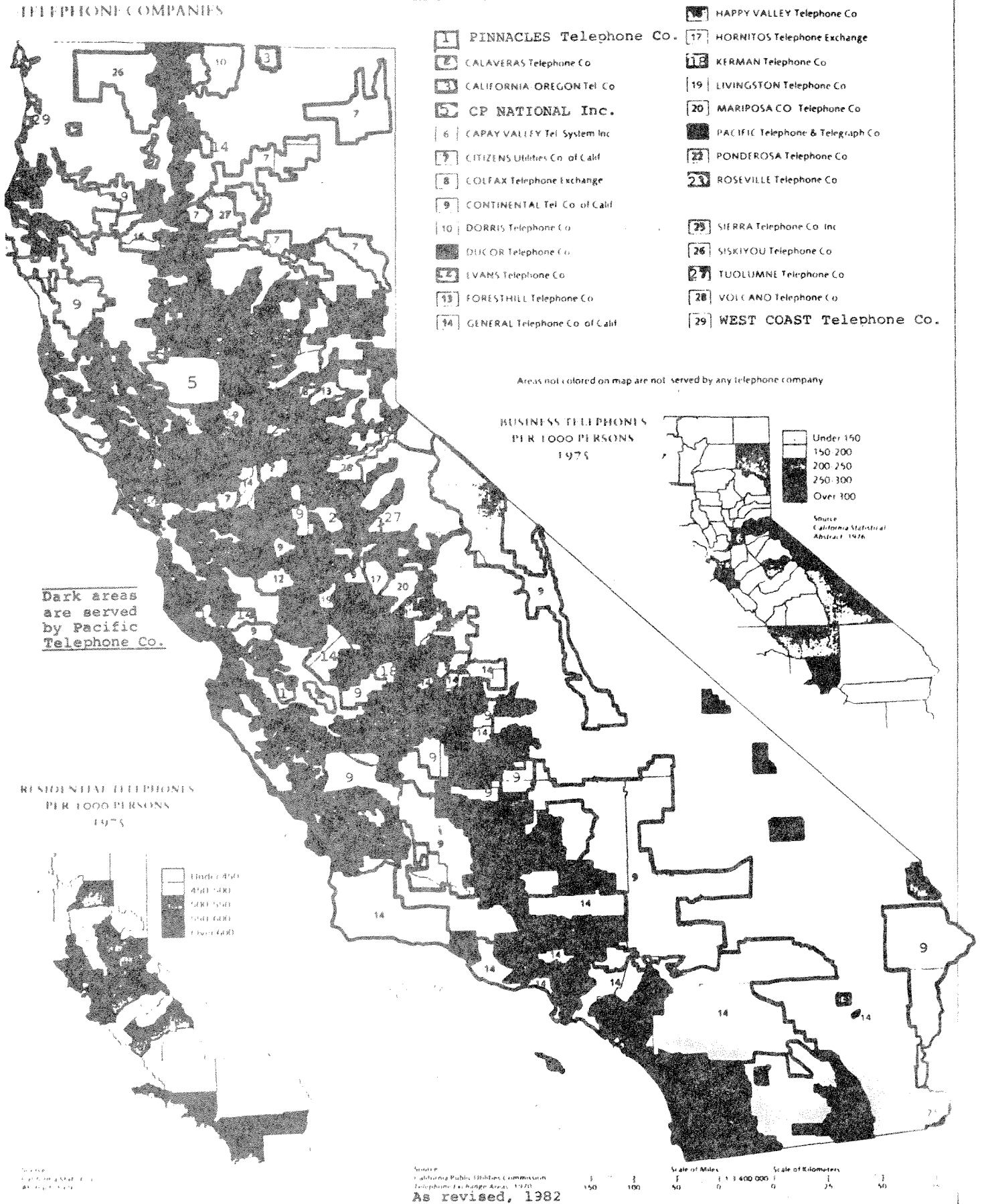
- How best might AB 1348 be implemented to ensure the continuing availability of high-quality, affordable telephone service for rural telephone customers hit by large rate increases?
- What might be the impact on rural telephone service of federal legislation currently being debated in Congress?
- What events should trigger legislative concern in Sacramento and what further steps should be taken by the Legislature so that rural Californians continue to receive high-quality, reasonably priced telephone service?

Thurman White  
Robert Jacobson  
Consultants

October 3, 1983

# OPERATING AREAS of CALIFORNIA TELEPHONE COMPANIES

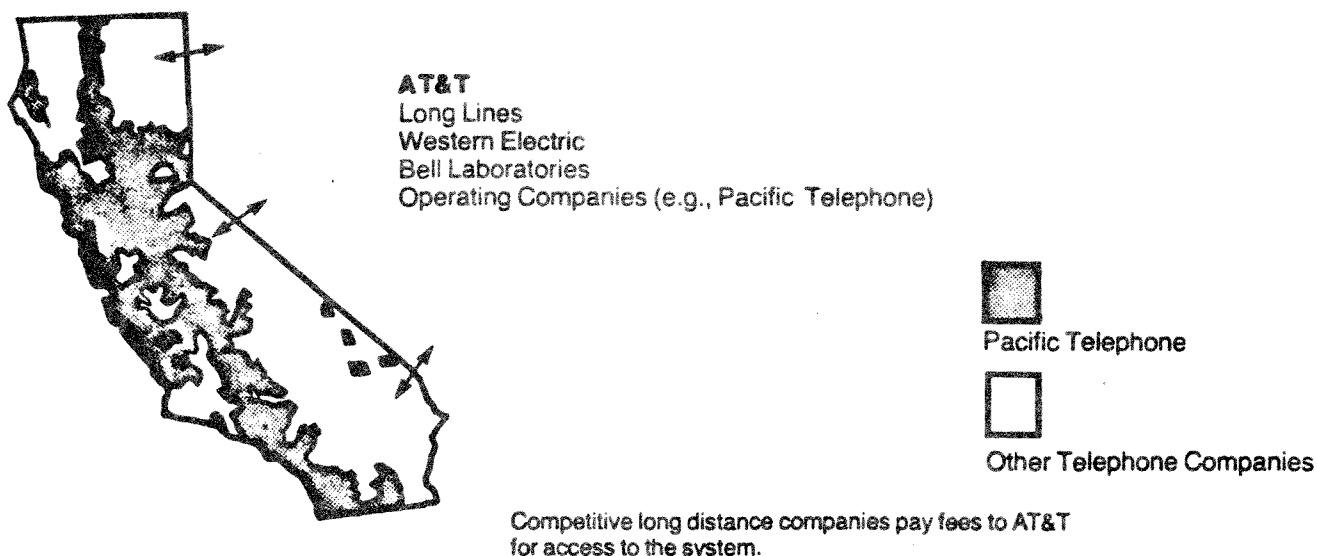
CHART 1



(Source: Atlas of California, Donley et al.,  
Portland: Academic Book Center, 1979.)

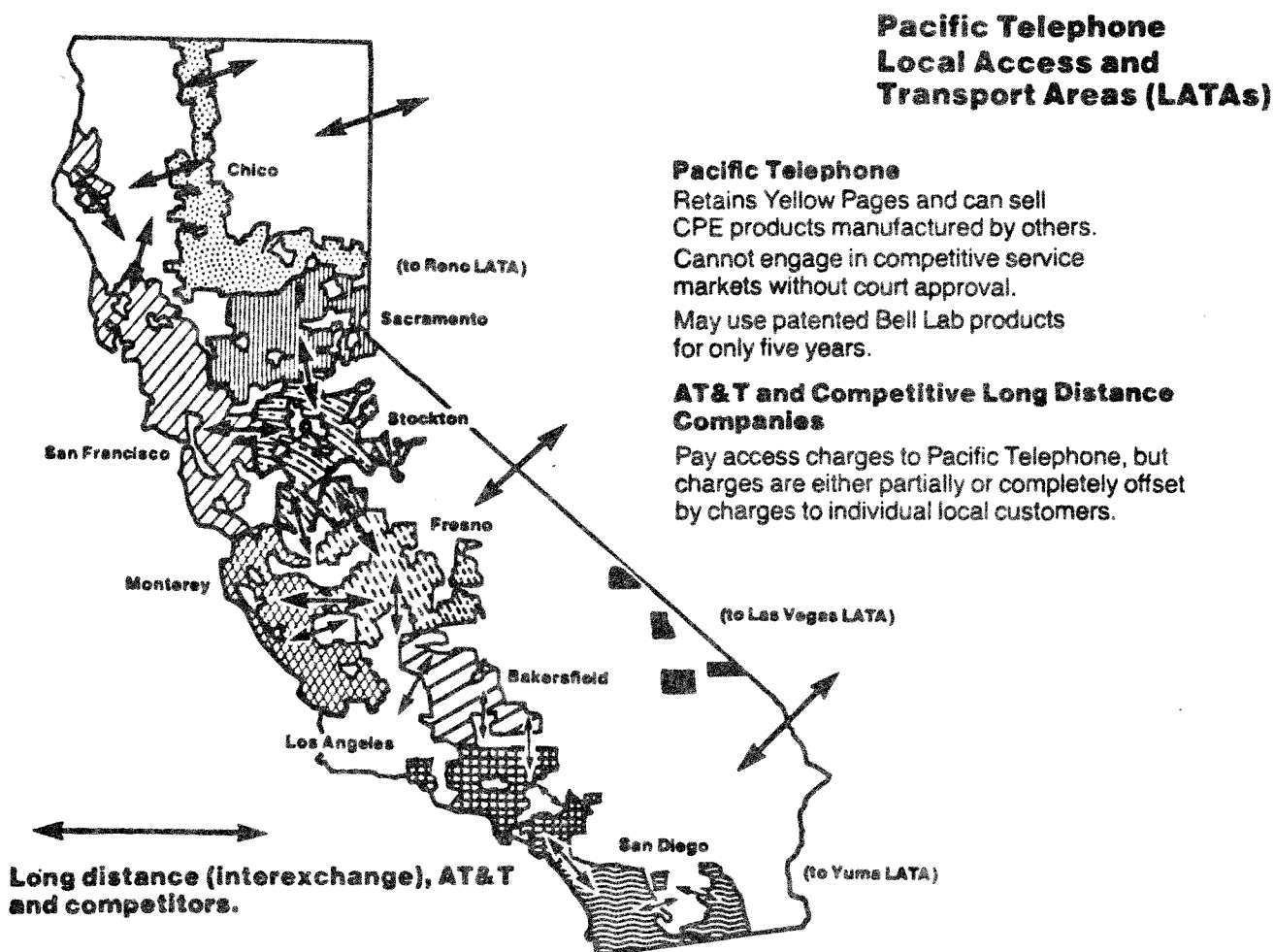


**1983 Before the Settlement (U.S. v. A.T. & T.)**



**1984**

**After the Settlement**



Source: AT&T 1982

## Your Money Matters

# Phone Users Soon May Get Three Bills a Month, Pay Time and Distance Charges on Local Calls

By JAMES A. WHITE

Staff Reporter of THE WALL STREET JOURNAL

Say goodbye to plain old telephone service. Using the phone, and paying for it, are getting a lot more complicated.

Changes that will affect many phone users include possibly receiving three monthly bills instead of one, dialing four extra digits for long-distance calls, and revamped charges for local calls to take into account time and distance, much the way long-distance calls are billed today. Local rates for nearly all phone subscribers, which include 98% of U.S. households, are due to rise substantially over the next few years. And there is the hope, though no guarantee, of some savings on long-distance calls.

Changes already in effect, such as freeing customers to buy their own phones, have left many consumers confused. More confusion is booming as the inevitable result of altering the ways that people have done business with the phone company for years. "Some changes are great in giving you more choices, but people are so used to 'one call gets you all' from the phone company that a lot aren't going to get the message about the different ways to do things," says Lee Richardson, vice president of the Consumer Federation of America.

Amid the confusion are more opportunities to trim phone costs, a central idea behind the 15 years of court and regulatory decisions that are increasing competition in the telecommunications field. Home and small-business phone users trying to understand the changes and search for savings can begin by examining their current monthly bill.

Most states require customers to receive an itemized breakdown of charges at least once a year; an up-to-date accounting can be requested anytime by calling the telephone company. Customers often find that they are paying lease charges on equipment that they no longer have or never had. It's also good to find out what rate plan you are using because your needs may have changed.

Examine the three major cost categories on phone bills: equipment rental, local service and long-distance service. Each category is developing into a separate business, operated in many cases by different companies that customers increasingly will have to deal with independently. Here's a rundown on how individuals and small-business users might save in some categories while paying more for others.

### Equipment

Savings here are simple. Rather than leasing from the local telephone company, buy a phone, which generally pays for itself in a year or two by cutting \$20 to \$80 per phone off your annual bill. But although owning your phone has been legal for years and has received heavy publicity recently, most people still can't be bothered.

"The word that keeps popping up (in market studies) is 'indifferent,'" says George Kirby, the group manager for customer-premises equipment for GTE Corp., the largest telephone company after American Telephone & Telegraph Co. "Buying a telephone just isn't a big decision people have to make, and they don't want to have to worry about it," he says. The drawbacks to purchasing are the initial expenditure and having to take care of future repairs.

Right now, no one has to buy a phone, and only 5% of U.S. households have. The trend toward purchasing, however, is being pushed by phone-company programs offering discounts for home and small-business customers who buy the phones they now use. Phones made by major manufacturers usually work well for years. Buying in-place equipment also is convenient for users happy with their current phones.

Prices and effective dates for in-place sales vary by state and company, but GTE, for one, sells basic push-button phones to current users at a recommended price of \$39, compared with \$49.95 if bought new. As an alternative, GTE sells a similar but reconditioned phone for \$44.95.

Because most leased phones don't have new features such as automatic dialing and hold buttons, buyers should also look at new equipment at department, consumer-electronics and phone-company retail stores. Prices and warranty plans vary. Warranties should provide free repairs for at least six months, but, as with any other appliance, you might ask such questions as:

Can you get a refund or exchange for at least 30 days after purchase? Can you bring a defective phone back to the retailer, or do you have to mail it to the manufacturer? Does the retailer provide an immediate replacement or loaner phones when sets are returned for repair? What happens after the warranty expires?

These questions don't apply, of course, to \$10 and \$20 phones designed to be thrown away when they break.

Check for a government registration number on the bottom of any phone purchased. You must give that number to the local phone company when attaching purchased equipment to your phone line. Phone companies, of course, demand the return of any leased equipment before ending their rental charges.

Repairs on leased equipment still are covered by rental fees, but the days when a phone-company truck would roll up to the house to fix any problems for free are fading. Many companies charge \$25 or more for a visit when the problem is in a phone the customer could have taken in for an exchange. A rule of thumb: If one phone is balky while others on the line work, it's probably an equipment problem; the same flaw on every phone indicates line trouble that the phone company must fix for free.

Phone companies also charge hefty one-time fees for installing in residences and offices wiring that in more than 30 states can be done legally by the customer or his own electrician. Wiring kits for do-it-yourselfers are available and cheap, but rules and potential savings vary by states. Regulators have details. Most phone companies prohibit their workers from moonlighting in wiring jobs.

After the AT&T break-up, scheduled for early next year, life will become more confusing for the 67 million residential customers now leasing equipment from Bell System companies.

The break-up calls for all leased Bell phones to be transferred to a new AT&T unit from the local Bell companies. For an unspecified "transition" period, equipment charges still will be collected by the local companies. Later, AT&T will have its own billing operation, with separate bills for local service and equipment. AT&T says it is considering billing quarterly instead of monthly. The company eventually may get out of the leasing business for residential customers by selling off that equipment.

### Local Calling

The cost of basic local service, now averaging \$10 a month nationwide, could double and, some observers say, triple in a year or two; customers will have little alternative but to pay up. Some consumer groups and regulators fear that poor people will have to give up service.

One reason for higher local rates is a recent Federal Communications Commission ruling that starting next January will add \$2 a month to bills for each residential phone line and \$4 a month to a business line. Those charges will rise to about \$8 a month for all customers by 1989, whether or not they actually use long-distance service, as local subsidies contained in long-distance rates are phased out. How much long-distance rates will drop as a result isn't clear, but big users of long-distance, mostly businesses, will benefit most.

Meanwhile, telephone companies are pushing to have phone bills tied closer to actual usage, much as long-distance calls are billed today. Most local billing now is done under a flat rate, with unlimited local calls; the change to so-called local measured service would tie charges more closely to factors such as the number, duration, time-of-day and distance of calls.

Measured-service plans already are used in a few states, usually as options, and can save money for those keeping tabs on phone usage. But frequent callers may well pay more. Measured plans also may cost more than so-called lifeline rates that in many states provide minimal calling privileges for a low monthly fee. Phone companies say those using the phone more should pay more. The issue will be weighed by many state regulators this year.

### *Long Distance*

AT&T still carries 96% of the nation's long-distance business and, despite rates now 15% to 50% higher than competitors, is expected to long remain the dominant long-distance carrier. Among its strong points: Its long-distance service reaches everywhere and is easier to use.

Those differences, however, are narrowing. Long-distance discounters—MCI Communications Corp., Southern Pacific Co. (Sprint), International Telephone & Telegraph Corp. (ITT Longer Distance), Western Union Corp. (MetroFone) and several others—are continuously adding cities to their networks. Before subscribing, check where you can call to or from; rural areas probably won't be covered. Rates, minimum charges and other features differ by carrier.

Several carriers have plans that use a combination of their lines and AT&T's to reach locations that they don't serve directly. You get the discounters' rates for the call segment handled on its network and pay AT&T rates for the remainder. ITT says its combined-lines plan, available to business customers in 48 cities, offers an average

10% saving compared with AT&T rates.

Some long-distance companies discount the discounters. New firms called "resellers" buy time at bulk rates on the networks of discounters and AT&T and resell it to customers, managing to shave the discounters' rates. Resellers include U.S. Telephone Communications and Combined Networks Inc.

The expanding networks of AT&T's competitors makes them more convenient, but you still must use a push-button phone and dial extra numbers to hook up with them. The AT&T break-up, however, should ease those problems for at least the 80% of U.S. phone users served by local Bell companies.

The break-up agreement requires that Bell customers be able to use other long-distance carriers the same way they use AT&T's services. Beginning in late 1984, that should make it possible to use rotary-dial phones (about half the total phones in use) to reach any long-distance carrier. And customers probably will have to dial only four extra digits instead of the current 12 or 14 before the area code and local number to use a long-distance discounter.

In the proposed numbering plan, customers also would dial four extra numbers, designating the carrier, to reach AT&T's long-distance network. Customers could name a "primary" carrier to eliminate the four digits unless a particular call is to be handled by a nonprimary carrier.

AT&T also is considering some flat-rate plans for residential long-distance service that could produce savings on AT&T's normal rates. How Bell's long-distance service will be billed in the future hasn't been decided. AT&T and the other carriers could pay the local Bell companies to do it or could bill separately. So, Bell customers may get three separate bills, for local service, long-distance calls and equipment rentals.

# Access charges and rural rates: has universal service been abandoned?

Deregulation brings with it higher access charges that may threaten the affordability of telephone service for rural residential and small business customers

JON C. ERICKSON

I AM VICE president and general manager of Peninsula Telephone & Telegraph Co., Forks, Wash., a small rural telephone company which has a high non-traffic sensitive investment similar to many companies serving rural America. It is a company which serves 3850 network access lines in an operating territory which covers more than 2000 square miles. I am concerned about the rural residential and small business telephone consumer and the high exchange access rates they face in the future. My viewpoint is narrow, but that is appropriate, since the approach of the Federal Communications Commission (FCC) to access charges is driven by blind adherence to a too-narrow economic rationale which seemingly ignores the practical impacts on residential and small business consumers in high cost exchange areas. It is a rationale which concerns itself only with economic efficiency with slight acknowledgment that there are both economic and social benefits to be gained from universal service without impairing economic efficiency and competition.

My viewpoint is biased by the observation that the rural consumer has not been adequately represented in the public policy debate to formulate the new telecommunications policy. The telephone consumer remains generally uninformed about telecommunication policy and is confused by and unaware of Docket 78-72 and related FCC decisions.

There are four critical questions concerning access charges and FCC

Docket 78-72. They are:

- Does the access charge plan in Docket 78-72 eliminate the objections of PURE 2 for rural high cost exchanges?
- What is the possible impact of the access charge plan in Docket 78-72 on exchange network access line rates for rural telephone consumers in high cost exchanges?
- Does the access charge plan in Docket 78-72 adequately protect the universal service concept for rural America?
- Assuming the FCC access charge plan remains unaltered and is mirrored at the state level, are there alternatives open to state regulators which can lessen the impact of Docket 78-72 on high cost exchange areas?

My response to these questions assumes that, even though state commissions would not be required under a pre-emption requirement to adopt all or any part of Docket 78-72, it seems inevitable that state commissions will adopt similar plans because a uniform approach is desirable and also because dominant car-

riers want a uniform approach. I have also assumed, in response to the second question, that you cannot just look at the effect of Docket 78-72 when measuring the impact on consumers in high cost exchanges. Realistically, the impact of other deregulation changes which influence rates must also be considered, changes such as the cost of station connections, deregulation of station apparatus and depreciation changes.

Does the access charge plan in Docket 78-72 eliminate the objections of PURE 2 for rural high cost areas?

The transitional period does soften the impact of the access charge plan on rural consumers' rates, but the transitional period reminds me of the medical axiom called Miller's Law which says, "All bleeding will eventually stop." Under the access charge plan, the rural bleeding stops in 1991.

If you examine the recovery of non-traffic sensitive costs by telephone companies over the transition period, you end up with essentially PURE 2. From a rural perspective, the access charge plan would be liveable in 1984; in fact, it probably is not too bad through 1987. Beyond 1987 it looks bleak for high cost rural exchanges, because by 1991 the end user pays the overwhelming percentage of non-traffic sensitive costs.

The major difference between PURE 2 and the access charge plan in Docket 78-72 is the transitional period and the universal service fund (USF) of an estimated \$500 million to \$600 million. Until the joint board defines the high cost factor, it is difficult to determine the extent of subsidy available to high cost exchange areas from the USF.

The only hope for the rural consumer is an adequate USF. Without an adequate fund, Docket 78-72 does not eliminate the objections of PURE



*The question of how future access charges, brought about by deregulation, will affect rural and small business telephone subscribers is a pressing one for many rural independent telephone companies and, of course, for their customers. It is a tough one, with no easy answer.*

Jon C. Erickson is Vice President and General Manager of Peninsula Telephone & Telegraph Co., Forks, Wash. This article was adapted from a presentation made at the 9th Annual Rate Symposium on Present and Future Pricing Issues In Electric, Gas and Telecommunications Industry, held Feb. 6-9 in Kansas City, Mo.

2 for high cost exchange areas.

What is the possible impact of the access charge plan in Docket 78-72 on exchange network access line rates for rural telephone consumers?

To my knowledge, the FCC has not collected the data necessary to analyze the impacts of Docket 78-72 on the consumer. It seems incredible that an impact study was not made, since the data could be obtained. Instead, we are making a great leap into the unknown with no clear idea of its consequences.

I cannot predict the impact of the access charge plan on all rural companies, but I can estimate the impact on the consumer in our company's operating territory.

Peninsula Tel's toll settlements revenues are 39% for interstate and 61% for intrastate. Based on our last closed cost study, which was Dec. 31, 1981, our total toll revenue requirement was \$2,389,273. Of that total, "A" revenue (the revenue requirement for local distribution of local switching investments) was \$1,973,675, or 83%; "B" revenue (automatic ticketing revenue requirements) was \$103,695, or 4%; and line haul revenue was \$311,903, or 13%.

The settlements shift at the end of the transition period under the 78-72 access charge environment would reduce a revenue to \$391,421, or 16%, shifting \$1,582,254, or 66% to local exchange rates. That 66% revenue shift must be made up by customers through access charges minus whatever contribution is forthcoming from the USF.

On the average, customers could realize an estimated \$34 per month increase in local network access line rates. Keep in mind this figure does not reflect inflation over the 7-year transition period nor does it reflect the impact of detariffing of station apparatus, the cost of station connections or depreciation changes.

The impact of including the effect of detariffing station apparatus, expensing station connections and depreciation changes our settlements revenue to 3% for A revenue, 4.5% for B, 13.5% for line haul, and a revenue shift to local of 79%. The combined effect is an average increase of \$40.85 per access line or an average local access line rate of \$54 monthly.

Needless to say, the combined effect of the FCC rulings could have a horrendous impact on our customers. Other rural companies and their customers would be affected similarly, although there will be dif-

ferences depending on the circumstances of each company.

Does the access charge plan in Docket 78-72 adequately protect the universal service concept for rural America?

From my viewpoint, the answer is: No, it does not.

The FCC, in its Third Report and Order in Docket 78-72, says, "We are totally committed to insure that this approach does not lead to a disruption of our nation's telecommunications system or to the elimination of universal service. In a footnote the FCC comments, "The term 'universal service' while not appearing in the Communications Act is, in our opinion, an important mandate of that Act. It does not, however, mean that every household, without exception, need have a telephone. . . . We believe that the concept of universal service in the con-

graph Co. (AT&T), which was submitted as an exhibit in Docket 80-286, indicated that a 200% increase in basic telephone rates could cause a reduction of 24.56% in rural households accepting basic exchange service. The AT&T study indicated when considering the moderately poor rural demographic group, over 32.9% would discontinue service when faced with a 200% rate increase. Will universal service survive a 10% or 20% or 30% reduction in households with exchange service? Do the FCC state commissions or Congress know? I doubt it. How are we going to find out? Through experience?

The evidence is strong that high access charges in rural areas will impair the realization of the goal of universal service. If access charges are not pooled on a nationwide basis, universal service may not survive.

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**'The primary reason we have a regulated telecom system today is due to the . . . failure of the marketplace to serve the telecom needs of the public. Let's not destroy universal service by blind concern for economic efficiency while ignoring the adverse social impacts and practical effect on residential and small business concerns.'**

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text of common carrier telecommunications means that high quality telephone service be available at rates which do not make such basic service a luxury."

An average \$54 per month rate for basic service moves that service very close to a luxury for many Americans. At that rate, universal service is seriously threatened.

Currently, an estimated 98% of all households have basic telephone service. Is that universal service? Is 90% of all households or 85%? If we assume that the current 98% meets the universal service goal, what might be the decrease in telephone demand due to Docket 78-72 if applied to both interstate and intrastate?

Lewis J. Perl, senior vice president of the National Economic Research Assn., estimated in a study made in 1978 that an increase of 10% in local exchange rates could cause 3% of rural residential customers to drop off the network. A study made by American Telephone & Tele-

Are there alternatives for state regulators which can lessen the impact of Docket 78-72 on high cost exchange areas?

Given the access charge environment, I do not envy the job of state regulatory commissions, particularly if the USF does not meet the needs of the rural residential and small business consumer. In Washington state, 62% of all toll revenues for rural telephone companies are intrastate, leaving the bulk of the revenue shift dilemma in the hands of state regulators. What course of action is available to state regulators to solve the dilemma the FCC has handed them? So far, I have heard of no effective panacea; however, several have been suggested.

One alternative suggested is statewide averaging of local access line rates. Statewide averaging would be of little use to customers in high cost states, because no appreciable change would result.

A similar alternative mentioned is

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regional pooling. This concept also would appear to be of little use to customers in high cost regions, such as the western United States, for the same reason that state pooling would not help. It appears that without broad averaging, unreasonable access charges are inevitable.

Regardless of what happens at the federal level, rural companies and state regulators need to become actively involved in the formation of intrastate exchange carrier associations within their respective states for development and implementation of intrastate access charge plans. They should give full attention and priority in developing an intrastate access charge plan that includes an adequate high cost factor as part of an intrastate universal service fund which will insure intrastate access charges do not place as severe a burden on the rural telephone consumer as the interstate access charge plan appears to do. The proper formation and administration of a state exchange association could be pivotal to the survival of universal service for rural consumers.

The alternative of last resort is for Congress or state legislators to discharge their responsibility and define universal service. Furthermore, they need to define the term "the public." Then they must define what is in the public interest. Is the public only AT&T, large interexchange carriers and large corporations? Or does the public also include residential and small business telephone consumers? If the public interest is to be served, these definitions need to be made in the form of a national policy and backed by public law through congressional action. In the absence of federal policy, states may have to fill the policy vacuum.

In conclusion, the FCC, Congress, state regulators and state legislators need to keep one thing in mind as the transition period for Docket 78-72 begins in 1984. The primary reason we have a regulated telecommunications system today is due to the original failure of the marketplace to serve the telecommunications needs of the public. Let's not destroy universal service by blind concern for economic efficiency while ignoring the adverse social impacts and practical effect on residential and small business concerns.

There is still time to fine tune the access charge plan and jurisdictional separations process to salvage universal service. □



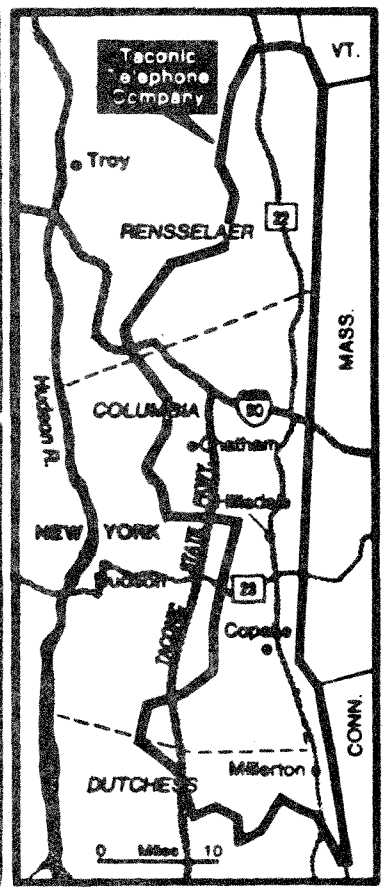
NEW YORK TIMES Nov. 28, 1983 pp. B1

# Phone Worries in Rural Areas

## How Taconic and the Independents Stack Up Against the Bell System

Dollar figures in millions, all data for 1982

	Bell System	All Independents	Taconic Telephone
Total Plant	\$160,000	\$4,700	\$14.7
Local Operating Revs.	\$29,800	\$5,200	\$2.2
Toll Operating Revs.	\$33,800	\$13,800	\$5.3
Access Lines	88,900,000	21,700,000	18,568
Employees	841,000	197,000	120



The New York Times / David Jansing  
John Benedict Ackley, of Taconic Telephone Company, talking with Marv Skinner, supervisor of operations in Chatham, N.Y. The independent phone company expects drop in long-distance revenues after Bell breakup.

## Bell Breakup Is a Concern

By HAROLD FABER

Special to The New York Times

CHATHAM, N.Y. — When the telephone rang one recent Sunday afternoon at the home of John Benedict Ackley, president and general manager of the Taconic Telephone Company, it was a subscriber complaining that she had been cut off during a long-distance call to Kansas City.

Mr. Ackley, who has been president of Taconic Telephone since 1951, was unable to do much more for his customer than refer her complaint to the service department. But, he says, he is used to fielding such complaints, and he welcomes them.

"I don't mind being called at home," he said. "It's my business. It's one way of keeping in touch, and it makes me feel more like part of the game."

But complaints from customers are not a major concern these days at Taconic — only 10 were recorded on a recent Friday at its Copake office, for example. The big worry at Taconic, which is one of 1,432 independent telephone companies in the United States, is what the future will hold for it as the result of the impending breakup of the American Telephone and Telegraph Company.

"It's very confusing," Mr. Ackley said of the A.T. & T. divestiture plan, which is to go into effect Jan. 1.

The independent companies, most of which are located in rural areas, are not part of the giant A.T. & T. system — although they are tied to it as part of the nation's long-distance telephone network. The largest number

of independents companies, 156, are in Iowa. New York has 42, New Jersey, 5 and Connecticut, 2.

In composite, the independents look impressively large: 21.7 million individual access lines with about 32.5 million telephones, including extensions; 197,000 employees, 900,000 shareholders and assets valued at \$47 billion. Together, they provide about 20 percent of the nation's total telephone service.

In size, the companies range from miniscule to multibillion-dollar communications conglomerates listed on the New York Stock Exchange. The smallest, the Island Telephone Company of Frenchboro, Me., links 23 telephone subscribers on Mount Desert Island to the mainland through an automated exchange. According to its founder and only employee, Island Telephone had gross

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# Phone Worries in Rural Areas

**Continued From First Business Page**

revenues of \$3,362,10 last year. In contrast, the Stamford, Conn.-based GTE Corporation, the largest of the independents, earned \$96 million last year on revenues of \$12 billion, \$7.8 billion of which represented telephone revenues. At year-end 1962, its 19 operating units had 18.3 million telephones in service and 9.7 million customer lines in 31 states.

## Family-Owned Company

Tacomic Telephone operates in a dairy-farming area of New York State in the northeastern corner of Dutchess County, western Columbia County and southeastern Rensselaer County. Like many of the other independents, it is family-owned. Mr. Ackley's father, John D., started the company in Copake in 1908. In 1971, it merged with the neighboring Columbia and Rensselaer Telephone Company. Clifford Sayer, the former president of Columbia and Rensselaer, is still, at the age of 68, chairman of Tacomic.

But a new generation of Ackleys

and Sayers has been prepared to take over. Lorinda Ackley, Mr. Ackley's daughter, is executive vice president of the company and Robert N. Sayer, Mr. Sayer's son, is vice president and assistant general manager.

With 120 employees, Tacomic connects 16,396 local households and businesses with a total of 25,750 telephones, 6,546 of which are still on four-family party lines. In the 12-month period ended Sept. 30, 1963, it earned \$869,069 on operating revenues of \$6.1 million. Like the other independents, the bulk of its revenue comes from long-distance calls — about \$3.3 million last year compared with local revenue of \$2.2 million.

## Drop in Revenue Foreseen

As a result of this imbalance, Tacomic says it stands to lose about \$250,000 a year in revenues if Congress does not override a Federal Communications Commission plan that would cut long-distance rates by 10.5 percent on April 3.

But it expects to make up that loss in two ways. For one, reduced long-distance rates usually mean more calling and, therefore, more revenues. The F.C.C.'s proposed access fee for local telephone companies is another potential source of revenue.

Under the F.C.C. plan, scheduled to go into effect next April, local telephone companies could begin levying a monthly access charge of \$2 a month for each residential customer and up to \$6 for businesses to offset lower long-distance revenues. The House of Representatives has already voted to kill the plan, however, and the Senate will take up the measure next month.

Along with 1,277 other independents, Tacomic has elected to join a pool that will act as a clearing house for payment of the access fees, the new National Exchange Carriers Association. The association expects to handle \$11.5 billion in access fees in its first year of operations.

At present, long-distance revenues generated in the Tacomic area are paid directly to Tacomic. Under a complicated formula, based on cost of plant and equipment, Tacomic retains about 86 percent of the money and remits 2 percent to A.T. & T. Some independents retain less but others receive more — their actual toll charge plus an additional fee from A.T. & T.

Tacomic and the other independents will also receive an as yet unknown amount of money from a second kind of access fee, called "traffic sensitive charges." The fees, based on switching costs in central offices, will be

paid by long-distance carriers.

In addition, New York State will permit local telephone companies to levy a fee for intrastate calls. This fee, based on the number of minutes of use, will be paid by the long-distance carrier.

For Tacomic subscribers, the only immediate impact of the A.T. & T. divestiture will be a line on their bill for the new access charges. If they are approved, and an increase in the minimum monthly charge for a four-party line, to \$3.61, from \$3.25.

"We do not foresee any increase in local rates because of the reduction of long distance rates," Mr. Ackley said. "We have said that we will attempt to provide business as usual for the first year, to provide the same kind of service as before with the same kind of rates as before."

But the company has taken other steps to prepare for the future. It has organized a subsidiary that now owns all the telephones in its system; has entered the cable television business in the Chatham area, with service expected to start on Dec. 1, and is looking into expansion of wireless telephone operations.

Because of technical reasons pending modernization of equipment, however, most of Tacomic's customers will be unable to connect with such new long-distance carriers as GTE's Sprint unit and the MCI Communications Corporation. But, Mr. Ackley promised, that would be changed in the near future.



ASSEMBLY UTILITIES AND COMMERCE COMMITTEE  
FRESNO, CALIFORNIA

OCTOBER 3, 1983

CHAIRWOMAN GWEN MOORE: Unfortunately, we have no control over PSA and some of the other airlines that bring us into Fresno. We are still waiting for some other committee members to arrive, but given the lateness of the hour, we are going to get started.

I have with me, on my right, Assemblyman Steve Peace from San Diego and I, of course, am Gwen Moore, the chairwoman of this committee. It is a pleasure to bring our committee to Fresno today to learn about the changing rural telephone business and to hear the concerns of rural telephone consumers.

By now it is public knowledge that our national telephone system is undergoing substantial, even radical change. An antitrust settlement is breaking apart the Bell System that once provided end-to-end telephone service. Several related decisions of the Federal Communication will soon cause additional rate burdens for telephone customers already being asked to pay more for services as a result of the breakup.

Rural California, where most of the state's natural resources and agricultural enterprises are located, is absolutely dependent on reliable, affordable telephone service. Dispersed as they are, sometimes separated by formidable natural barriers, rural residents use the telephone not only to coordinate economic activity but also to maintain a sense of community.

If telephone service to rural Californians is jeopardized by skyrocketing rates or, even worse, abandonment of service (a possibility raised by telephone companies in the Midwest) they and other Californians will suffer terrible social and economic loss.

Unfortunately, there is much uncertainty about how telephone service will be provided and at what cost -- nowhere more than in rural California. Telephone service here is provided not only by our two large telephone utilities, Pacific Telephone and General Telephone, but also by many smaller independent telephone companies without the resources of the larger firms. Service to rural customers is expensive to provide and may become more so as independent telephone companies are required to adapt their facilities to new technology.

There are other issues for our witnesses to address. How is the telephone system to be restructured? What are the benefits and disadvantages for rural telephone customers of the new competitive environment? How will California's new universal telephone service law be implemented in rural markets, and what are the prospects for federal legislation to put our national policy in order?

Finally, and this is addressed to the general audience as well as our invited speakers, what is your expectation for telephone service now and in the future? As a state Legislature, we are sometimes constrained by federal policy, but this committee, at least, is committed to doing what we can to ensure the continued availability of high-quality, affordable telephone service in rural California and throughout the State.

At this time, I'd like to ask the representative of the Public Utilities Commission, Dean Evans, to come forward. Good morning.

MR. DEAN EVANS: Good morning. Madam Chairwoman and members of the Committee, I want to thank you for inviting the Commission to address you. My name is Dean Evans and I am the Chief of the Communications Division, Surveillance Branch.

My chief responsibility is the provision of quality telephone service among the 25 companies in California. Specifically, my major responsibility is the effect on the rural telephone companies of the changes that have been occurring, the quality of service of these companies, the setting of rates, investigations into their adequacies of service.

CHAIRWOMAN MOORE: That sounds like some of the repairs that I have had on some of my phones.

MR. EVANS: Hopefully, the repairs in the telephones will not be a problem in the future. While many of the views that I address today are my own and the Commission's Communication Division, these concerns are also shared by the Commission with their ongoing public hearings and orders instituting investigation.

I have been asked to address certain subjects and I shall in this order. One of the concerns of the Assembly Committee has been the construction of the LATAs which will be in effect in California in 1984. And LATA stands for "local access and transport area". The State of California will be broken up into ten LATAs. Pacific Telephone will be providing service

within the LATAs and not across the LATAs. For example, telephone calls for Pacific Telephone customer from San Francisco to Los Angeles will not be provided by Pacific Telephone. They will be provided to the local switching toll switch and hauled, if you will, to Los Angeles via AT&T, MCI, Sprint or other interLATA carriers.

Pacific Telephone's share of revenues with the independent telephone companies of California has for a long time lessened the rate increase requirements of the smaller telephone companies in California. For 1984, after meetings and agreements with Pacific and the independents, and meetings with the staff, it appears that there will be no change with the provision and the sharing of toll revenues and access charges. In other words the viability of smaller companies will be as it was in '83, absent any changes in expenses and investment necessitated by growth in the business.

The second item that I wanted to address was the FCC's (the Federal Communications Commission) order called Computer Inquiry II and its effect on the independents. The order was addressed to the Bell System and in California Pacific Telephone. It did not allow Pacific Telephone to be in the terminal equipment on a lease basis for new customers, beginning in 1983. What the Commission has done, foreseeing the effect of divestiture, has been to order Pacific Telephone, in August last year, to implement a sales program. The users of single line telephone equipment, typically the telephone that we all have whether it be a push button telephone or a wall mounted kitchen,

will have the opportunity to purchase these telephones. This, the Commission ordered. In addition, many of the smaller telephone companies including General Telephone, which is not a small telephone company but the second largest in California, were then given permission to sell their instruments to their local users. This has done two things. It has enabled the customers to buy their telephones without having to go out and shop other places but it has also been a benefit to smaller companies. It has lessened their overhead and requirements for materials and supplies. These telephones have been sold with warranties similar to what one would buy for a new telephone from various department stores or electronic supplies. In general, I think the implementation of Computer Inquiry II has been a benefit to some of the smaller companies in that they were required to carry less stock or materials and supplies, better able to meet the needs of their customers. In many cases it has generated a more positive cash flow for the companies.

The third item that I would like to address...

CHAIRWOMAN MOORE: Could I ask you a question on that?

MR. EVANS: Yes, madam.

CHAIRWOMAN MOORE: Did the PUC evaluate how successful that effort has been in terms of people buying telephones? It has been my understanding that a lot of people received the notices and the first thing they did was trash them because they didn't understand what it was about and didn't want to buy their old used telephones; things like that, not recognizing that it was probably one of the best buys that they could have.

MR. EVANS: Estimates of the degree of take, of how many people would purchase their telephones, has varied. It has increased in the last six months where people realized that they did indeed have a bargain. Unfortunately, I figure your description of what many people did with the notices that they received with their bills is true. There have been newspaper articles throughout California. One of the items that generated increased sales was about people who did not live in Pacific Telephone's territory but who desired to purchase their telephones. That was part of the impetus behind the Commission suggesting that General Telephone propose a sales plan and some of the smaller companies sales plans.

CHAIRWOMAN MOORE: Will they continue to be able to sell, the independents and General Telephone -- will they be able to continue to sell during the coming years or is this a one time sale?

MR. EVANS: My understanding is that, yes, they will. They are still allowed to provide terminal equipment. The divestiture does not impact the independents in that respect. But for Pacific Telephone and the other Bell Companies, the provision of terminal equipment will be transferred to the so-called Embedded Base Organization of American Telephone and Telegraph. My understanding is that provision for the sale of single-line instruments and the Commission's order to provide for the sale of what are commonly called key telephone systems will be a requirement of the Embedded Base Organization of AT&T, to continue the opportunity for small businesses to be able to buy those systems also.

CHAIRWOMAN MOORE: What about the residential customer?

MR. EVANS: My understanding is that that is a provision also.

That will be a requirement that this will go on -- I am sure during a portion of 1984. I don't know exactly what the provision is and I will be glad to report to you and the Committee on the exact provisions.

CHAIRWOMAN MOORE: So if you don't buy you can still continue to lease?

MR. EVANS: That is correct.

The provision of leasing will be carried forward, as I understand, at a guaranteed rate that will not change for a year, I believe, by the Embedded Base Organizations.

CHAIRWOMAN MOORE: After that it is deregulated?

MR. EVANS: Well, I think we are all waiting for the other shoe to fall. The FCC may deregulate totally by the end of the year. I don't think that anyone really knows now. And I wouldn't be surprised at all if they do that. Absent that happening, as far as the independent telephone companies are concerned, they will continue to lease telephone equipment with (I am sure) a major emphasis on sale if at all possible. I think this is something that is going to happen and it will happen shortly.

CHAIRWOMAN MOORE: I would like to take this time to introduce another panel member who has joined us from the city of Fresno, Assemblyman Bruce Bronzan, who is also the vice chairman of this Committee.

Mr. Peace.

ASSEMBLYMAN STEVE PEACE: I am going to go back to the Chair's original question to which I really didn't hear an answer. Has the PUC or anybody else really done any kind of definite work to ascertain whether or not people are buying their phones and, if so, in what kinds of numbers? Second, you have asserted that Computer II was in effect a benefit to the small companies because they don't have to carry as much stock on hand in order to service the lease phones. On what do you base that conclusion? Do you have data indicating that they have in fact made those sales? Or is that wishful thinking at this point?

MR. EVANS: To answer the first question, yes, we have looked at the penetration of sales. It was in excess of, I believe, 14 percent for Pacific Telephone.

ASSEMBLYMAN PEACE: Fourteen percent of their total residential use?

MR. EVANS: Of those that were eligible to purchase the telephones. In many serving areas, Pacific Telephone and the independents still provide multiple party service or two party, four party service. You can't sell those because they are unique to the system. They are specially designed or modified so that they will work with party line systems. The FCC also has precluded the sale of telephones to party line customers because of that problem.

ASSEMBLYMAN PEACE: How does that number 14 percent compare to sales in the areas served by the independents?



MR. EVANS: The independents are relatively new sellers. As the Commission processes rate applications, the Commission will authorize the sale of telephone equipment.

ASSEMBLYMAN PEACE: Is it lower than 14 percent?

MR. EVANS: They have not been in effect for that long.

ASSEMBLYMAN PEACE: So you really don't know yet.

MR. EVANS: No.

ASSEMBLYMAN PEACE: On what are you basing your conclusion that Computer II is beneficial?

MR. EVANS: My conclusion is based solely on their being able to sell new equipment.

ASSEMBLYMAN PEACE: So it is your expectation that it will be beneficial?

MR. EVANS: It is. There are two items that I should have mentioned. That Computer II allowed them to sell new terminal equipment; after effect, that lowers their inventory of stock. The sale of embedded equipment further helps, in my view.

ASSEMBLYMAN PEACE: Okay. I just want to get clear whether or not this is a perception on your part or do we have hard data?

MR. EVANS: There is no data.

ASSEMBLYMAN PEACE: Okay. Thank you.

CHAIRWOMAN MOORE: One last question, re they selling Western Electric equipment, the independents, or are they allowed to sell other manufacturers' products?

MR. EVANS: The independents today are not selling Western Electric, Automatic Electric, which is the main supplier

for General Telephone, Stromberg-Carlson, and ITT. Those are typically the suppliers to the independent telephone companies. It will probably change in 1984 when Western Electric will be able to sell to anyone and probably will.

The third item that I was asked to discuss is the item of competition, competition in the total environment.

As you know, the State will be broken into these "LATAs", local access and transport areas. There will be provision of local telephone service within the LATA called intraLATA. Pacific Telephone service will be allowed only within the LATA. Other telephone companies, the so-called competitors -- MCI, Sprint, and the like -- will probably or are now providing interLATA service. My understanding is that they are also providing intraLATA. These companies have filed with the Commission for certificates of public convenience and necessity.

The Commission is hearing testimony at this time on the effects on toll competition. The staff will testify in this OII (Order Instituting Investigation). The staff's position is that there be no competition in the LATA -- no intraLATA competition for long distance message toll, voice grade telephone service. The staff's position will be that competition should be allowed only for private line service within the LATA. A private line would typically include alarm circuits, the provision of data transmission, and the like.

CHAIRWOMAN MOORE: Did the staff take into consideration a concern raised by many of the companies, that inequities exist between the LATAs already established?

MR. EVANS: There is some concern on the part of Pacific and General Telephone regarding the establishment of the San Luis Obispo LATA.

CHAIRWOMAN MOORE: There is some concern regarding the distance between LATAs as opposed to the distance between some cities within LATAs. For example, you may have a city that sits right on the border of the LATA, across the street from another city that is in another LATA, as opposed to a city within the LATA maybe 100 miles away. Was that taken into consideration in recommending no competition within the LATA?

MR. EVANS: That, I am sure, was taken into consideration. I might point out that the LATAs as defined, are really invisible for the small telephone companies, the rural telephone companies in California. They may provide calling across the LATAs. It is Pacific Telephone that is limited. And, yes, there is concern that if a Pacific Telephone customer is only a mile away from another customer in another LATA, that it would be an interLATA call. I believe that Pacific Telephone endeavored in its dealings with Judge Green to include in the LATAs the areas now provided with extended area service. There were exemptions, I believe, from the typical straight line LATA where an area with a community of interest as of December 31, 1983, would be included in one LATA or other so that there wouldn't be a discontinuity of service.

If there is a new community of interest, such as a growth in an area, I believe, the company can go to the Justice Department to get an exemption to provide, for example, extended area service to that adjoining community or subdivision.

CHAIRWOMAN MOORE: Distance now plays some role in the establishment of long distance calls. Is that correct?

MR. EVANS: Yes, it does.

Long distance is, in some cases, a misnomer. It could be a local call. It could be up to 12 to 16 miles. In other places, anything over 8 miles would be considered long distance. I should point out that approximately 28 percent of the long distance revenues of Pacific Telephone, as we know them today, will be assigned to Pacific Telephone in the intraLATA as of 1984. Seventy-two percent will be transferred to AT&T.

CHAIRWOMAN MOORE: That is understood. I am still trying to get you to focus on my point.

What happens to the community that is touching upon that extended service area? It is a long distance call to call across the street because it is in another LATA.

MR. EVANS: We have that problem today. The call from Stateline in California to the other side in Nevada would be an intrastate call.

There is also a problem, as you mentioned, of two telephone companies with adjoining service, one side of the street being one company and the other side of the street being another company. To call the other side of the street would be a long distance call. There is a situation that the Commission staff and various companies have proposed a service called O.R.T.S.

CHAIRWOMAN MOORE: What was that?

MR. EVANS: Optional Residence Telephone Service. It is discounted toll. In the past, the Commission has authorized extended area service whereby an optional or a non-optional plan would allow a customer from one exchange to call into another exchange.

I think maybe the best way to answer your question is that we have had the problem and tried to address it in the past with the provisions of these optional and non-optional calling plans. I think that if we have the continued problem we could address them in a similar way, with the toll carriers or with Pacific Telephone.

CHAIRWOMAN MOORE: One last concern I am sure is shared by some of the folks who are not here and able to ask the question. What sparked the staff's recommendation of no competition in the LATA?

MR. EVANS: Generally, I would say that the Commission is very concerned with the investment that has been made by the telephone companies for the provision of local service. There is a value to the long distance suppliers of the local network that has been built and provided by the local companies. And there is a value to the users of the system.

Any change in the provision of toll revenues which historically have supported the local service. The Commission, I think, can be justifiably proud that the rates in California for local service have been rate averaged in recognition that some areas cost more to provide service. Typically, the rates for Pacific Telephone, for example, are averaged throughout the State in high cost areas as well as in lower cost areas.

Probably, if there is competition, there will be an increase in basic rates or basic rates will have to be de-averaged in order to allow Pacific Telephone to compete on highly lucrative long distance intraLATA routes. For example, San Francisco to San Jose is a highly dense toll route. If Pacific was to lose that route to competition, there would be a loss in toll revenues that would undoubtedly have to be made up somewhere else in of the rate design.

That has been the concern of the staff. The main thing that has sparked the staff's position that there should not be intraLATA competition has been the ultimate impact on the basic rate payer. I might add that because the 25 companies in California share toll revenues, this will impact the smaller telephone companies. There will be less for them to share. That will cause an upward pressure, an increase in basic exchange rates.

CHAIRWOMAN MOORE: Mr. Bronzan.

ASSEMBLYMAN BRUCE BRONZAN: I still have a hard time understanding the LATA and the interLATA system. Can you reduce it to simple terms for me? What is all this going to mean in rates to rural customers? What is the most likely impact on rural customers?

MR. EVANS: I believe in some cases where there is a local facility of one of the competitors such as MCI or Sprint, the local customer maybe able to avail himself of that long distance discount. But that leaves less revenue available to be shared by Pacific Telephone and the 24 other companies. Today all the companies share in the intrastate toll revenues. They

share it based on the cost of providing the service and they all earn the same rate of return, be it lower and lower each year. If competition was allowed, my belief is that there would be less revenue for the smaller companies to share. The smaller companies, by and large, have the greatest proportion of the revenue on long distance calling both inter and intra state.

This long distance usage serves to provide a contribution to some of these smaller companies. The smaller companies by far are in less densely populated areas and therefore more costly. While many of the smaller companies do avail themselves and are fortunate enough to avail themselves of lower rate financing from the Rural Electrification Administration, (the REA), they are still very expensive. They are typically in foothill areas, such as areas east of Fresno. And in many cases, the companies are using older supplied equipment that requires continued maintenance and upgrading of equipment.

I think that if there is intraLATA competition allowed, the impact on these companies in terms of less support from the toll operations will indeed cause upward pressure or requirement of these companies to seek additional rate revision from the Commission. Many of these companies today have not filed for rate increases for upwards of 30 years because they have been able to do well because of the contribution from long distance toll. We are seeing today the effects of waiting for 30 years. Many of these companies are coming to the Commission anticipating the effect of divestiture. Generally, they are coming in because of the economics of the toll business and the cost of upgrading their telephone equipment and providing service.

ASSEMBLYMAN PEACE: Excuse me for a minute. Are you saying that the prohibition of competition within LATAs is going to avail independent companies of resources by way of the intraLATA long distance revenue that will allow them to maintain their basic service without the kinds of inordinate rate increases that would be necessary as the result of the revenue siphoned off by...

MR. EVANS: I am saying, that if that changes there would be additional reasons for those companies to request rate relief. Many of them are requesting rate relief today. Some may be because they are anticipating the effect of divestiture. Actually in most cases it is because they have not been in front of the Commission for a rate increase because of the support that they have received from the toll operation. They have been able to ...

ASSEMBLYMAN PEACE: Now, these independent companies will go across the LATAs anyway. Right?

MR. EVANS: My understanding is that the LATA boundaries are invisible to the independents. Yes they will be.

ASSEMBLYMAN PEACE: How does Pacific Telephone's ability to maintain a noncompetitive status within LATA affect an independent company's revenue base?

MR. EVANS: That has been a question that has been asked many times.

ASSEMBLYMAN PEACE: What has many times been the answer?

MR. EVANS: Well, I hope the many times answer is the same answer that I will give you. All telephone companies share in the provision of toll. For example, take the local company



near Fresno (Ponderosa Telephone Company). When Ponderosa telephones a customer in Ponderosa, in San Diego, or San Francisco and bills their customer for long distance that revenue is put in if your bill is put into a toll pot. It is shared with other counties. In addition, the calls from San Francisco to San Diego, San Francisco to Sacramento, all those telephone calls revenues, any telephone calls revenues throughout the state or throughout the LATAs...

ASSEMBLYMAN PEACE: So what you are saying is that by allowing Pacific Telephone to garner additional revenues within their LATAs, the PUC can maintain its regulatory authority over that activity and maintain the pool and that the competitors within LATA would not necessarily have to contribute to the pool so it would reduce the pool?

MR. EVANS: If the competitors were able to compete within the LATA, they would be siphoning off revenues that would normally be shared by telephone companies within California.

CHAIRWOMAN MOORE: All right. Now, are you familiar with 1348?

MR. EVANS: Yes, madam. I am.

CHAIRWOMAN MOORE: How does that impact on that?

MR. EVANS: Perhaps you can answer my questions if I am not able to get that right.

My understanding of your bill is that it will provide for a one half contribution to the basic rate for lifeline as a designated lifeline service. Your bill, as I understand, provides for a tax on the intraLATA carriers. That tax will go into a fund or I believe that the Commission is required to provide a plan (you are shaking your head)...

CHAIRWOMAN MOORE: I don't think that you read my bill. But it doesn't quite operate that way. It is a tax on long distance calls period. InterLATA.

MR. EVANS: InterLATA, yes, and the tax I believe is designated to provide a fund for the provision for a life line type service. Is that my understanding?

CHAIRWOMAN MOORE: Well, in essence it is, but not exactly. I can go through that but I just wanted you to clarify what impact that would have on the toll calls within the interLATA -- the pool of money is what we are looking at.

MR. EVANS: I don't think that would impact the interLATA. I think that it would be a boom to those customers who will be able to qualify for that service. It is a wonderful plan in that many companies ...

CHAIRWOMAN MOORE: Well, let me tell you what the problem is with what you are saying. The way my bill is set up is if there were competition in LATA, the bill is clear, that anyone who provides the service, even if they were within the LATA, their money would still go into the pool so it should not lessen the source of money that we are talking about as opposed to what you are saying is that we would lose that money.

MR. EVANS: Well, then I didn't understand the bill totally. I thought the bill was limited to intraLATA calling.

CHAIRWOMAN MOORE: No. It left the decision open. It said that if there was competition within the LATA, then the same thing would apply within the LATA as does, you know, within the intraLATA system.

MR. EVANS: I see. I misunderstood.

CHAIRWOMAN MOORE: That would be up to the PUC. The PUC buys your recommendation that there would be no competition. Then that would not apply. But if it does not buy your recommendation and allows competition within the LATA, then the provisions within the intraLATA would be applied.

MR. EVANS: Well, in that case, then, I am better able to respond to your question.

Yes, that would generate additional funds within the LATA that would be used for that purpose to mitigate any upward pressure or request for rate relief.

ASSEMBLYMAN BRONZAN: Quickly, as an observation as we proceed with the hearings. It is just an unfortunate scenario as what we have seen with Greyhound. It is almost identical in terms of the impact that deregulation in one form or the other has at least in our area. One comment, the reason for my tardiness this morning was because of the deregulation of airlines. The flight from Sacramento was cancelled and it is funny on one hand, but on the other hand, it is absolutely true. We have worse air service now. It is more expensive and less reliable than we had 15 years ago. I am very concerned. It is the same thing --the dynamics are the same for airline service, for bus service, and for now phone service and probably the hardest hit will be the more, the less sparks, the more sparks in the populated areas than the rural areas.

MR. EVANS: That is a concern of mine. I indeed was late also because of the airline industry.

In Pacific Telephone serving territory there is an exchange in the northern part of the state called Allegheny.

There are 54 customers or main stations there. At last count -- there may be 55 now -- it is a small exchange. It is the smallest in the state, I believe.

CHAIRWOMAN MOORE: Fifty-five?

MR. EVANS: Well, it was 54 this morning. It may be 55. It is a very small exchange. It is expensive to serve there. Our concern is the same as Assemblyman Bronzan's. What is to happen there is that the provision of rate averaging as we know it today provides service for those people. Pacific Telephone is not only serving the larger more populated areas, it serves many of the rural areas such as Allegheny or the exchanges in the desert, the Baker Exchange. It experiences some of the problems that the smaller companies have but it is able, because of the economies of scale, to average in the cost of those less densely populated exchanges into their overall rate structure.

For many of the smaller telephone companies that is not the case. They are not very densely populated and they don't have that provision or ability to rate average in a similar matter and the provision or the contribution from the toll industry has helped them in the past to keep their rates relatively low. That is not necessarily the case today when many of them are filing for rate increases. We are seeing requests for rates that are similar to what Pacific Telephone and General Telephone have asked for in the recent months. We are working in many cases suggesting to the Commission that they authorize rates only over a specific period of time to mitigate the impact on these companies.

CHAIRWOMAN MOORE: Give me an estimate on what the rate increases rural telephone companies are asking for compared to what we know that Pacific is, perhaps in general, and some of the others are, doubling their basic service costs. What are the rural?

MR. EVANS: One of the rural companies, that the gentleman that is going to speak today, Mr. Sebastian from the Kerman Telephone Company, recently was authorized a rate increase by the Commission and I believe the Commission authorized a step increase. I have the figures in my briefcase.

CHAIRWOMAN MOORE: What is a step increase?

MR. EVANS: A step increase is where the Commission feels that the impact on the customer is too great to authorize the whole increase initially and will phase it in over a 12 month, 18 month, two-year period to mitigate some of the impact on the customers.

CHAIRWOMAN MOORE: It sounds like a high rate increase to me.

MR. EVANS: It was.

CHAIRWOMAN MOORE: What does that mean?

MR. EVANS: Percentagewise, it was more than doubling of the rates over a period of time. I believe it was an 18-month period of time. I can look and see exactly what it was. I have those figures. That is what the Commission has tried to do, to look at these to see what the impact is on the customers. I might add that there have been public meetings held where there have been a number of protests about the level of increase or where there has been protests about the telephone service that

has been provided by the smaller companies. I have attended two meetings in the evenings in Tuolumne City and in Shingle Town that is east of Redding, on application of the Tuolumne Telephone Company.

What we have found from the people is that obviously they do not want a rate increase but most people will understand that the Company will require an increase but they want something for it. They want their service improved. They want call forwarding. They want call waiting. They want discounted toll to various calling areas and their concerns are very legitimate.

CHAIRWOMAN MOORE: Well, we are going to thank you for your testimony because we are going to continue to move on and we took much more time than we probably should, but it is an area that the PUC will have a great deal to say and certainly we are concerned. I hope as you move through the rural areas we will look at 1348 which does require one of the factors in setting forth the eligibility, for the universal, as geographic distance and long distance. It should give some assistance to the rural areas.

Thank you for your appearance.

I am going to ask all the telephone companies to maybe come to the table at the same time and then to make your presentations and then we will ask you questions.

MR. EVANS: Thank you very much.

CHAIRWOMAN MOORE: Do you want a parting shot?

MR. EVANS: The only thing that I would add is again thank you. I appreciate your questions. They do give an opportunity to present the views and allow the audience to know

some of the answers or hopefully know some of the answers. I would like to add too that I will be around and available to answer any questions that the audience has. I want to thank you again for inviting me.

CHAIRWOMAN MOORE: Note this guy. He is from the PUC and he says he will be around to answer any questions that you might have.

Well, let's have the telephone companies come first, the ones that are listed in the next grouping.

Why don't we hear from the rural guys first and then we can put it all together. Why don't we have you come and do a few minutes and sum it up in your own words? Don't read me a long statement. If you have a statement, I will take it. But don't read it. We want to hear you talk to us and tell us the issues. Why don't we have Ponderosa and Kerman Telephone Company?

MR. WILLIAM G. SEBASTIAN: I wrote this up so that reading it is about my only approach ...

CHAIRWOMAN MOORE: Read it.

MR. SEBASTIAN: Okay. I am President of the Kerman Telephone Company. My qualifications are a total of 46 years in the telephone industry. Thirty-seven of those years have been spent building Kerman Telephone Company from 200 stations to 4,000 stations. My speciality in the telephone industry is dial equipment engineering.

I appreciate the opportunity of being here. I will leave that out.

CHAIRWOMAN MOORE: Wait a minute now. You never did tell us who you were. Your name.

MR. SEBASTIAN: Bill Sebastian, President of the Kerman Telephone Company.

The LATA concept ordered by the FCC is no more than a move by that group to extend their jurisdiction from the state boundary where it was placed by the Constitution two points deep within the State. It took jurisdiction away from the state regulatory body over calls that could, in California, be as long as 4 to 500 miles and shortened that jurisdiction to calls no more than 30 to 40 miles. It expanded the areas available to long distance companies that are competing with American Telephone Company. The total effect with that move I am presently unable to guess. I do know that to date, the results do not look good. I know that local telephone rates in Kerman have doubled this year. That result is already a fact. I am aware of the compensating fact that big business users will enjoy reductions in total costs.

The savings to Bank of America will be in the millions. Telephone rates in Kerman doubled in the first 36 years that I was there. They have doubled again in the one year that the FCC has been exerting its influence. Competing telephone companies were considered detrimental to a community in 1932. At that time these were ordered to negotiate and decide which ones should go out of business. It was decided at that time that one local telephone company is in everybody's best interest. The present monopoly system with regulation has produced the finest telephone service in the world. I cannot conceive why it is being dismantled. The entire European industry is shaking their head. The difference between local and long distance competition is



easy to identify. With one local telephone company the user could still choose his long distance supplier on a call-by-call basis. If the telephone user had to pay for local service from two companies, the loss to the user is obvious. If both companies serve the same area, the cost of duplication is obvious. The claim of the competing long line companies of lower cost for their services is a false one. They do not pay for use of the local telephone lines. It ought to be cheaper.

American Telephone Company is paying for the cost of the use of the local telephone route. In my opinion with local rates already doubled because of the loss of part of the toll part, local competition would complete the destruction of affordable telephone service. Local companies would still be obligated to serve the lifeline and other unprofitable services and the competition would come in and skin off the profitable accounts just as they have done in long distance. It is impossible to provide service without the necessary money. We need to keep the profitability if we are going to have to keep the social service activities we have and to carry those that are yet to be given to us.

There is talk of providing lifeline or low cost service to a certain group. As presently applied, there are more middle-income people using it than poor people. If this fact is unacceptable, someone would have to design a procedure for determining who is deserving of it and who is not. In the face of the fact that we are not even permitted as telephone companies to even really pursue anyone's credit rating, the telephone companies are not anxious to undertake the more complex judgment and who is deserving of the charity.

The question seems to settle down to who is deserving and who is to pay. The present lifeline service is partly misleading anyway. The use of the telephone becomes fairly expensive per minute to a talker, to some young lady my age that had nothing better to do than talk or some young man...

CHAIRWOMAN MOORE: Thank you.

MR. SEBASTIAN: The use of the telephone becomes fairly expensive timewise. To the talker the monthly cost rapidly gets back to non lifeline level but the use is discretionary.

Many dial equipment units are not able at present to provide that type of conversation timing. My equipment is not and it would cost me a million and a half to change it out to equipment that would.

Legislation to put Humpty Dumpty together again would have to border on a cross between the genius and the miraculous. The problem of succeeding and not making things worse by stepping on what is left of the broken shells is gigantic. As I see it, the only plan for keeping reasonable customer low rates and still cover the cost for the utility would be to charge the other carriers for the use of the local telephone line. This would mean that all of them would be competing on an equal footing. They would then fit equally with the existence of the local telephone company. The telephone company would appreciate anything you could do toward this end. We do not need any more customer protection legislation. It is mostly nonproductive and it is very expensive. The cost of this effort is always loaded on to the very people whose costs the laws are supposed to protect. There is one of these groups headed by a lady that I understand has a \$300,000 budget. People would have lower costs

if her budget was left in the pockets of those she was supposed to be working for.

CHAIRWOMAN MOORE: Well, she is not here to defend herself.

MR. SEBASTIAN: She is quite able to defend herself. I have told her this eyeball to eyeball.

Our experience is that telephone users' costs were ably protected by the laws in existence since 1922 when the then Railroad Commission was legislated. Any rate problems of the next five years will be a result exclusively of the Justice Department and the Federal Communications Commission. As far as Humpty Dumpty is concerned, the best course that we can follow is to stress that which the California Public Utilities Commission has said and I will repeat it. "Long distance companies must help support the local exchange telephone network. States must have jurisdiction over telephone service within their borders. Bell operating company spun off from AT&T must be allowed to compete for new business. Raising additional revenue to help keep local rates down." I will add a little on this question of the customer buying his own telephone. First of all, the customer, in buying his own telephone, is investing \$20 or \$30 when the truth is the cost of his telephone service runs \$1,000. Whether he buys the telephone or not is so immaterial to the telephone industry and it takes up 3/4's of the publicity. People that buy their telephones or people that rent their telephones spend less money renting or buying their telephones than they do on their breakfast cereal. I don't think that they are interested in the state or anybody telling them how to buy

their breakfast cereal. People in my area know all about buying their telephones but I know of none that have. If they want to, great. But we are not permitted to sell them without the arrangements being approved by the State.

If you have any questions, I will be happy to answer them.

CHAIRWOMAN MOORE: Oh, there are questions but I am going to make them be quiet until we get the others and then I will turn them loose. Oh, don't go away. Stay right here.

Go ahead.

MR. PRESTON EWING: Good morning. My name is Preston Ewing. I am General Manager of the Ponderosa Telephone Company, located in O'Neals, California.

CHAIRWOMAN MOORE: Where?

MR. EWING: O'Neals. I wish to thank the committee for this opportunity to address you on this important subject of the impact on rural telephone service of the AT&T divestiture and the imposition of the access charges as a component of long distance and local telephone rates.

MR. SEBASTIAN: Talk into the mike. They can't hear you.

MR. EWING: Let me give you a brief description of our company. The Ponderosa Telephone Company is a rural independent telephone company. Our service territory is approximately 640 square miles of diverse terrain in Central California, midway between Fresno and Yosemite National Park.

The company serves approximately 4900 customers in six exchanges with its territory including the frying exchange

located in the flatlands and an elevation of 400 feet and the Big Creek Exchange at an elevation of over 7,000 feet with severe winters. Such diverse conditions create special installation and operating problems for the company. But the most immediate concern facing us is the effect that all the changes that are going in the telecommunication industry will have on the companies' operations and revenue fund.

We at Ponderosa are very concerned with the impact of AT&T divestiture and the imposition of access charges upon our company and our subscribers. The original ideal behind divestiture as outlined by Judge Green in the settlement which he approved, was to separate the Bell System into local companies providing local exchange service; a long distance company to provide long distance service. The plan, as outlined by Judge Green, called for local carriers to charge the long distance carriers access charges for the use of local telephone exchange in completing the long distance telephone call.

The settlement approved by Judge Green contemplated that all long distance carriers, including AT&T, including MCI, Sprint and the like, would be charged these access charges. The long distance carrier would absolutely include these charges into the cost of a long distance call just as they are presently built into the cost of long distance calls placed over the existing Bell and independent company networks.

The access charge plan proposed by the FCC however took an entirely different approach. The FCC decided that the entire cost of local exchange service would impact upon the local

subscriber on a flat rate basis. And the long distance carriers should receive free use of the local network even though they are obviously unable to do business without the existence of the local network. It is this aspect of the access charge that is most troubling to the rural telephone subscriber. The rural telephone company, the rural telephone exchange, is substantially more costly per customer than an urban telephone exchange. The FCC has proposed the high cost fund to help ease the burden upon rural telephone subscribers. But this fund only meets a limited portion of the substantial high cost of operating a rural telephone company. Present estimates are that with full implication of the FCC access charge plan, telephone rates for basic telephone service in the rural independent companies in California will range from \$26 to \$34 per month. Foothill communities, which Ponderosa services, consist of large numbers of fixed income retirees and other customers and marginal income groups.

Our customers simply cannot afford rates of \$30 per month and many of them will be forced to give up their telephones in the face of such rates. This will of course only increase the rates that have to be paid by those who remain on the system since the cost of running a telephone company will not be decreased by having some of its customers disconnected. The FCC's access charge plan proposes a substantial threat to the universal telephone service in the rural areas of California and the loss of universal access to the telephone would be a statewide, nationwide tragedy, both economically and socially. The telephone is the basic communication device in rural areas.

It is an integral part of all aspects of the rural community; political, commercial, social, religious, health and education. It allows people to bridge distances among them. It is difficult to imagine the rural community without universal telephone service. We think that the most important step that can be taken at this time to remedy this situation is make efforts to expose the access charge where it belongs, on the long distance carrier and not on the local rate payer.

CHAIRWOMAN MOORE: Let me ask you something. Given your statements, are you familiar with my bill with the Moore Telephone Universal Service Act Bill, 1348?

Built into that bill, which is something that should benefit both you and Mr. Sebastian, is the concept that on universal telephone service they would establish a fund that geographic regions would be a factor in determining the eligibility for lifeline type service which would mean that your independent telephone companies would be eligible to receive funds to subsidize your telephone service.

What is your view? Would that not take care of one of your major concerns?

MR. EWING: I think it probably would. Yes.

CHAIRWOMAN MOORE: Because it would really take into consideration the costs or the fact that the cost of providing rural services was high and may push people off the network. The intent of that bill is to keep as many people on the system or on the network as we possibly can. I think that Mr. Peace had a question and I will come back because I have several.

ASSEMBLYMAN PEACE: I just wanted to make clear what I think I heard. We heard a PUC representative indicate that the effect of Computer II as it related to the sale of equipment was a beneficial one for independent companies because of reduction of cost, etc. and whatever reasons there were and then I followed up on that to determine on what basis he was drawing his conclusions. What is your feeling about the impact on the ability to sales? Has it benefitted your company?

MR. EWING: None whatsoever. We have probably less than 20 people and they own their own equipment in our service area that we know of.

ASSEMBLYMAN PEACE: Do you anticipate that it will be a benefit to you in the future?

MR. EWING: I can't see any benefit of it. However, like Mr. Sebastian said, that is a very small part of the investment.

ASSEMBLYMAN PEACE: Okay. With respect to the lifeline, Mr. Sebastian, did you indicate that your equipment is not capable of determining the time on the call and that is why you can't?

MR. SEBASTIAN: We are unable to time conversations on a local call basis. We can time long distance conversations but the equipment does not have the capacity to include the volume of local calling also.

ASSEMBLYMAN PEACE: Okay. Then, just finally, as a matter of policy, did you gentlemen ask executives with smaller independent telephone companies serving larger rural areas whether they believed if each of your potential customers have



something bordering on perhaps a right to reasonable access to basic telephone service?

MR. SEBASTIAN: Their access is what pays our living. Without customers we would be fishing.

ASSEMBLYMAN PEACE: Okay. Then your point with respect to the access charges as contemplated by the FCC, is that the ultimate source of those funds should, in fact, be the longline carriers rather than the telephone customer, i.e., those people that use a lot of long distance calls ultimately paying in the form of higher long distance bills than otherwise might be charged, in order to maintain that local service, rather than the basic residential telephone customer.

MR. SEBASTIAN: The value of the telephone is not only in its ability to call out. The value of all of the nation's industry is the fact that there is someone to call.

ASSEMBLYMAN PEACE: You pointed out and I think quite correctly, that the Bank of America is the world's great beneficiaries of the so-called reduction in long distance rates. Would you then say it would be fair to characterize your point as being that the Bank of Americas of the world who are benefitting from the lower long distance rates ought to be paying the additional access charge rather than the average residential user?

MR. SEBASTIAN: Definitely. Because first of all their costs are even tax deductible.

ASSEMBLYMAN PEACE: Thank you.

CHAIRWOMAN MOORE: Bruce.

ASSEMBLYMAN BRONZAN: Do you think that that is something that the PUC should do?

MR. SEBASTIAN: The PUC should apply the access charge to the long distance user but I am not sure that the State Commission has such jurisdiction.

ASSEMBLYMAN BRONZAN: As best as they can. Let me ask one other question. We have talked about the residential consumer and I am sure that we will hear more about that as we go on today. With both of you representing rural areas and agricultural production areas, do I assume correctly that your concern about what is going to happen with these rates will have an equally negative effect on agriculture's industry in this area as it does to the individual and residential concern? Is that an incorrect assumption or can you talk about that a bit?

MR. SEBASTIAN: I believe that the impact of telephone costs are really a very small part of an operating farmer's budget but a dollar is a dollar and if he gets to keep it he can spend it on something else. One of the big problems is Mickey's Barber Shop is next to the Telephone Company. He pays the business rate. The rate that was just granted will ultimately raise his seven dollar rate to fourteen dollars.

ASSEMBLYMAN BRONZAN: That is what ...

UNIDENTIFIED VOICE: There is both a direct and indirect impact and in some agricultural users are very (Inaudible) of the telephone. I see some in the audience and there might be some testimony later on from the point of view of agriculture and industry.

MR. SEBASTIAN: The farmer himself generally has a reasonably small telephone bill. It is the immediate farm server that provides services or sells services that pays the telephone bills.

CHAIRWOMAN MOORE: Let me ask a couple of questions because the thing that we want to do is try to look at what we can do, on a legislative level, at the state, recognizing that much of what we do is somewhat constrained by federal action. But it would appear to me that AT&T will continue even under the divestiture to pay you access charges. Is that correct?

MR. SEBASTIAN: They are scheduled for quite a reduction.

CHAIRWOMAN MOORE: But they will still be paying something.

MR. SEBASTIAN: I don't think that it will be AT&T. I think that it will be Pacific.

CHAIRWOMAN MOORE: Okay. A rose by another name. But anyway, they are still required to pay. MCI, Sprint and the other long distance carriers even on an intrastate basis or intraLATA statewide calls are not required to pay you anything. Is that correct?

MR. SEBASTIAN: That is right. The other toll suppliers pay us nothing.

CHAIRWOMAN MOORE: All right. If on a state level, and I am talking to you about what may be one of my next bills, that the PUC required them to pay some access charge similar to that which AT&T or whatever it is called is paying you. Would that not help you to some extent?

MR. SEBASTIAN: We will possibly get the same proportion of support on a pool based on an area roughly the size of Fresno County as against having our hand dipped into a national pool relating to the American Telephone Company. So we are talking about the same percentage of support but out of a much smaller kettle.

CHAIRWOMAN MOORE: I guess what I am saying now, remember that this is a new day and maybe what the PUC is going to have to do is take a look at the changing environment and come up with a new formula or new way of looking at that access charge. It may not be that same pool as you know it today. It may need to be a new configuration or a new way of establishing those tolls. It is a whole new ball game. Certainly what has gone in the past and certainly your years in the telephone company you have never seen anything like this before and no one has in this country. So there are going to have to be some adjustments made and certainly one of the things that maybe something that we should look at.

The other thing that I am concerned about is the PUC's ability to impose a measured service, as you are talking about, on an independent phone company, if that appeared to be, which seems to be the trend people are moving in. And what I would like to know is what effect that would have on you if they impose the measured service on rural areas. What that would do with you financially?

MR. SEBASTIAN: Measured service is a reasonably, just a reasonable application. My only problem is the \$300,000 a year in overhead introduced by having to change out my equipment.

CHAIRWOMAN MOORE: In other words, it would put you out of business if they mandated that?

MR. SEBASTIAN: I think I would figure out a way to stay in business.

CHAIRWOMAN MOORE: So what you are telling me is that it wouldn't be as disastrous then as we would think it would be.

MR. SEBASTIAN: I would eat less regularly than I eat now. But that is all I know. (Laughter).

But the telephone business is my life.

CHAIRWOMAN MOORE: Can I get you and the other lady into the same room? I would like to see you two at it.

MR. SEBASTIAN: I never argue with a woman. She is very good trying to present her point.

CHAIRWOMAN MOORE: She is excellent and so are you. Were you going to comment on that in terms of your own company?

MR. EWING: I would like to say that we have a density of 5.4 customers per mile. That is somewhat lower than what was in. We have 870.4 miles of varied plants through the Sierra. We are very concerned with the customer because of the areas that we serve and I would like to say that we, as a company, would appreciate anything that you folks can do.

CHAIRWOMAN MOORE: Thank you very much for your testimony.

ASSEMBLYMAN PEACE: I am a little slower than the rest of these folks. When we talk about the pool, are you saying that the real problem from the rural perspective is that we are losing that high density population area such as L.A., San Francisco, San Diego, and as the result of that density of population that

is there in the higher increment of profit not just necessarily from long distance but from all operations relatively speaking that you can reasonably expect to make it up in a smaller area or a smaller pool without still having still unexpected rate increases?

MR. EWING: I think you have it right as to what we are saying. Right now all of the metropolitan areas are in the pool along with our smaller exchanges.

ASSEMBLYMAN PEACE: So you need, in order to be able to expect and maintain a reasonable level of charges on your services, you basically need to have some participation from those heavy urban areas in the pool of money however that pool is created?

MR. SEBASTIAN: The total pool traditionally in Kerman has paid 60% of the cost of telephone service. I believe in his area, they pay 85% of the cost and when that support is taken away and if the same grade of service is going to be supplied it has to come from somewhere. We need the support. These free loaders in the form of MCI, and the Southern Pacific Company, they spend all of their advertising money badging about how cheap their rates are. They ought to be cheap. They are farming with their neighbor's tractor.

ASSEMBLYMAN PEACE: I am going to remember that line. I like it. As a matter of fact, would you sue me if I used it?

CHAIRWOMAN MOORE: That has become public (Inaudible) in the public domain. We take that. We like that.

ASSEMBLYMAN PEACE: I represent Imperial Valley and that is going over like gang busting down there. They might even think that I am not a city boy anymore.

CHAIRWOMAN MOORE: Let's hope that they don't ask you about the tractor.

ASSEMBLYMAN PEACE: Then I am in trouble.

CHAIRWOMAN MOORE: Obviously to some extent the big city folks, Steve, are going to have to subsidize the rural areas to some extent and do you have any idea to what extent that ought to be, percentagewise? Is there some percentage or something to that extent or are you going to tell me whatever percent is necessary?

MR. SEBASTIAN: The level and the means of the subsidy was a known and well-established fact for 40 years and to suddenly try to rearrange it because of the wisdom handed down to us by those in Washington, the user, the business user who makes money because of the fact that I am maintaining long table pairs to little old ladies way out in the country. There isn't any reason why they shouldn't continue to pay because they are reaping the benefits. I doubt that the little old lady is concerned whether the Bank of America can call her. But the Bank of America is concerned.

CHAIRWOMAN MOORE: Thank you very much.

Let's have the big guys, Pacific and General since they don't seem to know who they are.

I am suggesting that we have a one-minute break. Maybe make it two minutes.

MR. TOM QUAINANCE: I am Tom Quaintance with General Telephone. My responsibilities generally are in the area of pricing telephone service, subject, of course, to the approval of the Commission. I would like to compliment the committee on your

insight on identifying the critical issues. I think your briefing paper is excellent. Mrs. Moore, you summed it up when you said we have never seen anything like we are seeing now in the telephone business. There really is a dramatic change.

Just as a point of background, I would like to point out that the primary thrust of deregulation in the telephone business was to attempt to broaden the customer's choice in the things that he was able to attain. Initially, the choices were broader in telephone equipment themselves and now customers can own or rent or buy their own, buy the old that they got and today we see quite a wide variety of new telephones with different features and different prices and different quality. Similarly, we are seeing quite a wide choice in long distance service where there are about six or seven companies now providing long distance service within the state of California.

Now customers can install their own phones, their own wiring, their own jacks and so indeed deregulation has had the impact of giving customers much more choice in their phone business. I think that will continue in the future. Unfortunately, one of the things that the introduction of competition did was disrupt the subsidy flows that we have talked about here this morning. The long-term impact is going to be the basic telephone rates will increase. Long distance rates will decrease and I am afraid that indeed rural areas will be more hard hit than the urban areas. One of the gentlemen before me mentioned that his estimate of basic service in the rural areas could be \$26 to \$34. My estimate is somewhat closer to \$30 to \$40. I think the hope for the rural areas is provided through



the FCC's high cost factor and certainly the Moore Universal Telephone Service Act which does provide the capability to provide assistance for low income families.

What we testified to before the Public Utilities Commission was that in the end we will have competition within the LATAs. It would be prohibitively costly to attempt to totally keep competition out of the areas. What we need to do is straighten out the pricing structures, and certainly your bill goes a lot toward making a provision for low income families to continue to afford phone service as the pricing structures are straightened out. The long distance rates will decrease. The local service rates will increase, as you heard this morning in other testimony.

I think that part of the future you asked in your briefing paper. The capability of providing metered local service. The technologies that are becoming available now in local switching, especially in the digital switching area, will have the effect on the inability of telephone companies, first of all, to provide inexpensive measured service and also reduce the cost of providing distribution in those rural areas that have expensive cable pairs that someone before me talked about.

We think that indeed the future is in non-optional measured service similar to all of the other utilities being provided. You asked in your briefing paper again about interLATA versus intraLATA competition. We have seen already a wide variety of customer choice in carriers and resalers for long distance service. But obviously, the disadvantage of introducing competition too rapidly within the LATAs is that local service

rates would go up rapidly and the short-term effect on the customers might not be tolerable. It is going to have to be absorbed somewhat over time.

You asked again in your briefing paper about eligibility requirements and I know during the process of that bill that we talked a lot about whether there should be some form of eligibility requirement. Certainly, in order not to bankrupt the bill and the funding, we do need some kind of an income criteria and I know Dean Evans and some of the folks on the Commission staff we talked to realized that we need some kind of an income criteria. Certainly, the universal service has to be limited to a principal residence. We can't have summer cabins and ski resorts and those types of things with lifeline service. One to a household. In our filing, which we are going to make later this week in our rate case, we are going to recommend annual recertification for lifeline so that if a family's status changes we are able to pick that up maybe every other year, perhaps annually with a recertification.

CHAIRWOMAN MOORE: While you are on that note, let me ask you a question. Is your perception of the bill that it would provide some relief to rural telephone services by the geographical factor which is part of the requirements that the PUC takes into consideration as they establish the lifeline service and eligibility?

MR. QUAINANCE: Yes. To whatever extent the eligibility is determined by the telephone company you will also determine it automatically by geographics. But certainly geographical considerations would be easily done in the bill.

Perhaps even the size of household if you wanted to get that complicated. Household with eight residents versus two residents might have a different criteria.

CHAIRWOMAN MOORE: My thought is and you are limiting in terms of your comment, I know that you mean to do that but you are limiting the application of 1348 solely to low income families. I contend that there is some help that could be provided to rural telephone companies in their quest to maintain universal service because of the high cost maybe to what would not be considered a low income family. Just the cost could make it prohibitive if they had to pay the actual price. It is my understanding, and it was certainly my intent in that bill, that the factors that impose the high cost because of the cost of doing business in rural areas, that that would be a factor that the PUC would consider in allocating some of the money.

MR. QUAINANCE: Absolutely. I reread the bill again late last week. I had a question for Thurman this morning. It could indeed provide that kind of funding for those companies.

Specific issues raised here on the floor, I would like to clear up a misconception. There seems to be a thought that the other carriers, the GTE, Sprints, and MCIs do not pay access charges. That is not true. Their contribution to the fixed cost of inside wire, customer premise equipment, the local loop is less than AT&Ts but they still make a significant contribution towards those fixed charges.

CHAIRWOMAN MOORE: How?

MR. QUAINANCE: They pay a per minute rate which is lower than AT&Ts first year. They get a 35% discount on the

non-traffic sensitive element. But there still is a non-traffic sensitive element for all the other carriers.

CHAIRWOMAN MOORE: Is it applied in a manner that is different than AT&T?

MR. QUAINANCE: It is on a per minute basis. It's at a lower rate.

CHAIRWOMAN MOORE: At one fixed charge?

MR. QUAINANCE: Well, on the nationwide level, the AT&T rate is 4.61 cents per minute and the other carrier's rate is three cents a minute. 35% differential between AT&T communications will have to pay versus MCI or Southern Pacific.

The other issue was measured service and in talking about just the notion of changing out of central office to provide measured service. I think in some cases especially in some of the smaller central offices, you are going to find advantages in lower maintenance costs that go with those change outs as well as the opportunity to sell some of the more exotic services to some of the customers. The custom calling forward type things. So there are revenue opportunities as well as expense savings that go with that conversion to provide measured service.

CHAIRWOMAN MOORE: All right. Let me ask you a quick question. I know that General Telephone probably has done a great deal with the measured service in some of the areas and a lot of the pilot studies and stuff are worked on by General Telephone.

First, on your observation that there is indeed a subsidy that is paid, an access charge that is paid by the MCI

and Sprint but at a different (Inaudible -- there is a blank in the tape) of the PUC on the state access charges making and eliminating that differential and having them pay the same as the other companies?

MR. QUAINANCE: No. Generally the access provided to the other carriers is less efficient. It has been termed as an inferior access; more digits dialed, the requirement for a touch tone telephone, lack of accurate metering of the length of the call. Indeed and until equal access becomes available in three, four, or five years I think that a differential between the AT&T rate and the FCC's rate is really in order.

CHAIRWOMAN MOORE: How do you anticipate your bringing your system up if you don't have that additional revenue to help you do that in terms of making your system work better for them?

MR. QUAINANCE: We have agreed that by, I think it is 1987 or 1988, that we will provide the equal access capabilities from our switching equipment.

CHAIRWOMAN MOORE: So you think that you should not get paid until...

MR. QUAINANCE: Until the access is equal. The price should reflect a differential.

CHAIRWOMAN MOORE: Bruce.

ASSEMBLYMAN BRONZAN: A slight tangent to that. I understand that General Telephone is making substantial investments in the development in urban areas. Can you describe to me what the relative comparison is between their development right now in rural areas?

MR. QUAINANCE: Well, we are in the process of converting both rural and urban central offices to electronic or digital switching and what we have done in the modified rate case that we are filing late this week is offered to provide a discounted rate where we can't provide measured service. So, where we don't have the capability, we are going to have a discounted rate for lifeline service. This was even before the passage of the Moore Universal Telephone Service Act. But we are converting almost at the same speed both in the rural and urban areas to electronic switching.

Thank you.

CHAIRWOMAN MOORE: Thank you. One more.

ASSEMBLYMAN PEACE: Can you tell me what percentage of your total income is from interstate business calls?

MR. QUAINANCE: Interstate probably represents about a third of our long distance business and intrastate is probably the other two-thirds.

ASSEMBLYMAN PEACE: What percentage of your business are business calls as opposed to residential calls?

MR. QUAINANCE: I don't know exactly but what we have seen is an interesting shift in that business over the last three years where now the preponderance of revenue comes from residence customers versus business customers. It used to be about 65 percent of our long distance revenues came from business customers. Now, I believe that it is less than 45 percent. There has been a shift in the business probably because the large users have abandoned the AT&T network and gone to other ways of getting the service.

ASSEMBLYMAN PEACE: Do you have a handle on the basic average cost of providing dial tone in a residential hookup?

MR. QUAINANCE: Probably in an urban area somewhere between \$15 to \$25 and in a rural area, because of the longer distribution systems involved, \$25 to \$40.

ASSEMBLYMAN PEACE: And, finally, as a matter of policy if you have the option to make that determination without the pragmatic aspects of cost, do you think that there should be an income test for lifeline service or dial tone service or anything else?

MR. QUAINANCE: Yes. And the reason I say that is in looking at our residential measured service today we find that about 60% of the people subscribing to that service now make in excess of \$20,000 to \$25,000 a year. Now, those aren't poor folks by any means.

ASSEMBLYMAN PEACE: Well, we know that they will pay it one way or the other, whether it is through other services.

MR. QUAINANCE: But they have taken that service for a number of reasons. They may not make long distance calls. They may have a second home. But it is not simply because they couldn't afford the service.

ASSEMBLYMAN PEACE: Thank you.

MR. NORMAN J. PHILLIPS: Madam Chairwoman and members, my name is Norman Phillips. I am General Manager for Pacific Telephone Company for the Northern California territory which includes the 38 northern counties of the State.

I will not refer to prepared notes but rather share with you the concerns that my corporation has focusing principally on the possibility of competition on an intraLATA basis.

The genesis of the problem as we recognize it today goes back to 1934, as you well know, from which point the regulatory authorities both state and federal began to price telephone service in terms of social value rather than in terms of its relationship to cost. And that provided what is recognized today and what has been expressed here the finest telephone system in the world and that created the largest corporation in the world illustrating the benefit of free enterprise and I refer to AT&T when I make that comment.

In 1968 the Federal Communications Commission introduced competition in the equipment market and in 1969 in the toll market and the introduction of competition had the effect of starting a slow move of driving price closer to cost not necessarily to cost. And we find that as the subsidy began to erode, both from the contribution that was realized in the equipment market, particularly the business equipments and the loss of the revenue screen to the other carriers who received their circuits from AT&T as has been described at a price less than AT&T will ultimately pay and at a price less than AT&T could realize from the use of those circuits on a minute by minute basis. We find that a loss of the revenue subsidy began to drive price closer to cost.

Now whether or not we agree with what has happened it is fact, and unless federal legislation changes the picture as we recognize it today, residence and business subscribers will indeed see an increase in their basic exchange rates if indeed the Public Utilities Commission authorizes the rates. And not only Pacific, but other carriers are seeking to partially offset the loss of the contribution.



The concern that we have now stems from several points of view internal to Pacific Telephone. About 28% of our business revenue comes from 240 business customers. The Bank of America has been mentioned. A valued customer and one of our larger customers but it has been indeed cheaper for them to move to other carriers and in some cases their own systems since competition was authorized in the long distance market on an interstate basis. I might point out that the lack of an intrastate certificate of convenience and necessity has not deterred other carriers from encroaching upon the interstate market in California, both from a direct confrontation that has been ignored and from possibly the routing of such calls, for example, San Francisco to San Diego through Reno, Nevada or Phoenix, Arizona and thereby identifying it as an intrastate call.

The concern that we face right now, and I am sure that your committee is facing, is the loss of an additional seven hundred million dollars of competition that we currently realize from intraLATA short haul toll. Illustration, Santa Rosa to San Francisco. If that subsidy is lost, it will have the effect of placing, if all of those losses are placed on a subscriber's account, another \$8 a month on everyone of our subscriber's bill.

Now, a one dollar increase per month for our subscribers is valued about 86 million dollars a year. We have some seven and a half million customers at the present time. The concern that we have about the loss of that subsidy and the very present possibility of forcing some people off the telephone network due to the loss of revenue will result in a smaller customer body

having to pay an ever increasing cost of service. And as the base diminishes, the cost must be spread over fewer people. Now, we share the concerns that have been expressed here about equipping ourselves to provide measured service. Presently over 84 percent of our customers have access to measured service and we expect to be fully measured by the end of the decade of the 80's with, perhaps, a very few of the remote offices moving into the 1990 and 1991 period.

The difficulty in equipping all of the offices for measured services surely is an economic one. We are currently spending two billion four hundred million dollars in our construction programs, about five hundred of which is modernization. And I illustrate that point to tell you that we are replacing electrical mechanical equipments before they have worn in order to introduce the capability of measured service in the larger of the small communities in the turf for which I am responsible.

If there is one serious issue left to the state jurisdiction it is in the management of the intraLATA franchise. And if competition is allowed on an intraLATA basis as has been suggested, let me suggest, for your consideration, that the competitors will not be at all interested in the nonprofitable remote areas of rural California any more than they are currently in the nonprofitable toll areas in Northern California. Where they have introduced themselves is in the dense high profit, low cost areas and I submit for your consideration that that will follow should competition be allowed on an intraLATA basis.

We have been very much involved with the California Commission in the interest of universal service. We cooperated with the Commission in the sixties. I was assistant Vice President, Regulatory Manager for five years in the seventies, attended many hearings and I can assure you that we are vitally concerned with the provision of universal service. That is why even in the pending rate proceeding we have continued a lifeline provision, a lifeline rate where measured service is not available, a measured rate provision and unlimited calling for those who wish and can afford to pay for it. We will continue that concern and be as supportive as possible, sharing with this committee our growing concern about the possibility of competition interLATA.

Thank you.

CHAIRWOMAN MOORE: You heard the comments of the PUC staff where they are going to recommend that there not be any competition. I am sure that that meets with your satisfaction to say the least.

MR. PHILLIPS: That brightened up my morning considerably.

CHAIRWOMAN MOORE: A couple of questions. One of the things that we have not discussed this morning -- I meant to do it a little bit with the rural companies and Mr. Sebastian if you are so moved, if you want to make a comment on this question, feel free to come back.

We didn't talk very much about bypass as we have gone along and I am just concerned that some of the smaller independent companies may really face that as a real problem, the

potential bypass and what your concerns are at Pacific Telephone particularly with Bank of America, who we have heard talked about a great deal this morning. They are developing their own network and system and going off and just what real impact that will have on this whole concept of universal telephone, the more that we have shifting off the system.

MR. PHILLIPS: Well, our concern is one of trying to find that delicate balance of determining how much of the loss of subsidy should be borne by the subscriber and how much by the other carrier. If the bulk of the subsidy is shifted to the other carriers, we have already witnessed that they will find ways to route their calls on their own systems and not on facilities provided by Pacific Telephone Company. For example, if MCI or any other carrier found that it would be more profitable for them to avoid the access charge for using Pacific Telephone facilities from San Francisco to Santa Rosa they will install their own facilities just as MCI is on a national basis today.

The concern that we have is, as that bypass occurs, bypassing the local telephone company network and focusing on one spot from which they can distribute the calls on a local exchange basis as those revenues are lost, it goes back to the point made a moment ago that the then revenue requirements will have to be shifted to the subscribers since there is no one left to pay them. We will be forcing subscribers off the network due to the high cost of service unless some other form of subsidy is generated.

CHAIRWOMAN MOORE: Well, if they blatantly billed and they are really entering the California market and certainly that ought to make them subject to the scrutiny of the PUC and certainly one of the problems that we have had with bypass is the inability to identify who they are. Although we know in our hearts it has been real difficult because I can't find an MCI person that attempts bypassing and so I think that is one of the real problems that we have. Does Pacific have any recommendations on how the PUC can catch these guys?

MR. PHILLIPS: Well, we have asked in the current proceeding. Richard Oddogers has filed a discovery motion, that has been honored by the California Commission, and Mr. Evans could probably speak to that in more detail than I could, to look at their billing records for customers in California to determine what indeed they are charging the customers, which should give a relatively good illustration of the amount of revenue being produced.

CHAIRWOMAN MOORE: On the intrastate basis?

MR. PHILLIPS: On the intrastate basis, yes.

CHAIRWOMAN MOORE: One other question, one of the concerns that has been raised and we have not approached this with anyone but I will direct this one to you, one of the concerns that I have is that under the new system where residential customers can select a long distance carrier other than the -- what is the new Bell company?

MR. PHILLIPS: AT&T Communications.

CHAIRWOMAN MOORE: AT&T Communications. Many people are unaware of this and have not selected. What will be your manner

of assigning a long distance carrier to people who have neglected to select their own?

MR. PHILLIPS: Until they change and select a carrier other than AT&T Communications, we have to make the assumption that they want to continue with AT&T Communications. Now, before that is construed as some form of chicanery here, bear in mind that ...

CHAIRWOMAN MOORE: We will call it monopoly.

MR. PHILLIPS: AT&T Communications, as was pointed out, will be paying 35 percent more access charge in 1984 than any other exchange carrier.

Now the other carriers are doing a remarkably capable advertising job and it is of course incumbent on them to solicit their own company, their own customers. It is not incumbent upon Pacific Telephone to advertise for them.

CHAIRWOMAN MOORE: Suppose there was a requirement made and I think that we have done that in some of our bills that the customers be notified of the new range of services and things that are available. I am sure that Pacific Telephone is going to give equal billing to the other companies as they will to AT&T. I shouldn't say Pacific Telephone. What is it? That awful name.

MR. PHILLIPS: Teleaus.

CHAIRWOMAN MOORE: What is it?

MR. PHILLIPS: Well, I am rather proud of that.

CHAIRWOMAN MOORE: Pacific Teleaus. I think that you would be proud of it since it is your company. So it is understandable why you would be proud of it. You will give equal billing to the other companies in terms of informing the consumer

that they do have alternatives to the current system in that it would be wise to look into that.

MR. PHILLIPS: Certainly and let me assure you that if indeed the Commission deems that to be an appropriate activity for us in spending the moneys that flow from a revenue stream which comes from our subscribers, we will do so gladly and willing as we always have.

CHAIRWOMAN MOORE: But you don't see any problem with the fact that there is no chance of your favoring AT&T Communications by making sure that ... you do have the authority. My question is, do you have the authority to make other changes? In other words, if someone did not ascribe, you are saying that you are doing it on the basis that you have to assume that they would want to continue with the existing service.

MR. PHILLIPS: Yes.

CHAIRWOMAN MOORE: Suppose you didn't assume that, do you have the authority to make this assignment?

MR. PHILLIPS: No.

CHAIRWOMAN MOORE: I just wonder where the authority rests.

MR. PHILLIPS: With the subscriber. The subscriber will select a carrier of their choice and we will honor that of course and they will be dialing the digits that will identify themselves. By June of 1984 we are required to have our first office that provides comparable service, access that was described a moment ago.

CHAIRWOMAN MOORE: Well, I guess what I am saying is that I am really concerned and one of the concerns that we have

is that the general public is totally unaware that they can select these other choices. Regardless of the advertisement that are in the newspapers, many people don't believe that this applies to them. They think that MCI and Sprint and some of the others are for businesses and they are not clear that this is a residential kind of thing. Because most people are unaware that 1984 is upon us and all of the dramatic changes that we are discussing this morning are going to affect them in their little houses with their one little line. So what I am saying to you and what I am trying to get you to tell me is whether it is out of the goodness of your heart that you are not making a decision to assign them or whether there is something in the law that precludes you from being able to assign them.

MR. PHILLIPS: No, I am unaware of any legal prohibition against our equally and honestly and fairly representing all the other long distance carriers. But let me put it in the context of my owning Pacific Telephone Company. I would not spend the rate payer's money to advertise a long distance carrier. I would spend the rate payer's money on issues and services that affected the rate payer in terms of the service that I provide.

CHAIRWOMAN MOORE: Well, I guess what I am saying is that it is supposed to be competition and remember that the whole intent of competition is for the benefit of the consumer and that is supposed to bring about low rates. And I guess what I am saying is that the only way that they can approve this benefit is to know that it is available. If you are saying, if MCI is saying, that they cut in half their current telephone bill then



certainly that is a benefit and if I were a subscriber I would certainly like to know that this option is available to me and certainly would think that that would be a part of some of the information that is given.

You still haven't answered my question because the main thing that I want you to tell me is whether or not you could arbitrarily assign someone to MCI?

MR. PHILLIPS: No.

CHAIRWOMAN MOORE: You can't.

MR. PHILLIPS: I cannot.

CHAIRWOMAN MOORE: The law says that you can't do that.

MR. PHILLIPS: I cannot change the customer's service until that customer orders me to change it. That is in our Teleaus.

CHAIRWOMAN MOORE: I know who played a hand in getting that into law.

ASSEMBLYMAN BRONZAN: I have a quick question here for Mr. Phillips but I would like to encourage you, if you don't have any serious objections to perhaps get to some of the general public who have been waiting.

CHAIRWOMAN MOORE: We are.

ASSEMBLYMAN BRONZAN: Just very quickly. Since I understand that you have most of the franchises, and not all of the franchises are cellular at least in metropolitan areas, when and how do you plan to provide cellular rates and other new technologies in rural areas?

MR. PHILLIPS: We are providing it at the opening of the Olympics in Los Angeles. We have our first tower up in Los

Angeles and that is the only area that we are authorized to provide cellular service so far. We have already made the first test call using the cellular system and find that it works as well as we thought it did. So the service will be offered in Los Angeles shortly before the Olympic Games and I believe that is some ten or twelve months away.

ASSEMBLYMAN BRONZAN: Well, let me ask you more about that later because I am still concerned about the method by which you plan on developing it in rural areas but we are going to lose some folks if we don't ...

ASSEMBLYMAN PEACE: With respect to the question of assignment of a long distance carrier, AT&T pays 35 percent greater amount of access charge to PAC TEL and the other operators. Don't you therefore have a financial incentive to maintain as many of your customers on AT&T as possible?

MR. PHILLIPS: Bearing in mind that AT&T pays that access to all telephone companies, yes. I would say that that would be an incentive for the first year. That is probably brought about by the FCC and by the way that 35% decreases to 12 and then to 6, that is brought about by the FCC to fund the two billion, two hundred million dollar penalty that AT&T must pay.

ASSEMBLYMAN PEACE: Would there be any corresponding benefit on local phone bills as a result of your receiving a higher access charge that is spread across from AT&T? In other words, is there any corresponding benefit to that customer and his local bill?

MR. PHILLIPS: That would vary by the long distance carrier because they charge different rates. Sprint rates are

different than MCI and MCI are different than AT&T. The benefit that would accrue to the customer would be on the nature of their long distance...

ASSEMBLYMAN PEACE: Now, I am talking about the nature of your bill. If you have a higher percentage of AT&T long distance users as opposed to Sprint or MCI long distance users is that going to accrue more income to Pacific Telephone which is in turn going to keep your local telephone base down?

MR. PHILLIPS: Yes.

ASSEMBLYMAN PEACE: Fine. Thank you.

Second, as a former MCI user let me ask you a question, is the quality of the signal or whatever it is that you provide to MCI or to Sprint, exactly on long distance, the same as you provide to AT&T?

MR. PHILLIPS: We cannot differentiate. There would be no way to separate ...

ASSEMBLYMAN PEACE: Just for information sake, why technologically is the MCI, Sprint, etc., at this junction anyway somewhat inferior as far as being able to hear?

MR. PHILLIPS: I want to be careful on how I answer that because I don't know if they are inferior. But, until we can equip our offices to provide customer identification they have to dial more digits.

ASSEMBLYMAN PEACE: If there is a quality of signal difference, can you tell me without any fear of contradiction that that lack of quality is not in any way traceable to Pacific Telephone, or AT&T that it has to be within MCI or Sprint? Is there any technical ...

MR. PHILLIPS: I testify to that. Yes. The answer is in the affirmative.

ASSEMBLYMAN BRONZAN: Without any severe objections, let me thank you for being here and ask you to stay around because we may want to ask some questions or direct some questions to you. We have a number of people who have indicated, both as individual members of the public and representing public interest groups, their desire to speak. I think I will allow (whoever) wishes to come up in whatever order they want to come up.

Who would like to come and speak on behalf of yourself or behalf of the general public?

If all of those who wish to speak could come on up towards the front then we could move it along.

MS. DIANE OREN: My name is Diane Oren. I am the Director of Information Referral for the Older Americans Organization here in Fresno. We are a nonprofit, public service corporation serving the elderly since 1967. I am very nervous so I am going to try to calm down. I am not an expert on antitrust law or corporate law. And, I am not even sure that I understood everything that I have heard here this morning but we did want to give you some general observations about the telephone usage patterns of senior citizens. These observations are gleaned from serving approximately 30,000 of the 80,000 elderly people who reside in Fresno and Madera Counties.

As a preface to the following observations please be advised that our position is one which supports the preservation of existing service for seniors at the lowest cost possible. We believe that the following statements should be considered,

particularly for senior citizens living in rural areas of the Central Valley.

First' the telephone is often the primary and singular link that an older person has for the outside world. It is not a luxury item but a necessity. Many older persons are dependent upon the telephone for daily reassurance calls, participation in the lifeline program and simply just to receive a critical social phone call. These phone calls have maintained and often saved seniors' lives.

Second, most older people are living on fixed, limited incomes. A large portion of the older Americans organizations client population is the poorest elderly -- those on SSI, Supplemental Security Income. For many reasons, older people will opt to pay their necessary bills such as rent, utilities, telephone and they will eliminate other items when the money runs out. Such other items can include food, medicine, doctor's visits, and other obvious essentials. The most recent example of this situation occurring in California was last year when the effects of MediCal cuts were felt by thousands of senior citizens across this state.

The seniors were forced to make a drastic choice between health care and eating. We hope seniors won't be forced once again to choose a telephone over food.

Third, many seniors would be here today but do not have the transportation. This is particularly true for rural seniors. This factor further points out the importance of the telephone as the primary method for communication, a method which allows older persons to give and receive information. We believe access

to this method must be preserved and is critical to an older person's life.

Finally, we believe there is a lack of understanding of this issue and lack of adequate public service information. This is an acute problem when considering whether the elderly realize what is occurring and later what negative impact it may have on their lives. We believe the elderly population needs specialized public information made available to them on this issue.

We thank you for this opportunity to give you our comments and we will be happy to answer any questions that you might have.

CHAIRWOMAN MOORE: Thank you. Excellent.

I have a couple of question for you. I will let Mr. Peace go before me. Mr. Peace.

ASSEMBLYMAN PEACE: Just one question that I asked earlier of one of the representatives whether they thought that notion or concept of access to dial tone ought to have an income test and they thought that it should. How do you feel about that?

MS. OREN: We would support that. But I think that seniors need an even more specialized approach than that.

ASSEMBLYMAN PEACE: Let me rephrase the question. Ignore the financial -- policywise as a matter of philosophy, should there be special tests on the access whether it be income, age or otherwise?

MS. OREN: Yes.

ASSEMBLYMAN PEACE: Okay. Thank you.

CHAIRWOMAN MOORE: We have AB 1348 and in that bill, I don't know if you are familiar with the bill or not, but it certainly should go a long way to take care some of your concerns for the senior citizens particularly because one portion of it calls for the PUC to take into consideration special communication needs of people as well as income as a factor. Certainly one of the things that might be helpful if those of you who are working with seniors as well could help us in terms of defining a communications need. You pointed to a very important factor in your testimony when you speak to the whole changing deregulated environment from the busses to natural gas. They are keeping people, they are isolating many of our senior citizens which has always been a problem of senior citizens this whole ideal of isolation. Now, they can't get out. There are no busses and some of the bus routes and the other means of traditional transportation with the deregulation. Airlines and other things are going up and then when you finally take away their last way of communicating -- the telephone -- then you are really in trouble. I think that some of these things, the whole area of seniors in this whole ideal, and the whole notion of isolation certainly needs to be highlighted.

The other thing that you have spoken to, and it is something that we need your help in helping us to target that, is this ideal of better information being provided to them so that they know and maybe there is a need to develop some kind of special pamphlet that the carriers need to do. I think that not only are seniors not well informed, most people are not and I think that that is something that we are going to have to do. If

you can give some thoughts to these, I would like for my office to be in contact with you and others like you in helping us developing some realistic needs for communication for seniors.

MS. OREN: I am encouraged by your remarks and we would be happy to help in any way that we could.

CHAIRWOMAN MOORE: We will be in touch for sure. Certainly through Mr. Bronzan's office here.

MS. GAY KENNEDY: I hope you can hear me through this now. My name is Gay Kennedy. I am putting on a little bit of a different hat today in representing the displaced homemakers network. I am Vice President of that and that is a volunteer position.

A displaced homemaker (I want to give you a real brief definition for those who may not know it) is normally a woman in her later years, 40 or over, who must re-enter the workforce or enter the workforce for the first time as a result of either a divorce, a disabled spouse, or becoming a widow. This telephone situation is very critical to her and more so in the rural. It seems like that no matter what happens it impacts the rural the worst. We have had social services cut backs. We have had all kinds of things happen where the rural people end up in a squeeze play. A telephone is more than a convenience. It is something that is a survival. As an example I throw to you how do you feel when your phone is out of order. I feel like I am lost in the wilderness because that is my link and I live right here in Fresno. You could imagine how those in the rural community would feel if they did not have one.



They are faced not only with the communications problems, they are faced with life and its survival. If they need medical care, how do they get it? How do they call for help? For women and displaced homemakers particularly who are trying to work, they have child-care problems. Sometimes if they have older children the older children can take care of the younger ones as long as there is some communications factor there but they would not leave a 14 or 15 year old child with a 12 year old child without a telephone. So you are increasing their problems in working and I think these are some of the side things that perhaps have not been considered because we just look at costs.

Now, when it comes to costs I have some real concern. Most of these people that we are talking about are low income. Most displaced homemakers are either low income or no income. They have to survive on the help from family and friends and things like that until they can get themselves back into the main stream. We also have communications problems, language barriers. My concern is when we get into this competition of the things between the phone companies, if I understood this right, how are these people going to make adequate decisions? With the older Americans we found many, many times that making people understand what is going on is the real critical issue. Once they understand it, that is fine. The only access these people are going to have is television. So whoever can put on the most advertising that they are going to do the best job or send out the most mailers or have easily accessible the most winning personality in the form of a salesman, I am afraid is the one

that is going to get the service whether or not they are the most qualified.

So, I think as elected representatives, you have an extreme responsibility and I wouldn't want to be in your shoes because I know that you are here because of your interest in these people and what they need.

I would also like to remind you that it is the local charges and not the long distance charges that are important. These people don't make long distance calls. They can't afford to make long distance calls. So it doesn't matter how cheap long distance is. It is the local.

I would like you to be aware that the effects of this are very far reaching to many segments of our society, not just the older persons. Lots of people can be poor. Lots of people cannot afford telephones. And, I agree with Diane, I hope that we don't have to make people have a situation where people have to choose between the telephone and food because it is certainly a life survival situation.

I appreciate your understanding and if you had been there you would know what I am talking about. I have been there. Please do whatever is necessary to alleviate the situation and I appreciate the bills that have been passed to help do that. Thank you very much.

CHAIRWOMAN MOORE: Thank you very much for your comments. We are going to try. That is one of the real problems with the whole divestiture, you touched on your testimony, and that is the idea, who makes long distance calls? Because the long distance callers are the ones who most benefit from the divestiture. The things that we have been doing from

AB 1348 to other bills is trying to do something to bring back some of the revenues that are lost by the long distance calls which have traditionally subsidized local calls. We are trying to do something by establishing a pool that would bring some of that money back to offset the increased costs. So we thank you for your testimony and we will certainly keep your concerns in mind.

MS. KENNEDY: Thank you.

CHAIRWOMAN MOORE: Can we move now to the Community of Public Testimony?

Now, Is the Mayor from the City of Orange Cove here?

Please identify yourself and where you are from.

MS. MARGIE WILSON: I am Margie Wilson, a retired senior citizen, a widow on low income. I do work primarily for senior citizens who are incapable, who cannot cope due to many different things. They have been intimidated. Many of them have been so intimidated and they wouldn't go out and ask for a crumb of bread if they were starving to death because they have been put down too many times. Many of them have been left alone without any experience (business experience) on how to go about things, who to go to, where to get information, and they are sent about in circles. They finally give up. When it comes to getting information, you are referred to someone and this someone says, "Oh, well, I am not the person you want to see. You go and see so and so." You get there and then, "well, I am not the person. I don't know why you send you here. You go see Mr. So and So." Well, you go see Mr. So and So and pretty soon you have gone to about six or eight people. You still don't have any information.

You have spent a lot of time and energy, energy which many of us do not have. We do not have transportation, a telephone being taken away from us, where would we be? There would be no communication. We would be stuck into a hole where we could not communicate, where we could not reach anyone. We could not get help. We wouldn't know who to call for help if we did have a phone. This is a situation that we're facing. Okay with all of these little telephone companies, different ones and different branches, we want to know who they are, who they are going to represent, what it is going to cost us. I don't want to pay for a telephone for a souvenir if I can't afford it. That is something I don't need. I need a phone to be in communication, to have an opportunity to call and have a little socialization even because I can't go. I can't go out for it. All I can do is call a friend and if she has a problem or I have a problem, we can console each other or be part of it. Why make it that rough on us that we have no rights? It is like someone said once some senator said that if you can't afford three dollars for a gallon of gas you are nonproductive. Well, what would it have been if we hadn't been productive all of our life? He said you don't need it if you can't pay three dollars. Leave it for the ones who can afford it. It was in his home district and he told this group, there was about 15 of us, if you want to see me you can come to Washington, D.C., from coast to coast. We went to Washington, D.C. When we got there, we got an appointment to see this Senator, he did not show. He sent out his aides.

ASSEMBLYMAN PEACE: He was asleep.

MS. WILSON: One, two, three, four of them. They were all out there. They did not know how to answer our questions. I finally got the floor. I said that we were told in San Francisco that if we wanted to see him, to come to Washington, D.C. Now here we are, where is he? Who told you that? His representative in San Francisco. His field rep.

Well there was nothing more to be said. So we left the chambers. There was a group of 4-H boys that were waiting to see the Senator. So a few of our people decided that we will just go back. They went back and caught him while he was talking with the 4-H boys.

CHAIRWOMAN MOORE: Well, that was good.

MS. WILSON: Well, this happen in Washington, D.C. So this is one thing. We have got to get organized and we have to make ourselves known. We have to be heard from coast to coast. We have to know when we get into the beehive that we are not going to be stung. We are organized. The bees are organized.

CHAIRWOMAN MOORE: What you have to do then with that organization is direct some of their concerns to the PUC.

MS. WILSON: Right. And this is what we want. The PUC to our representatives. Our representatives can't do a thing for us if we don't contact them and let them know what we need.

CHAIRWOMAN MOORE: Absolutely.

MS. WILSON: And too many people are discouraged and so on and so forth, so they just give up, and say if I say anything they are just going to make it worse on us.

CHAIRWOMAN MOORE: Also you direct their letters and copies of their letters to me in my office in Sacramento, and to the PUC. We will give it to you before you leave.

MS. WILSON: All right. I would like to have your call.

CHAIRWOMAN MOORE: And we can follow up and when we are making laws and stuff we can know that the direction that we are taking is the direction that you would like for us to take.

MS. WILSON: I would like to say that the Public Utilities Commission was formed in the first place to represent the consumers and not the big companies. This is one thing I think that we should get onto and hold them to it, not let them be intimidated or respond to the big companies.

CHAIRWOMAN MOORE: You have to keep telling them that. Sometimes they forget.

MS. WILSON: Right. This is what I want to tell every senior citizen in this Valley that if we don't get organized the bees aren't going to make honey.

CHAIRWOMAN MOORE: That is right. Thank you very much for your testimony.

ASSEMBLYMAN PEACE: One quick question. Madam, are you more concerned about your long distance bills or your local phone bill?

MS. WILSON: I am concerned very much about the local bills. If we want to call a doctor or an ambulance or a fire engineer in the middle of the night or our house is being broken into, we don't want to have any problems getting through.

ASSEMBLYMAN PEACE: So, your local phone bill is more important to you more than a lower long distance bill.

MS. WILSON: Long distance -- there are many of us who have children and relatives in other areas that we would like to have an opportunity to call once in a great while.

ASSEMBLYMAN PEACE: I understand. There is a trade off here. Thank you.

MR. EARL GOSS: Madam Chairperson and others of the Committee, my name is Earl Goss and I am a member of the Federation of Retired Union Members here in Fresno. We are not only concerned about our own members, but we are concerned about all the other senior citizens in Fresno that will be in the same position that we are going to find ourselves faced with, some huge telephone bills and what to cut down on to maintain our telephone bill because, well, I have lived a long time. At one time it perhaps wasn't that much of a necessity as it is now.

Believe you me, that the age that we live in now when all of our senior citizens are practically living behind locked doors and somebody spoke of the lousy transportation that we have, a telephone is a must. In my own experience, maybe a little over a year ago, I had a slight stroke one night. Along during the night my wife called the ambulance and got me into the hospital and they were able to minimize the damage. I suffered very little damage from it. If I had to wait or my wife had to go some place to try to get a telephone call, her getting out in the night would have been a dangerous thing. The way things are, I don't know what the results would have been. I thank God that she was able to make a call and get some help.

I mentioned about living behind locked doors. At a time when no one is safe and if we can't call the authorities when something goes wrong, we are in terrific danger. But I am not going into a long thing here about things but I think the bottom line is that we need to be able to maintain our telephones. I

will say this that I don't see much sympathy from the Public Utilities Commission to the user of the telephone. It seems to me that their concern is more and I am sure that they deserve profits but you must remember that Ma Bell was one of the richest corporations in the whole world when they were able to act as they had. Now that they are being busted up, the bottom line is that the user of the telephone is going to have to pay. I think that the local calls for the senior citizens and the other people are most important. Reach out and touch somebody a long ways away sure that is fine. I like to hear my daughter's voice who lives in Florida. But we have to make those calls few and far between. But if it comes to having to do away with them we will do that.

I haven't read the bill and I hope that bill has some protection in there for us. I just hope and pray that you will be able to give us some relief.

Thank you.

MS. ANN B. MARIS: I am Ann B. Maris. I am an advocate of Seniors. I have been for 10 or 12 years. I think the telephone is very important to the seniors citizens. This has been a great meeting today. I have learned more about the telephone situation than I could have read in the paper.

I didn't know that we had so many entities in the telephone system. What puzzles me about the telephone company -- they used to have a lot of members and we had a good service and we didn't pay a lot for our service. Now they have fewer members and they are all computerized and we are still paying for their computers which have already been paid for. They keep adding



onto our bill. They do it now -- with me it is perhaps because I didn't read the inserts in my bill, -- that my bill jumped from five something to seven something. Just a straight one service call phone.

I really am disturbed that the Pacific Telephone Company has had their problem. I used to work for the Bank of America and I know that when they had to split up with TransAmerica and everything that that was a serious situation.

But not getting off into all those details, I think that it is very important for the seniors to be able to have a telephone and not have to pay through the nose. I speak to 20 seniors every day from my telephone to check on them. They can't call me because they cannot see to dial. But they can answer the telephone. Many seniors call me to ask me to give them a phone number. They can't look it up in the phone book because of the fine print. So you see the seniors are really in need of a telephone. When I call them I have to cut them off because if I am going to make 20 calls a day, they have to be short. Well, they want to talk. They want to tell me all their problems. So, I really truly believe anything you folks can do to help the seniors with the lifeline or whatever with your bill is very important.

CHAIRWOMAN MOORE: So what you are saying brings or raises a whole new issue that measured service would severely handicap your efforts to provide an additional service to seniors who can't do it themselves. In other words if you had to pay for every minute that you talked on the phone or if there was some system similar to that then that would not be in the best interest of seniors.

MS. MARIS: Right.

CHAIRWOMAN MOORE: Thank you very much.

ASSEMBLYMAN PEACE: Can I ask you the same questions that I asked the others? What is the most important to you? The local phone bill?

MS. MARIS: Local.

ASSEMBLYMAN PEACE: You would be willing to have a little higher long distance in order to keep the local down?

MS. MARIS: Right.

CHAIRWOMAN MOORE: We have one more.

MS. MARTHA RICE: I am Martha Rice. I live up in the foothills, 40 miles from here.

CHAIRWOMAN MOORE: You have to speak into the mike just like you would the phone.

MS. RICE: When it rains our phone goes out usually.

CHAIRWOMAN MOORE: Push it up. I see people straining to hear you.

MS. RICE: When it rains the phone usually goes out and when it goes out it goes out all over up there. So you either sit and wait for them to finally fix it or you run around or go into town.

All right we are ten miles from Orange Cove. Now the big thing with me is every place I call is a toll call. Now is that considered long distance, toll calls? That is all I have. I can call a couple of my friends who live a few miles from me but most of my things are calling a doctor or calling people that I know in Reedley and they are all toll calls.

CHAIRWOMAN MOORE: What distance are we talking about that consists of a long distance call for you?

MS. RICE: I can't call ten miles. I can't call down to the nearest town.

CHAIRWOMAN MOORE: Without it being a toll?

MS. RICE: Without it being a toll. I can call up almost to the park. But I don't know anybody up there. My doctor isn't up there.

ASSEMBLYMAN PEACE: Change your friends.

MS. RICE: You can't change a telephone company. You know, you are just stuck with it and as I say it is mostly all toll calls.

CHAIRWOMAN MOORE: Does the extended service area apply to you?

MS. RICE: I don't think so. They have never said so. We are on a party line. That part is all right. I haven't been bothered with them being on, you know, over run.

CHAIRWOMAN MOORE: Who is your telephone carrier?

MS. RICE: Pacific. I mean General. Pardon me, General. I have had so many of them. I forget.

CHAIRWOMAN MOORE: I see Pacific shaking their head back there. You can't lay that one on them.

MS. RICE: I am sorry about that. I really am. But it is just a telephone to me. And whoever puts it out, it is a pain in the neck to pay what I do and then I have to pay for every phone call I make.

CHAIRWOMAN MOORE: Okay, thank you. Let me ask you generally about that and in some of the rural areas. Is General still around?

Tom, I didn't see you back there. Tom, on an area like that, you talked about the extended service or someone did. Can you tell me how the extended service would apply to this kind of situation in terms of the toll costs?

MR. QUAINANCE: (Inaudible)...

CHAIRWOMAN MOORE: Well, if you are talking about a small town there couldn't be that many that would be enough to be considered to make it worth your while unless it was something that you would just do. I mean it is probably a very small area that we are talking about, isn't it?

MR. QUAINANCE: Well, the problem is (Inaudible)...

MS. RICE: It is the Dunbat Exchange that we are in.

CHAIRWOMAN MOORE: Do you know that area? Okay. That is something that we will take into consideration, taking a look at some of the extended areas. Certainly that is something that the PUC in California can take a look at.

MS. HELEN MCGIEGER: Madam Chairwoman, I'm Helen McGieger. I live in the same area that Martha does.

CHAIRWOMAN MOORE: You have got to speak into the mike.

MS. MCGIEGER: I am Helen McGieger. I live in the southeast corner of Fresno county. Bruce is quite familiar with our area.

We have, I would say, approximately 5,000 phones within the General Telephone system there and as she states everything that we need to call is long distance. In the wintertime for fire service we have to call Sanger, a long distance phone number. We are unable to call a doctor, the high school which is in Reedley without long distance, a hospital or an ambulance. We

do have volunteers but if your phone is out you certainly can't get to them.

CHAIRWOMAN MOORE: So what you are telling me is that some of your major health - life and death services - are toll calls.

MS. MCGIEGER: That is correct. All of our ...

CHAIRWOMAN MOORE: Do you hear this General Telephone?

UNIDENTIFIED VOICE: (Inaudible)...

CHAIRWOMAN MOORE: It is not available now. And what you are saying to me is that these people are having to pay to make any of their life and death kinds of services ...

MS. MCGIEGER: Not only that, we have paid for 911 for quite some time and it is very upsetting. I know when Bruce was with the Board of Supervisors he pushed and pushed and pushed.

CHAIRWOMAN MOORE: Is Dean Evans still here? What do you have to say about this?

MR. EVANS: In many areas, toll calls to 911 are indeed a reality.

CHAIRWOMAN MOORE: You are stating the problem correctly but the question is what are you going to do about it? There ought to be something that could be done. Certainly the emergency services ought not to be a toll cost.

MR. EVANS: (Inaudible) ... similar service that is in existence now. But the Commission has not authorized this service to a party line with ...

CHAIRWOMAN MOORE: But why should they be penalized because they are party lines (sound in the mike system) because it is not a penalty on them, you know. I am sure that if they

had the option of not being party line customers a lot of them who opt not to have that. But certainly we understand the costs and all the other things that go into making that necessary.

MR. EVANS: ... in the past, instead of it being a party line service.

CHAIRWOMAN MOORE: I recognize that.

MR. EVANS: Service must have another subsidized, or to it. It may not be the case in the future.

CHAIRWOMAN MOORE: Well, I certainly think that with the changes that we are facing it is certainly an area that we ought to look into. I know Mr. Bronzan who is from this area will certainly be looking into that next year and he has my commitment to help him.

MS. MCGIEGER: I think that is part of our coverage. My personal problem will not be solved by 911. My husband is retired military. We are obligated to Lemoore Naval Air Base for anything that they can care for and it costs me over two dollars and some cents right now for each appointment call that I make. It is not chargeable until it is answered. Yet, it takes that much. I am on a four-party line as is Mrs. Rice and our party-line service has been up to \$8.40 and that has been in effect almost two years. You say that if the people could go to single party line, that is fine. Two years ago the single party line was quoted to me at \$21.00. I am sorry. We don't make twenty thousand dollars. We cannot possibly afford that. In purchasing phones we would need two to determine if it is the line or the instrument. General Telephone sent us a notice that if they came to the house and checked the phone and it was the

phone they would charge us ten dollars. If it is the line, then they would fix it. But I also want to know if the line is completely out like it was last Friday, I was assured that it was fixed. I picked up the phone to call. I had nothing. I drove two miles to Mrs. Rice's to use her phone to again to report the phone that I had already reported it at my home.

I want to know, may I deduct the \$10 from my phone bill if my phone is not -- it is not the phone -- that I am leasing from them from my phone bill?

CHAIRWOMAN MOORE: Let me be sure...

MS. MCGIEGER: I am to go 21 miles.

CHAIRWOMAN MOORE: Let me be sure that I am hearing you correctly because you raise some interesting questions that I know that Tom will be addressing at some point.

You are telling me that they charge you a ten dollar service charge to come out to look at your leased phone, is that what you are saying?

MS. MCGIEGER: That is correct. And if it is the phone, then they will charge me ten. If it is in the line ...

CHAIRWOMAN MOORE: In other words if it is something ... when you say the phone it means ...

MS. MCGIEGER: The instrument.

CHAIRWOMAN MOORE: If you dropped it or something like that, if it is your fault, generally, I would think that was the thought behind that. Then you will be charged \$10.

MS. MCGIEGER: My brother-in-law had a phone that the little buttons that you put the receiver on and it goes down, he was in Minnesota on vacation, I saw the telephone man walking

around his home. I went over and I said, "May I help you?" And he says, "Yes, I need to get in the house. Your brother-in-law has left the phone off the hook." I said that he is not here and has not been for two weeks. Come to find out the springs were defective. They had pushed the little button up and opened the four-party line phone. So the four of us then were without a phone. About three days later he worked on the instrument there. This was last year and then the same thing happened again. I went over to Martha's again and yes, we got a very nasty letter from General Telephone and if he didn't stop leaving his phone off the line, they would take his phone out. He is a 75-year-old disabled vet. I have presented that to the PUC and nothing has ever happened. However, the second time around one of the fellows down the street came over and knocked and said, "Helen, is Joe's phone off the line again?" I said, "I will go over and take a look." Took my key, went over and opened the house. Sure enough it was again. So they came out again a second time and replaced the instrument. Now at that time they were not charging. If they would have charged me, I would have probably given him the phone right around his neck.

With the phones, you would actually need two in our area to determine whether it is the line or the instrument and secondly then it is a 42-mile round trip for me to take it to Reedley to have the thing replaced. Like I told the PUC Administrative Law Officer that I appeared before about three years ago representing over 300 people in our area, that is one time, Bruce, that all of the organizations did get together on one thing. But as I had told him I said that one of these days I



am going to see if I can pitch it 150 feet out to the gate and they can pick it up out there. But I need the phone. Our health situation is where we have to have it.

Now, if I cannot have a phone, the energy savings is going to be lost because I am going to have to drive if I need to contact Martha or the Metcalfs or Mrs. Bollinger in the Miramonte area or anything like that -- I am going to have to drive there if I don't have a phone. So I am going to waste more gasoline and the rest of it.

Also, if they are saying we shouldn't live in this rural area which we did choose, it was a nonproductive area because the ranchers had to break up the ranches, the foothills would no longer sustain the cattle because the price was too low. Then, you are going to have me move into the city. Then, I am going to say okay, I want to be near the city services so that I can get to them. Now, you let me go out here in productive ag land which I think is the wrong thing to do. You ask if the rural interests have been sufficiently represented before the PUC. Absolutely, positively not. When I was down complaining, when General Telephone I think it was two or three years ago asking for another rate increase which eventually ended up with me paying \$8.40 basic and now I have a charge for the use of their instrument and there were two more charges on the bottom of the bill last month and I called and I still don't think that I realize what they concern.

There were people from Santa Monica, from Ontario, Pasadena, myself from up here and I have forgotten where other, all complaining about General Telephone and I spoke to the

gentlemen back here and I said that this is one thing I want this company to know. I don't think people mind paying more in today's world when we know things have gone up, if you can afford it. I will qualify it to that. However, if you don't have good phone service and I understand in our particular area all of the older material had been taken out of these other areas and was put into the rural foothill areas that General serves.

CHAIRWOMAN MOORE: You are saying that General Telephone uses their old telephone, outdated antiquated equipment to satisfy the ...

MS. McGIEGER: Why do you think that we are on four-party lines?

CHAIRWOMAN MOORE: Is that the truth, Tom?

MR. QUAINANCE: ... all party lines ...

CHAIRWOMAN MOORE: And with that that means a big increase to them as well.

MR. QUAINANCE: ... your bill ... (Unable to hear everything)

CHAIRWOMAN MOORE: I should love that bill too.

MS. McGIEGER: Absolutely. We think that it is a great thing because ...

CHAIRWOMAN MOORE: Well, I want to know about the equipment. Is that all antiquated equipment that you stuck down there in their area?

Why the four-party line? Where did that come from? That sounds like something out of the 30's.

MR. QUAINANCE: It has to do with rural areas.

MS. MCGIEGER: Well, I paid my footage for that wire and if I don't have a phone, he may not have some wire.

CHAIRWOMAN MOORE: Wow.

MS. MCGIEGER: Bruce will tell you.

(Laughter).

MS. MCGIEGER: No, I don't know what the solution is for the rural interest. The lady had a very good idea that the seniors have got to get organized. I think that is one heck of a problem for those of us in the rural areas compared to those of us in urban areas. There again because of transportation communication. Maybe your group could give us a legislative lobbyist.

CHAIRWOMAN MOORE: You have got one. Right here to my left.

MS. MCGIEGER: Can Bruce appear before the PUC?

CHAIRWOMAN MOORE: Oh, yes.

We are already doing that and one of the things that we are doing, and there is another bill that you should be interested in, is trying to get on an institutional basis someone that represents the consumers at a state level. Such as an office with people's counsel which would represent the people before the PUC. The Governor says we don't need it and we say we do. So maybe you ought to write the Duke and let him know.

ASSEMBLYMAN BRONZAN: Just quickly. Let me make a general comment and then a specific one.

First of all, the testimony that you have just heard is not unique.

CHAIRWOMAN MOORE: Before you make your comments, let's see, I am going to let everybody have a wrap up and is there anyone else that we haven't heard from from the consumer area? We have three more consumers. Can you hold it for a minute or do you want to make it on this one?

ASSEMBLYMAN BRONZAN: No. Let me make it on this here.

CHAIRWOMAN MOORE: Okay.

ASSEMBLYMAN BRONZAN: Let me make part of it because it has to do with what she was saying. The notion of being on a party line is not something from the 30's in many rural areas in this county. That is not -- it still exists. This is not the only place where party lines exist. It is not the only place where you have to pay a toll for any emergency kind of a phone call which is outrageous. I think that it's outrageous that that still exists and it still exists in many areas in this county. I know that it has to be, exist in this county -- it has to exist in other places throughout the State of California.

The general comment that I was going to make, and let me go ahead and make it now, is it is part of the reason that we appreciate you and Chairwoman Moore having the meeting here because I think it is the first time that I know of that the Utilities and Commerce Committee of the Legislature has ever met in Fresno and the needs are unique and are special and they are sometimes impossible for residents living in rural isolated areas. Inasmuch as we have learned from the experts in the business of divestiture we are also learning, thankfully so, from the residents about some of the particular needs they have. I wanted to thank you for coordinating the meeting.

MS. RICE: In the city they can call eight to ten miles locally. We can't.

MR. FINANCE SHEPARD: I can shed some light on some of that.

CHAIRWOMAN MOORE: Well come on, you're next. We are going to have to kind of keep moving but ...

MR. SHEPARD: I will make it brief. I am Finance Shepard, representing Rural Telephone Lines, specifically around mountain rural telephone companies at Sanger and taking in part of Fresno which we are active in today and I have been active in rural telephone communication work on a part-time basis for the last 40 years.

CHAIRWOMAN MOORE: Do you know Mr. Sebastian?

MR. SHEPARD: Yes, I do. I trained a couple of men in my system that went to work for him and did pretty well.

What they are talking about in this Dunlap area is the system is similar to what we have out of Sanger. We have a little rural, now this farmer line system, maybe you are familiar with and maybe you are not, it was organized back ... in fact, ours was organized in 1911 in a contract with Pacific Telephone and the Farmer rural telephone service and we have been operating ever since. This was primarily done to take care of areas which these ladies were just talking about. Now they are telling us that we are going to single party lines and we are not allowed to put in any more party lines and maybe we are not ready for that. I am sure that they are not in the Dunlap area. I made a little survey of that and it seems to be a prospect of about a couple hundred of people up there that are mainly satisfied with their

telephone service under the General System. But under these areas they are not and they never will be operating in that system. We are not ready I think in the total area to go over a four-party line. We cut ours down from eight-party originally back in the 20's to 30's down to four party to make it work on a four cycle ringing. That I think can still be maintained under the new system if they would allow it. I think that we should look into this very, very earnestly before we allow the telephone companies to demand going to the single-party line. Because when you go into the areas where you are more than ten miles out it is expensive to maintain a single line for every customer. We have many people in that and many of them in business, business I am calling farming, business mainly. They have to have a phone but it isn't something that they are using every few minutes to contact customers and so on. They are only using them occasionally once a day. Mainly I have some cattlemen in the Watts Valley area that are in my service area. They need that phone. They come in there in the evening. They are real busy for an hour or so. If they didn't have it, they would be completely lost. But they don't have to have single-party lines. They are getting by very well on four-party. So I think that we should take a whole new look at this and I don't want to take the time here to go into this Dunlap area but I did make a survey that these ladies don't know anything about because what we are interested in may be expanded.

Then I was told by parties from Continental and Pacific that we could no longer extend Farmer Line Service. We could no longer implement them. Well, I looked into it a little bit. The

Congress passed a law back in 1900 or something that created this system and I see no place for its repeal (or benefit) so I mentioned to the Public Utilities man here today and he is going to look into it and give me some information. So I don't see any reason to take up time for that here. But I do want you to know that there is a way to maintain these outlying areas yet if the companies are willing to set up equipment in their local areas to handle party lines as they are doing now.

I actually have 28 lines in service--9 of them are private lines -- and the rest of them are party lines. I looked into it. My company there tells me which is Continental and I do extend over into Pacific, they tell me yes. As long as you keep them, we will let it go but you can't expand it.

CHAIRWOMAN MOORE: How large is your system?

MR. SHEPARD: Well, right now, we are only maintaining 28 lines under this one -- round mountain -- that I am specifically managing.

CHAIRWOMAN MOORE: So you ...

MR. SHEPARD: But I am representing also some other rural areas, Selamind and Kingsburg and in that area.

CHAIRWOMAN MOORE: So when they said that Allegheny was the smallest, I think that you beat them. Allegheny was 54.

MR. SHEPARD: Well, I have more than that. I think I have 58.

CHAIRWOMAN MOORE: Not by much.

MR. SHEPARD: And this is a farmer organized and recognized by Public Utilities.

CHAIRWOMAN MOORE: I would like to talk to you more.

MR. SHEPARD: I would be glad to. Unless you have more, I won't take anymore time to explain it here unless you...

CHAIRWOMAN MOORE: We have two more. I thought you had your hand up. Did you? Don't you want to make a comment?

MR. RAY SCHILLING: My name is Ray Schilling. I represent the Central Labor Council of Fresno and Madera Counties. We have had good representation of retired folks and seniors here. I represent a lot of those folks also, but I would like to make a few remarks regarding the folks that work for a living. They can, in fact, afford to pay their bills, but I think they are also concerned about what you are doing here today and I don't believe that their concerns have been addressed. They are so varied.

For instance, I represent, among others, the communication workers who, you know, are behind the system. So, I am not sure just where their interest lay in all of this. So, all I want to do today is commend you for coming to Fresno to have this hearing, put you on your best behavior, if you will, as you go into session and as you try to come up with answers to the best of your ability to try to answer the needs that you know exist in every household in California. That encompasses all of them. It is a big task that you face.

My phone bill I can afford to pay. I can afford to pay an increase, but why should I if I am not going to get better service or if that is going to short me in some other area? So, I just suggest that you take very seriously the job that you are doing. It looks to me that you have a big task ahead of you.



CHAIRWOMAN MOORE: Thank you very much. We do take this very seriously.

ASSEMBLYMAN PEACE: Before you go, I want to ask you the same question that I asked the others. With respect to your membership, your working people who, as you may very well be able to "afford" to pay for the service, do you feel though that there might be another issue? Do you feel that your folks irrespective of their income level, their age, et cetera, have a right to access to the telephone?

MR. SCHILLING: I think they have a right. Now, if you are asking me if they should have that right without paying for it, well, no. I think they should pay. I think that they will gladly pay.

If you are referring to the income tax idea that you mentioned, I think that perhaps that is something that certainly bears some exploration. I am not sure if I answered your question though. You were somewhat indirect.

CHAIRWOMAN MOORE: You answered it.

MR. SCHILLING: Okay.

CHAIRWOMAN MOORE: All right. Next, please. It looks like you are our wrap-up speaker.

MR. CLYDE JONES: Well, I will make this short. I want to ride a horse today. We are back in the horse and buggy days it looks like with all of this deregulation. I am surprised that the federal government and the courts try to break up a company like we've got here now and deregulation like Mr. Bronzan said he had experienced today. Is there something that the State Legislature can do with Congress to get them to do something before January 1?

You mentioned in this document here something about all of the lobbying that is going on against the people I believe. Why in the world would they want to break up a company when here the railroad companies now are trying to get bigger? Why should we go back to the horse and buggy days? Just because the President rides a horse up there, now he wants to put a buggy to it.

CHAIRWOMAN MOORE: Well, the whole idea of the breakup, as I indicated earlier, is that competition brings about cheaper rates. So, they are saying that they are doing it on behalf of the consumer, that is still debatable. They say that by bringing in competition, which is what the whole breakup is supposed to do, that you will get better service that is cheaper. We are finding out very quickly that that ain't the case.

MR. JONES: I realize that, young lady. Thank you for your help with Mr. Peace here to get legislation 1348 and 348 or whatever it is and I better get away and let you folks go to your lunch.

CHAIRWOMAN MOORE: Mr. Peace has also introduced a bill, a resolution, which has passed the State Legislature which requires that Congress take a look at their action and try to see what impact it is going to have on the consumers in the state.

So you might want to write your Congressman and tell him to take heed of Mr. Peace's resolution.

MR. JONES: By the way that you folks acted here today, I believe you can do a job for the people.

CHAIRWOMAN MOORE: Thank you very much. Thank you for joining us this morning. With that, we will conclude the hearing.

Assembly Bill No. 1348

CHAPTER 1143

An act to add and repeal Section 739.2 of the Public Utilities Code, and to add and repeal Part 22 (commencing with Section 44000) of Division 2 of the Revenue and Taxation Code, relating to public utilities, and making an appropriation therefor, to take effect immediately, tax levy.

[Approved by Governor September 27, 1983. Filed with  
Secretary of State September 28, 1983.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1348, Moore. Telephones: universal service.

Under existing law, public utilities, including telephone corporations, are subject to the jurisdiction and control of the Public Utilities Commission. Existing law also requires the imposition of a surcharge on charges for telephone service pursuant to the Emergency Telephone Users Surcharge Act.

This bill would direct the commission to institute an investigation to establish universal telephone service, as specified, for residential users and to require telephone corporations to file a schedule of universal rates and charges not greater than 50% of the basic rate for measured service, exclusive of federally mandated access charges, available to the residential subscriber.

The bill would create the Universal Telephone Service Fund. It would impose a tax on gross revenue received for the provision of intrastate telecommunication services in an amount not greater than 4% of gross revenues, as stated, to be determined by the commission sufficient to maintain universal telephone service and to be adjusted annually, as specified, and would direct telephone corporations to pay these amounts to the State Board of Equalization for deposit into the fund. It would continuously appropriate the money in the fund, which would be paid by the Controller, for purposes of instituting universal telephone service for eligible low- and moderate-income persons who might otherwise be unable to afford basic minimum telephone service. The bill would also impose various duties on the State Board of Equalization.

The bill would declare the intent of the Legislature that nothing in the bill indicates the Legislature's intent regarding its approval or disapproval of any actions of the commission in the future regarding certain competitive telecommunications services, as specified.

The bill would declare that, if any provision of the bill is held invalid, the invalidity would not affect the other provisions of the bill.

The bill would take effect immediately as a tax levy.

The bill would make these provisions inoperative on July 1, 1988, and would repeal these provisions on January 1, 1989.

Appropriation: yes.

*The people of the State of California do enact as follows:*

SECTION 1. The Legislature hereby finds and declares the following:

(a) Communication by telephone is a basic human need in modern society, and must be made available to all Californians at reasonable cost for basic minimum use.

(b) Potential rate structures for telephone service brought about by federal decisions, the American Telephone and Telegraph Company antitrust settlement, new technological developments, and the rising costs of providing telephone service may penalize consumers of basic local minimum telephone service.

(c) To ensure the availability of basic local minimum telephone service, and to encourage the equitable sharing of the costs of that service among all users of telecommunications services, the Legislature has enacted this act.

SEC. 2. Section 739.2 is added to the Public Utilities Code, to read:

739.2. (a) The commission shall, on its own motion, institute an investigation for purposes of designing and implementing a program which will designate a class of universal telephone service necessary to meet minimum residential communications needs, including access to telephone service for emergency communications with public agencies and private medical services and for additionally maintaining necessary social contacts by the elderly, the handicapped, and the infirm. The commission shall take into account differentials in communication needs, costs of providing service caused by geographical differences in the locales of residences, personal income of subscribers, and other factors appropriate to designating the characteristics of a class of universal telephone service. On completion of its investigation, the commission shall issue its decision designating the characteristics of a class of universal telephone service and the rates and charges for that service, and eligibility criteria for that service.

(b) The universal service rates shall be not greater than 50 percent of the basic rate for measured service, exclusive of federally mandated access charges, available to the residential subscriber. In the event measured service is not available in a residential subscriber's service area, then the universal service rates shall be not greater than 50 percent of the rates for basic flat rate service, exclusive of federally mandated access charges, available to the universal service subscriber. The universal service rate shall not apply to any other service or charge except the basic rate.

(c) The commission shall require every telephone corporation providing local telephone service to file a schedule of rates and charges providing a class of universal telephone service. Every

telephone corporation providing local telephone service shall accept applications for universal telephone service according to a procedure specified by the commission, and shall inform its subscribers how they may qualify for and obtain universal telephone service.

(d) Nothing in this section shall preclude the commission from changing any rate established pursuant to subdivision (a) either specifically or pursuant to any general restructuring of all telephone rates, charges, and classifications.

(e) The lifeline rates in effect on January 1, 1983, shall remain in effect until July 1, 1984, or upon action by the commission pursuant to subdivision (a) which may occur before July 1, 1984.

(f) A telephone universal service subscriber shall not be provided with more than one single party line in his or her principal place of residence. An applicant for universal telephone service may report only one address in this state as the principal place of residence. Individual members of a family maintaining together one principal place of residence and additional places of residence, which are not principal, are eligible for universal telephone service only at their principal place of residence, and they shall not be provided with more than one single party line if any family member residing at the principal place of residence receives universal telephone service.

(g) As used in this section, "residential" means residential use and excludes industrial, commercial, and every other category of end use.

(h) The Universal Telephone Service Fund shall be created and administered pursuant to Part 22 (commencing with Section 44000) of Division 2 of the Revenue and Taxation Code.

(i) This section shall become inoperative on July 1, 1988, and, as of January 1, 1989, is repealed, unless a later enacted statute, which becomes effective on or before January 1, 1989, deletes or extends the dates on which it becomes inoperative and is repealed.

SEC. 3. Part 22 (commencing with Section 44000) is added to Division 2 of the Revenue and Taxation Code, to read:

## PART 22. CALIFORNIA UNIVERSAL TELEPHONE SERVICE ACT

### CHAPTER 1. GENERAL PROVISIONS AND DEFINITIONS

44000. This part shall become inoperative on July 1, 1988, and, as of January 1, 1989, is repealed, unless a later enacted statute, which becomes effective on or before January 1, 1989, deletes or extends the dates on which it becomes inoperative and is repealed.

44001. This part shall be known and may be cited as the "Moore Universal Telephone Service Act."

44002. Notwithstanding any other provision of law, persons subject to the jurisdiction of the commission need not obtain an authorization from the commission to comply with the provisions of this part.

44010. Except where the context otherwise requires, the definitions given in this chapter govern the construction of this part.

44011. "Person" includes an individual, firm, partnership, copartnership, joint venture, association, cooperative organization, fraternal organization, nonprofit organization, corporation, estate, trust, business or common law trust, receiver, assignee for the benefit of creditors, trustee or trustee in bankruptcy.

44012. "Board" means the State Board of Equalization.

44014. "Commission" means the Public Utilities Commission.

44015. "In this state" means within the exterior limits of the State of California and includes all territory within those limits owned by or ceded to the United States of America.

44016. "Service supplier" means any person supplying any of the following:

(1) InterLATA intrastate telecommunications services.

(2) IntraLATA intrastate telecommunications services if the commission, after public hearings, determines that such intraLATA intrastate telecommunications services shall be subject to the tax imposed under this part in accordance with the intent of the Legislature as set forth in Section 1 of the act enacting this section at the 1983-84 Regular Session of the Legislature.

(3) Intrastate telecommunications services on a basis not defined by LATA boundaries.

44017. "Month" means a calendar month.

44018. "Service user" means any person using intrastate telecommunications services in this state.

44019. "LATA" means a local access and transport area as defined and approved by the United States District Court for the District of Columbia circuit in the case of the United States v. Western Electric Co., Inc., and American Telephone and Telegraph Co., CA 82-0192, April 20 and July 8, 1983, and in a Memorandum and Order of August 5, 1983.

44020. "IntraLATA" means within a single LATA.

44021. "InterLATA" means between one LATA and another.

44022. "Information" means knowledge or intelligence represented by any form of writing, signs, signals, pictures, sounds, or other symbols which may be conveyed via telecommunications.

44023. "Telecommunications" means the transmissions, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received, by means of electromagnetic transmission, including microwave and satellite, with or without benefit of any closed transmission medium, including all instrumentalities, facilities, apparatus, and services (including the collection, storage, forwarding, switching, and delivery of that information) essential to the transmission.

44024. "Gross revenues" means all revenues billed by a service supplier for the provision of intrastate telecommunications services,

including revenues derived from monthly service flat rate charges, message unit charges, toll charges, and intrastate wide area telephone service charges, and any other flat rate or usage charge, excluding all federal, state, and local taxes and all accounts which have been found to be worthless and written off for income tax purposes or, if the service supplier is not required to file income tax returns, written off in accordance with generally accepted accounting principles.

44025. "Intrastate telecommunication service" means any of the following:

(a) A telecommunication for which there is a toll charge which varies in amount with the distance and elapsed transmission time of each individual communication, where the point of origin and the point of destination are located within this state.

(b) A service which entitles the subscriber, upon payment of a periodic charge (determined as a flat amount or upon the basis of total elapsed transmission time), to the privilege of an unlimited number of telecommunications to or from persons having telephone, data, or radiotelephone stations which are outside the exchange area in which the station provided with the service is located, where the point of origin and the point of destination are located within this state.

(c) A service which entitles the subscriber, upon payment, to transfer or move information whether voice, data, digital, or video in nature where the point or points of origin and the point or points of destination of the service are located in different exchanges in this state.

## CHAPTER 2. THE TAX

### Article 1. Imposition of Tax

44030. A tax is hereby imposed on every service supplier in the state measured by the gross revenues received from intrastate telecommunications service provided on or after July 1, 1984.

44031. In the payment of the tax imposed by this part, a fractional part of a cent shall be disregarded unless it amounts to one-half or more, in which case it shall be increased to one cent (\$0.01).

### Article 2. Adjustment of Tax Rate

44040. (a) The commission shall determine annually, on or before May 1, a tax rate that it estimates will produce sufficient revenue to fund the Universal Telephone Service Fund requirements for the period from July 1 of the current calendar year to June 30 of the succeeding calendar year. The tax rate shall be determined by dividing the costs which the commission estimates for that 12-month period of universal telephone service requirements,

less the available balance in the Universal Telephone Service Fund, by the commission's estimate of the gross revenues received by all service suppliers for provision of intrastate telecommunications services to which the tax will apply for the period of July 1 of the current calendar year to June 30 of the next succeeding calendar year.

(b) For purposes of this section, "universal telephone service requirements" includes, but is not limited to, the commission's estimates of the amounts specified in Section 44181.

44041. The commission shall make its determination of the tax rate and designate the service suppliers no later than May 1 of each year and shall notify the board of the new rate and the service suppliers. In no event shall the rate of tax exceed 4 percent of the gross revenues received by a service supplier.

44042. Immediately upon fixing the tax rate, the commission shall notify the board of the new tax rate and the service suppliers. The board shall notify every service supplier, by mail or other appropriate means, of the new tax rate. The commission, immediately upon fixing the tax rate and designating the service suppliers, shall also report to the Legislature the reasons for its determination of the new tax rate and its designation of service suppliers, including all of the following:

(a) How it determined the characteristics of the class of universal telephone service and eligibility criteria for universal telephone service.

(b) How it determined service suppliers to be liable for the tax, and the identity of those service suppliers.

(c) An accounting of the administrative costs incurred by the commission and other state agencies in carrying out the provisions of this part.

(d) Any other related information as the Legislature may request.

44043. The commission shall determine whether any person holding a certificate of public convenience and necessity issued pursuant to Section 1001 of the Public Utilities Code to provide intrastate telecommunications services after July 1, 1984, is a service supplier and shall so notify the board upon issuance of the certificate. The board shall notify the service supplier of its liability for the tax and the prevailing tax rate.

### Article 3. Registration

44045. Every service supplier in this state shall register with the board upon a form prescribed by the board and shall set forth the name under which it transacts, or intends to transact, business and any other information that the board may require.



### CHAPTER 3. DETERMINATION OF TAX

#### Article 1. Due and Payable Dates

44051. The tax imposed by this part and the amounts required to be paid are due quarterly. On or before the last day of the second month following the preceding calendar quarter, or at any other time as determined by the board, each service supplier shall deliver to the office of the board a return in a form which the board shall prescribe, together with a remittance of the amount of the tax payable.

44052. The board for good cause may extend, not to exceed one month, the time for making any return or paying any amount required to be paid under this part. The extension may be granted at any time provided a request therefor is filed with the board within or prior to the period for which the extension may be granted.

44053. All amounts required to be paid to the state under this part shall be paid to the board in the form of remittances payable to the State Board of Equalization of the State of California.

44054. The service supplier shall maintain records which may be necessary to determine the amount of gross revenue subject to the tax imposed under the provisions of this part. These records shall be maintained for a period of three years from the time the tax is due.

#### Article 2. Deficiency Determinations

44060. If the board is not satisfied with the return or returns of the tax or the amount of tax required to be paid upon the basis of the facts contained in the return or returns or upon the basis of any information within its possession or that may come into its possession, one or more deficiency determinations may be made of the amount payable for one or for more than one period.

44061. The amount of the determination, exclusive of penalties, shall bear interest at the adjusted annual rate established pursuant to Section 19269 from the day specified pursuant to Section 44051 for which the amount or any portion thereof should have been returned until the date of payment.

44062. In making a determination the board may offset overpayments for another period or periods, against underpayments for another period or periods, against penalties, and against the interest on the underpayments.

44063. If any part of the deficiency for which a deficiency determination is made is due to negligence or intentional disregard of this part or authorized rules and regulations, a penalty of 10 percent of the amount of the determination shall be added thereto.

44064. If any part of the deficiency for which a deficiency determination is made is due to fraud or an intent to evade this part or authorized rules and regulations, a penalty of 25 percent of the

amount of the determination shall be added thereto.

44065. The board shall give to the service supplier written notice of its determination. The notice shall be placed in a sealed envelope, with postage paid, addressed to the service supplier or service user at his or her address as it appears in the records of the board. The giving of notice shall be deemed complete at the time of the deposit of the notice in the United States post office or facility regularly maintained or provided by the United States Postal Service, without extension of time for any reason. In lieu of mailing, a notice may be served personally by delivering to the person to be served, and service shall be deemed complete at the time of delivery. Personal service to a corporation may be made by delivery of a notice to any person designated in the Code of Civil Procedure to be served for the corporation with summons and complaint in a civil action.

44066. Except in the case of fraud, intent to evade this part or authorized rules and regulations, or failure to make a return, every notice of a deficiency determination shall be mailed within three years after the last day of the calendar month following the quarterly period for which the amount is proposed to be determined or within three years after the return is filed, whichever period expires later. In the case of failure to make a return, every notice of determination shall be mailed within eight years after the last day of the calendar month following the month for which the amount is proposed to be determined.

### Article 3. Determinations if No Return Is Made

44070. If any person fails to make a return, the board shall make an estimate of the amount of the gross revenue received for services provided by the person in this state which are subject to the tax. The estimate shall be made for the period or periods in respect to which the person failed to make a return and shall be based upon any information which is in the board's possession or may come into its possession. Upon the basis of this estimate, the board shall compute and determine the amount required to be paid to the state, adding to that sum a penalty equal to 10 percent thereof. One or more determinations may be made for one or for more than one period.

44071. In making a determination, the board may offset overpayments for a period or periods, together with interest on the overpayments, against the underpayments for another period or periods, against penalty and against the interest on the underpayments.

44072. The amount of the determination, exclusive of penalties, shall bear interest at the adjusted annual rate established pursuant to Section 19269 from the day specified pursuant to Section 44051 for which the amount or any portion thereof should have been returned until the date of payment.

44073. If the failure of any person to file a return is due to fraud

or an intent to evade this part or rules and regulations, a penalty of 25 percent of the amount required to be paid by the person, exclusive of penalties, shall be added thereto in addition to the penalty provided in Section 44070.

44074. Promptly after making its determination, the board shall give to the person written notice of the estimate, determination, and penalty. The notice shall be served personally or by mail in the manner prescribed for service of notice of a deficiency determination.

#### Article 4. Redeterminations

44080. Any person against whom a determination is made under Article 2 (commencing with Section 44060) or Article 3 (commencing with Section 44070) may petition for a redetermination within 30 days after service upon the person of notice thereof. If a petition for redetermination is not filed within the 30-day period, the determination becomes final at the expiration of the period.

44081. Every petition for redetermination shall be in writing and shall state the specific grounds upon which the petition is founded. The petition may be amended to state additional grounds at any time prior to the date on which the board issues its order or decision upon the petition for redetermination.

44082. If a petition for redetermination is filed within the 30-day period, the board shall reconsider the determination and, if the person has so requested in his or her petition, shall grant the person an oral hearing and shall give him or her 10 days' written notice of the time and place of the hearing. The board may continue the hearing from time to time as may be necessary.

44083. The board may decrease or increase the amount of the determination before it becomes final, but the amount may be increased only if a claim for the increase is asserted by the board at or before the hearing. Unless the penalty imposed by Section 44064 or 44070 applies to the amount of the determination as originally made or as increased, the claim for increase shall be asserted within eight years after the last day of the calendar month following the quarterly period for which the increase is asserted.

44084. The order or decision of the board upon a petition for redetermination becomes final 30 days after service upon the petitioner of notice thereof.

44085. All determinations made by the board under Article 3 (commencing with Section 44070) or this article are due and payable at the time they become final. If they are not paid when due and payable, a penalty of 10 percent of the amount of the determination, exclusive of interest and penalties, shall be added thereto.

44086. Any notice required by this article shall be served personally or by mail in the manner prescribed for service of notice

of a deficiency determination.

#### Article 5. Interest and Penalties

44090. Any person who fails to pay any tax to the state or any amount of tax required to be paid to the state, except amounts of determinations made by the board under Article 3 (commencing with Section 44070) or Article 4 (commencing with Section 44080), within the time required shall pay a penalty of 10 percent of the amount of the tax due in addition to the tax due plus interest at the adjusted annual rate established pursuant to Section 19269 from the date on which the tax or the amount of tax required to be collected became due and payable to the state until the date of payment.

44091. If the board finds that a person's failure to make a timely return or payment is due to reasonable cause and circumstances beyond the person's control, and occurred notwithstanding the exercise of ordinary care and the absence of willful neglect, the person may be relieved of the penalty provided by Sections 44070 and 44080.

Any person seeking to be relieved of the penalty shall file with the board a statement under penalty of perjury setting forth the facts upon which he or she bases his or her claim for relief.

### CHAPTER 4. OVERPAYMENTS AND REFUNDS

#### Article 1. Claim for Refund

44100. If the board determines that any amount, penalty, or interest has been paid more than once, the board shall set forth that fact in the records of the board and shall certify to the State Board of Control the amount collected in excess of the amount legally due and the person from whom it was collected. If approved by the State Board of Control, the excess amount collected or paid shall be credited by the board on any amounts then due and payable from the person from whom the excess amount was collected or by whom it was paid under this part, and the balance shall be refunded to the person, or his or her successors, administrators, or executors.

In the case of a determination by the board that an amount not exceeding five thousand dollars (\$5,000) was not required to be paid under this part, the board without obtaining approval of the State Board of Control may credit the amount on any amounts then due and payable under this part from the person by whom the amount was paid and may refund the balance to the person or his or her successors, administrators, or executors.

44101. No refund shall be approved by the board after three years from the last day of the month following the close of the quarterly period for which the overpayment was made, or, with respect to determinations made under Article 3 (commencing with Section

44070) or Article 4 (commencing with Section 44080) of Chapter 3, after six months from the date the determinations become final, or after six months from the date of overpayment, whichever period expires later, unless a claim therefor is filed with the board within the period. No credit shall be approved by the board after the expiration of the period unless a claim for credit is filed with the board within the period.

44102. Every claim shall be in writing and shall state the specific grounds upon which the claim is founded.

44103. Failure to file a claim within the time prescribed in this article constitutes a waiver of any demand against the state on account of overpayment.

44104. Within 30 days after disallowing any claim in whole or in part, the board shall give notice of its action to the claimant in the manner prescribed for service of notice of deficiency determination.

44105. Interest shall be paid upon any overpayment of any amount of tax at the adjusted annual rate established pursuant to Section 19269 from the date the return is due following the quarterly period for which the overpayment was made. However, no refund or credit shall be made of any interest imposed upon the person making the overpayment with respect to the amount being refunded or credited.

The interest shall be paid as follows:

(a) In the case of a refund, to the last day of the calendar month following the date upon which the person making the overpayment, if he or she has not already filed a claim, is notified by the board that a claim may be filed or the date upon which the claim is approved by the board, whichever date is the earlier.

(b) In the case of a credit, to the same date as that to which interest is computed on the tax or amount against which the credit is applied.

44106. If the board determines that any overpayment has been made intentionally or by reason of carelessness, it shall not allow any interest thereon.

## Article 2. Cancellations

44110. If any amount in excess of five thousand dollars (\$5,000) has been determined to be inconsistent with this part either by the person filing the return or by the board, the board shall set forth that fact in its records and certify to the State Board of Control the amount determined to be in excess of the amount legally due and the person against whom the determination was made. If the State Board of Control approves, it shall authorize the cancellation of the amount upon the records of the board. If an amount not exceeding five thousand dollars (\$5,000) has been illegally determined either by the person filing a return or by the board, the board without certifying this fact to the State Board of Control shall authorize the cancellation

of the amount upon the records of the board.

### Article 3. Suit for Refund

44120. No injunction, or writ of mandate, judgment of declaratory relief, or other legal or equitable process shall issue in any suit, action, or proceeding in any court against the state or against any officer of the state to prevent or enjoin the collection, under this part, of any tax or any amount of tax required to be collected.

44121. No suit or proceeding shall be maintained in any court for the recovery of any amount alleged to have been erroneously or illegally determined or collected unless a claim for refund or credit has been duly filed pursuant to Article 1 (commencing with Section 44100).

44122. Within 90 days after the mailing of the notice the board's action on a claim filed pursuant to Article 1 (commencing with Section 44100), the claimant may bring an action against the board on the grounds set forth in the claim in a court of competent jurisdiction in any city or city and county of this state in which the Attorney General has an office for the recovery of the whole or any part of the amount with respect to which the claim has been disallowed.

44123. If the board fails to mail notice of action on a claim within six months after the claim is filed, the claimant may, prior to the mailing of notice by the board of its action on the claim, consider the claim disallowed and bring an action against the board on the grounds set forth in the claim for the recovery of the whole or any part of the amount claimed as an overpayment.

44124. If judgment is rendered for the plaintiff, the amount of the judgment shall first be credited on any tax due and payable from the plaintiff. The balance of the judgment shall be refunded to the plaintiff.

44125. In any judgment, interest shall be allowed at the adjusted annual rate established pursuant to Section 19269 upon the amount found to have been illegally collected from the date of payment of the amount to the date of allowance of credit on account of the judgment or to a date preceding the date of the refund warrant by not more than 30 days, the date to be determined by the board.

44126. A judgment shall not be rendered in favor of the plaintiff in any action brought against the board to recover any amount paid when the action is brought by or in the name of an assignee of the person paying the amount or by any person other than the person who paid the amount.

## CHAPTER 5. COLLECTION OF TAX

### Article 1. Suit for Tax

44130. At any time within 10 years after any tax or any amount of tax required to be collected becomes due and payable, and at any time after any amount determined under Article 2 (commencing with Section 44060), Article 3 (commencing with Section 44070) or Article 4 (commencing with Section 44080) of Chapter 3 becomes due and payable, the board may bring an action in the courts of this state, of any other state, or of the United States in the name of the people of California to collect the amount delinquent together with penalties.

44131. The Attorney General shall prosecute the action, and the provisions of the Code of Civil Procedure relating to service of summons, pleadings, proof, trials, and appeals shall be applicable to the proceedings.

44132. In the action, a writ of attachment may issue, and no affidavit previous to the issuing of the attachment is required.

44133. In the action, a certificate by the board showing the delinquency shall be prima facie evidence of the determination of the tax or the amount of tax, of the delinquency of the amounts set forth, and of the compliance by the board with all the provisions of this part in relation to the computation and determination of the amounts.

44134. In any action brought under this part, process may be served according to the Code of Civil Procedure and the Civil Code or may be served upon any agent or clerk in this state employed by a service supplier in a place of business maintained by the service supplier in this state. In the latter case, a copy of the process shall forthwith be sent by registered mail to the service supplier at its principal or home office.

## Article 2. Notice to Withhold

44140. If any person is delinquent in the payment of the amount required to be paid by him or her or in the event a determination has been made against him or her which remains unpaid, the board may, not later than five years after the payment became delinquent, give notice thereof personally or by first-class mail to all persons, including any officer or department of the state or any political subdivision or agency of the state, having in their possession or under their control any credits or other personal property belonging to the delinquent, or person against whom a determination has been made which remains unpaid, or owing any debts to the delinquent or such person. In the case of any state officer, department or agency, the notice shall be given to the officer, department or agency prior to the time it presents the claim of the delinquent to the Controller.

44141. After receiving the notice, the person so notified shall neither transfer nor make any other disposition of the credits, other personal property, or debts in their possession or under their control at the time they receive the notice until the board consents to a

transfer or disposition or until 60 days elapse after the receipt of the notice, whichever period expires the earlier.

44142. All persons so notified shall forthwith after receipt of the notice advise the board of all the credits, other personal property, or debts in their possession, under their control, or owed by them. If the notice seeks to prevent the transfer or other disposition of a deposit in a bank or other credits or personal property in the possession or under the control of a bank, the notice to be effective shall state the amount, interest and penalty due from the person and shall be delivered or mailed to the branch or office of the bank at which the deposit is carried or at which the credits or personal property is held. Notwithstanding any other provision, with respect to a deposit in a bank or other credits or personal property in the possession or under the control of a bank, the notice shall only be effective with respect to an amount not in excess of two times the amount, interest, and penalty due from the person.

44143. If, during the effective period of the notice to withhold, any person so notified makes any transfer or disposition of the property or debts required to be withheld pursuant to this chapter, to the extent of the value of the property or the amount of the debts thus transferred or paid, he or she shall be liable to the state for any indebtedness due under this part from the person with respect to whose obligation the notice was given if, solely by reason of the transfer or disposition, the state is unable to recover the indebtedness of the person with respect to whose obligation the notice was given.

44144. The board may, by notice of levy, served personally or by first-class mail, require all persons, having in their possession, or under their control, any credits or other personal property belonging to a service supplier to withhold from such credits or other personal property the amount of any tax, interest, or penalties due from the service supplier or other person, or the amount of any liability incurred by them under this part, and to transmit the amount withheld to the board at the times which it may designate.

In the case of a financial institution, to be effective, the notice shall state the amount due from the taxpayer and shall be delivered or mailed to the branch office of the financial institution where the credits or other property is held, unless another branch or office is designated by the financial institution to receive the notice.

### Article 3. Tax Priority Lien

44150. The amounts required to be paid by any person under this part, together with interest and penalties, shall be satisfied first in any of the following cases:

- (a) Whenever the person is insolvent.
- (b) Whenever the person makes a voluntary assignment of his or her assets.

This section does not give the state a preference over any lien or



security interest which was recorded or perfected prior to the time when the state records or files its lien as provided in Section 7171 of the Government Code.

The preference given to the state by this section shall be subordinate to the preferences given to claims for personal services by Sections 1204 and 1206 of the Code of Civil Procedure.

44151. (a) If any person fails to pay any amount imposed under this part at the time that it becomes due and payable, the amount thereof, including penalties and interest, together with any costs in addition thereto, shall thereupon be a perfected and enforceable state tax lien. Such a lien is subject to Chapter 14 (commencing with Section 7150) of Division 7 of Title 1 of the Government Code.

(b) For the purpose of this section, amounts are "due and payable" on the following dates:

(1) For amounts disclosed on a return received by the board before the date the return is delinquent, the date the return would have been delinquent.

(2) For amounts disclosed on a return filed on or after the date the return is delinquent, the date the return is received by the board.

(3) For all other amounts, the date the assessment is final.

#### Article 4. Warrant for Collection

44160. At any time within five years after any person is delinquent in the payment of any amount required to be paid under this part, the board or its authorized representative may issue a warrant for the collection of any amount required to be paid to the state under this part. The warrant shall be directed to any sheriff, marshal, or constable and shall have the same effect as a writ of execution. The warrant shall be levied and sale made pursuant to it in the same manner and with the same effect as a levy and a sale pursuant to a writ of execution.

44161. The board shall pay the sheriff, marshal, or constable upon the completion of his or her services pursuant to a warrant, the same fees, commissions, and expenses for his or her services as are provided by law for similar services pursuant to a writ of execution. The board, and not the court, shall approve the fees for publication in a newspaper.

44162. The fees, commissions, and expenses are the obligation of the person required to pay any amount under this part and may be collected from the person by virtue of the warrant or in any other manner provided in this part for the collection of the tax.

#### CHAPTER 6. ADMINISTRATION

##### Article 1. Regulation, Records, and Reports

44170. The board shall enforce the provisions of this part, except

for Chapter 1 (commencing with Section 44000), and may prescribe, adopt, and enforce rules and regulations relating to the administration and enforcement of this part. The board shall not prescribe, adopt, or enforce any rule or regulation which has the effect, directly or indirectly, of altering the terms and conditions of service of a service supplier serving the general public, other than the imposition of the tax.

44171. Every service supplier in this state shall keep records pertaining to the requirements of this part in the form which the board may require.

44172. Upon proper notification to the service supplier, the board or its authorized representative shall have the right to inspect and audit all records and returns of the service supplier at all reasonable times.

44173. The board shall have full access to records of the commission, and any political subdivision or public agency of this state that regulates, operates, or owns a public utility, which pertain to the furnishing of telecommunication services in this state.

## Article 2. Disposition of Proceeds

44180. All amounts required to be paid to the state under this part shall be paid to the board in the form of remittances payable to the State Board of Equalization of the State of California. The board shall transmit the payments to the Treasurer to be deposited in the State Treasury to the credit of the Universal Telephone Service Fund, which is hereby created.

44181. Funds in the Universal Telephone Service Fund are hereby continuously appropriated solely for the following purposes, to be paid by the Controller:

- (a) To pay refunds authorized by this part.
- (b) To pay the board for the cost of the administration of this part.
- (c) To pay the commission for its costs of carrying out its duties and responsibilities under this part.
- (d) To pay the Controller for the Controller's cost in the administration of this part.
- (e) To pay amounts submitted by telephone corporations pursuant to commission rules and to the procedures specified by the Controller. The commission shall certify to the Controller those amounts to be paid from the fund to telephone corporations for the provision of universal telephone service pursuant to this part.

44182. The commission shall pay the bills provided in subdivision (e) of Section 44181 only under the following conditions:

- (a) The Universal Telephone Service Fund contains an amount sufficient to pay the bills.
- (b) The amounts to be paid shall not exceed the amount authorized by the commission for the costs of universal telephone service.

(c) Each telephone corporation providing universal telephone service pursuant to this part shall file an annual public report with the commission, the board, and the Controller detailing its expenses incurred in providing universal telephone service pursuant to this part, including an accounting of the amounts requested from the Controller pursuant to subdivision (e) of Section 44181, and any other items requested by the commission. An independent certified public accountant shall examine this report and shall give notice of examination with the report. The commission and the board may audit the report.

44183. Utilizing funds from the Universal Telephone Service Fund, the Controller shall begin paying pursuant to Sections 44181 and 44182 in the 1984-85 fiscal year, on a quarterly basis, any bills which are submitted by telephone corporations providing universal telephone services by September 1, 1984, or any other date contained in a commission order, and which the commission has approved.

44183.5. Any moneys remaining in the fund after disbursement by the Controller, pursuant to Section 44181, shall remain with the fund and be considered by the commission in the calculation of the subsequent year's tax rate pursuant to Section 44040.

44184. Notwithstanding any other provision of this article, if there is not an amount sufficient to pay bills submitted to the Controller by telephone corporations for the provision of universal telephone service, the obligation of telephone corporations to provide universal telephone service pursuant to this part shall terminate, and the service under this part shall not again be required until an amount sufficient to pay such bills is available in the Universal Telephone Service Fund. The commission shall immediately notify the Legislature of any expected insufficiency in the fund to pay bills pursuant to this part, or of any actual insufficiency therefor, and propose to the Legislature a remedy for this expected or actual insufficiency. Nothing in this part shall preclude the commission from ordering the telephone corporations to continue to provide universal telephone service provided the commission allows the companies to recover their cost.

### Article 3. Notices

44190. A certificate by the board or an employee of the board stating that a notice required by this part was given by mailing or personal service shall be prima facie evidence in any administrative or judicial proceeding of the fact and regularity of the mailing of personal service in accordance with any requirement of this part for the giving of notice. Unless otherwise specifically required, any notice required by this part to be mailed or served may be given by mailing or personal service in the manner provided for giving notice of a deficiency determination.

SEC. 4. It is the intent of the Legislature that nothing in this act

shall be construed as an indication of the Legislature's intent with regard to its approval or disapproval of any actions of the Public Utilities Commission hereafter regarding competitive intraLATA telecommunications services.

SEC. 5. If any provision of this act or the application thereof to any person or circumstances is held invalid, such invalidity shall not affect other provisions or applications of the act which can be given effect without the invalid provision or application, and to this end the provisions of this act are severable.

SEC. 6. This act provides for a tax levy within the meaning of Article IV of the Constitution and shall go into immediate effect.

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Assembly Bill No. 1424

CHAPTER 553

An act to add and repeal Section 786 of the Public Utilities Code, relating to public utilities.

[Approved by Governor July 28, 1983. Filed with  
Secretary of State July 28, 1983.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1424, Moore. Telecommunication services: rates and charges.

Existing law provides for the regulation of telephone corporations as public utilities by the Public Utilities Commission.

This bill would direct every telephone corporation to issue annually to every residential subscriber a listing of the residential telephone regulated services it provides, the rates or charges therefor, and the state or federal agency responsible for their regulation. It would require every charge imposed by the Federal Communications Commission to be shown separately. The bill would require every telephone corporation operating in this state to either identify these charges to indicate that these charges are imposed by action of the Federal Communications Commission or to include in the subscriber's billing statement a listing of the total charges imposed pursuant to Federal Communications Commission tariff, as prescribed. It would direct the Public Utilities Commission to specify methods for compliance with these provisions, stating what these methods shall include.

These provisions would be repealed on January 1, 1987.

*The people of the State of California do enact as follows:*

SECTION 1. Section 786 is added to the Public Utilities Code, to read:

786. (a) On or before March 1, 1984, and annually thereafter, every telephone corporation shall issue to each of its residential subscribers, in a manner and form approved by the commission, a listing of the residential telephone services it provides, the rates or charges for those services, and the state or federal regulatory agency or agencies responsible for regulation of those services.

(b) Every charge imposed on business or residential telephone subscribers in response to rules or regulations of the Federal Communications Commission shall be shown separately from other charges on a subscriber's billing statement. Every telephone corporation operating in this state shall do either of the following:

(1) Identify these charges, by asterisk or other means, with the following phrase:

THIS CHARGE IS (or THESE CHARGES ARE) IMPOSED BY

**ACTION OF THE FEDERAL COMMUNICATIONS COMMISSION.**

(2) Include in the subscriber's billing statement a listing of the total charges imposed pursuant to tariff of the Federal Communications Commission identified with the following phrase:

**TOTAL CHARGES IMPOSED BY ACTION OF THE  
FEDERAL COMMUNICATIONS COMMISSION.**

The billing statement shall also provide the address and telephone number of the Federal Communications Commission to which inquiries may be directed.

(c) The commission shall, by rule or order, specify methods for compliance with this section, which shall include all of the following:

(1) An explanation of the configuration of telecommunications services in California following implementation of the final decision of the United States District court for the District of Columbia circuit in the case of *United States v American Telephone and Telegraph Company* (552 F. Supp. 131) decided on August 19, 1982.

(2) A general description of the interexchange and intraexchange services provided by the telephone corporation or telecommunications provider issuing the explanation, how those services may be obtained, and a notice that other providers are available.

(3) A description of billing charges which may appear on the telephone corporation's or the telecommunications provider's billing statements.

(4) Procedures the subscribers, including subscribers equipped with telephone devices for the handicapped, may follow to protest items billed to the subscriber, and how to contact the telephone corporation or the telecommunications provider concerning those charges.

(d) This section shall remain in effect only until January 1, 1987, and as of that date is repealed, unless a later enacted statute, which is chaptered on January 1, 1987, deletes or extends that date.

**Assembly Bill No. 1425**

**CHAPTER 738**

An act to add Chapter 7 (commencing with Section 17360) to Part 2 of Division 7 of the Business and Professions Code, relating to communications equipment, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor September 12, 1983. Filed with Secretary of State September 13, 1983.]

**LEGISLATIVE COUNSEL'S DIGEST**

AB 1425, Moore. Communications equipment: package labeling. Under existing law, various forms of unfair competition and deceptive trade practices are prohibited.

This bill would require any person selling or offering for sale new or reconditioned telephone handsets or keysets or private branch exchanges or private automatic branch exchanges of 20-station capacity or less to specify in advertisements and catalogs, other than point-of-sale advertising, and on or in the equipment package the signaling method employed by the equipment and a general description of the services it is capable of performing as a result and whether the equipment is registered with the Federal Communications Commission. The bill would also require a retailer to give notice both on the sale premises and in advertising and catalogs, except point-of-sale advertising, of the person or persons responsible for repair of the equipment.

The bill would exempt from its requirements institutional advertising directed to a general audience rather than individual purchasers, advertising, point of sale advertising, catalogs for, and sales of, equipment not intended for direct connection to a telephone corporation's central office by way of its telephone lines, a telephone corporation's sale of used equipment located on a customer's premises, and catalogs and equipment packages for telephone equipment which are in print or in physical production on or before November 1, 1983.

The bill would declare any violation of these provisions to be unfair competition, enforceable civilly.

The bill would take effect immediately as an urgency statute to become operative on November 1, 1983.

*The people of the State of California do enact as follows:*

**SECTION 1.** The Legislature hereby finds and declares as follows:

(a) Federal deregulation of the telecommunications industry, commencing on January 1, 1983, provides new opportunities for users

of telephone services to purchase and use telephone and other communications equipment tailored to their particular needs.

(b) Suppliers of telephone and other communications equipment can benefit from potential buyers knowing the capabilities and reliability of this equipment available in the competitive marketplace.

(c) The Legislature can enhance the position of both buyers and sellers in the telephone and other communications equipment marketplace by requiring disclosure of product information.

SEC. 2. Chapter 7 (commencing with Section 17360) is added to Part 2 of Division 7 of the Business and Professions Code, to read:

#### CHAPTER 7. SALES OF TELEPHONE AND OTHER COMMUNICATIONS EQUIPMENT

17360. As used in this chapter, "person" includes an individual, partnership, firm, association, or corporation.

17361. Any person offering for sale or selling telephone handsets or keysets or private branch exchanges or private automatic branch exchanges of not more than 20-station capacity, whether new or reconditioned, shall specify in all advertisements and catalogs therefor, except point-of-sale advertising, and on or in the equipment package both of the following:

(a) Whether the equipment employs pulse, tone, pulse-or-tone, or other signaling method, and a general description of the services it can or cannot access as a result thereof.

(b) Whether the equipment is registered with the Federal Communications Commission pursuant to Part 68 of Title 47 of the Code of Federal Regulations.

17362. A retailer of telephone equipment shall give clear and conspicuous notice, both on the sale premises and in advertising and catalogs for telephone equipment, except point-of-sale advertising, of the person or persons responsible for repair of the equipment.

17363. Notwithstanding any other provision of this chapter, Sections 17361 and 17362 do not apply to any of the following:

(a) Institutional advertising directed to a general audience rather than to individual purchasers of telephone equipment.

(b) Advertising, point-of-sale advertising, catalogs for, and sales of, telephone equipment not intended for direct connection to a telephone corporation's central switching office through the telephone corporation lines.

(c) Advertising for used telephone equipment located on a customer's premises offered for sale by a telephone corporation subject to the jurisdiction of the Public Utilities Commission.

(d) Catalogs and equipment packages for telephone equipment which are in print or in physical production on or before November 1, 1983.

17364. Every failure to comply with any provision of this chapter

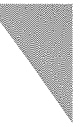


constitutes unfair competition and shall be enforced under Chapter 5 (commencing with Section 17200).

17365. This chapter shall become operative on November 1, 1983.

SEC. 3. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to assist in bringing the benefits of rapid changes in the telecommunications industry to consumers as rapidly as possible, it is necessary for this act to become effective immediately.



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Assembly Joint Resolution No. 19

RESOLUTION CHAPTER 110

Assembly Joint Resolution No. 19—Relative to telephone service.

[Filed with Secretary of State September 8, 1983.]

LEGISLATIVE COUNSEL'S DIGEST

AJR 19, Peace. Local telephone service.

This measure would memorialize the President and Congress to direct the Federal Communications Commission to review the effects of the American Telephone and Telegraph Company divestiture rulings upon the ability of local telephone corporations to provide quality universal basic telephone service at affordable rates and to take such action as is necessary to protect the financial integrity of local telephone corporations, including their continued ability to provide basic services at affordable rates.

WHEREAS, Changes in national policy have evolved in an effort to accommodate competition in the telephone and communications industries; and

WHEREAS, This change in policy has resulted in court rulings instituting a process of divestiture for the American Telephone and Telegraph Company which will result in the creation of independent regional telephone corporations such as Pacific Telephone Company with responsibility for providing local telephone service; and

WHEREAS, The ability of these local telephone corporations to continue providing quality universal basic telephone service at affordable rates not only presently but also in the future is in question; and

WHEREAS, The continued furnishing of quality universal basic telephone service at affordable rates for all Americans is essential in the maintenance of a sound economy and for the safety and well-being of the people; now, therefore, be it

*Resolved by the Assembly and Senate of the State of California, jointly*, That the President and Congress of the United States are respectfully memorialized to direct the Federal Communications Commission to review the effects of the American Telephone and Telegraph Company divestiture rulings and related policies and decisions upon the ability of local telephone corporations such as Pacific Telephone Company to provide quality universal basic telephone service at affordable rates and to take such action as is necessary to protect the financial integrity of local telephone corporations including their continued ability to provide basic services at affordable rates; and be it further

*Resolved*, That the Chief Clerk of the Assembly transmit copies of this resolution to the President and Vice President of the United

Res. Ch. 110

— 2 —

States, to the Speaker of the House of Representatives, to each Senator and Representative from California in the Congress of the United States, and to the Federal Communications Commission.

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Porterville, CA  
(Tulare Co.)  
Recorder  
(Cir. 6xW. 12,013)

OCT 4 1983

Allen's P. C. B Est. 1888

## Breakup effects weighed

FRESNO (AP) — Rural telephone users "would suffer terrible economic and social costs" if rates soar or remote services are abandoned after the breakup of American Telephone, an assemblywoman said.

The effect of the divestiture of AT&T on rural areas was weighed by the Assembly committee on utilities and commerce at a one-day hearing in Fresno Monday.

Chairwoman Gwen Moore said rural phone service is expensive to provide and will get more expensive as small companies are forced to modernize.

"If rates skyrocket or are abandoned, they and other Californians would suffer terrible economic and social costs," she said.

Rates for rural areas have been part of a statewide average with long distance revenues subsidizing local income. How such subsidies or averages will work after divestiture is uncertain.

Norman Phillips of Pacific Telephone said in an interview that it costs an average of \$29 a month to provide basic service in California. But the basic charge to a customer has been \$6.70 with the company getting the rest from advertising and rebates on long distance charges.

Redding, CA  
(Shasta Co.)  
Record-Searchlight  
(6xW. 34,596)

OCT 4 1983

Allen's P. C. B. Est. 1888

## Divestiture studied

# Rural phone bills may soar

<sup>163</sup>  
FRESNO (AP) — Rural telephone users "would suffer terrible economic and social costs" if rates soar or remote services are abandoned after the breakup of American Telephone & Telegraph Co. (AT&T), a California assemblywoman said Monday.

The effect of the divestiture of AT&T on rural areas was weighed by the Assembly committee on utilities and commerce at a one-day hearing in Fresno.

Chairwoman Gwen Moore, D-Los Angeles, noted that rural telephone service is expensive to provide and will get more expensive in areas served by small companies as they are forced to modernize.

"If rates skyrocket or (services) are abandoned, they and other Californians would suffer terrible economic and social costs," she said.

Rates for rural areas have been set on a statewide average with long-distance revenues subsidizing local income. How such subsidies or averages will work after divestiture is uncertain.

Norman J. Phillips, Pacific Telephone Co.'s Northern California general manager, said it costs an

average of \$29 a month to provide basic service in California. However, the basic charge to a customer has been \$6.70, with Pacific Telephone recovering the rest through Yellow Pages advertising and rebates from AT&T on long-distance charges.

The basic cost in remote rural areas far exceeds the average because there are fewer customers and they are farther from main

switching offices, he said. For example, if telephone users paid full costs, customers in Yreka would pay \$50 a month for basic service and customers in Baker \$85.

"The real issue here is if we can't realize enough revenue to match the subsidy, we have to move away from a statewide average and charge closer to costs," Phillips said.

Dean Evans of the state Public Utilities Commission testified that phone companies serving California have agreed that during 1984 there will be "no change in sharing of toll revenues and access charges. The ability of small companies will be similar to 1983."

He said if AT&T and its competitors in the long-distance business discount charges, there will be "less revenues available to be shared by Pacific Telephone and the 24 other companies" in California.

Assemblyman Bruce Bronzan, D-Fresno, said he is concerned that the splitup of AT&T could lead to the type of decline in rural service that was experienced with deregulation of bus and airline transportation.

Bakersfield, CA  
(Kern Co.)  
Californian  
(D. 75,193)  
(S. 82,785)

OCT 4 1983

Allen's P. C. B. Est. 1888

# Rural callers face high phone rates

## • Assembly committee takes testimony on AT&T divestiture

163 By JIM MAYER  
Staff Writer

FRESNO — The harsh environment of a deregulated telephone industry could hit rural customers the hardest — with rates so high the low-income and elderly people would have to choose between a phone or food, lawmakers heard Monday.

An Assembly committee took testimony here Friday from telephone executives, labor leaders and senior citizen coalitions. All of them voiced potentially dismal forecasts for Jan. 1, 1984, when divestiture of the American Telephone & Telegraph Co. will be completed.

Assemblywoman Gwen Moore, D-Los Angeles, chairwoman of the Utilities and Commerce Committee, explained to confused residential customers that divestiture was designed to bring prices down through competition.

"We're finding out very quickly that ain't the case," she said.

As proof of the committee's sincerity, Ms. Moore frequently referred to a bill that she authored and that the governor signed last week which will offer some relief to those who could not afford higher phone rates.

The biggest concern, and the focus of the hearing, however, was rural customers — from small farmers in the San Joaquin Valley, to isolated retirees in the Sierra foothills.

They could face basic rates many times higher than today if their bills begin to reflect the high costs of providing the service.

Several elderly residents in the foothills described the need to get in contact with doctors or lonely friends who live several miles away.

"When my phone breaks I feel like I'm lost in the wilderness," Gay Kennedy said.

A farmer told of the infrequent, but essential, need of calling suppliers and markets.

And Ray Shilling of the Central Labor Council said on behalf of workers: "My phone bill, I can afford to pay. I can afford to pay more. But I don't want to pay more unless I get more services."

Whether or not phone service remains affordable for country dwellers will hinge on the amount of competition allowed within 10 geographical regions in the state, or Local Access and Transport Areas (LATA), testified Norman J. Phillips, Northern California general manager for Pacific Telephone.

"If there is one serious concern it is in maintaining the intra-LATA franchise," Phillips said.

Staff of the state Public Utilities Commission will recommend the board keep independent long-distance companies from offering service within the regions, Dean Evans, chief of the PUC Communications Division, testified.

"That brightened my morning considerably," Phillips said.

The Pac Tel official wouldn't speculate as to how the PUC will rule on intra-LATA service, but he did say it would be the board's toughest decision regarding divestiture.

If MCI, Sprint, or other independent firms were allowed to get into the lucrative intra-LATA phone routes — such as San Francisco to San Jose, or between Orange and Los Angeles counties — Pac Tel would be forced to lower those long-distance rates to stay competitive.

In the past, however, those profits subsidized residential rates, which are now \$6.10 a month, but would be closer to \$29 without the subsidies, Phillips said.

The small telephone companies also rely heavily on those subsidies and would have to

raise rates dramatically if they were lost competition, said William G. Sebastian, president of Kerman Telephone Co. in Fresno County.

During the first 36 years phone rates doubled for Kerman customers, and now they've doubled again in one year, he said.

"These freeloaders — MCI, Sprint, a Southern Pacific Co. — they spend all the advertising money saying that their rates are cheap," Sebastian said.

"They should be. They're plowing with the neighbor's tractor."

In less than three months, AT&T will be severed from the regional companies, ordered by the federal Justice Department and guided by the Federal Communications Commission.

One of the most immediate effects has been several firms using AT&T transmission equipment to offer cheaper long-distance service.

Anyone can subscribe, but so far the large businesses with largest telephone bills have been the ones to switch. Consequently, the subsidies already are dwindling, Phillips said.

The committee's concern is how far divestiture should go within the state and how state laws could moderate rising prices predicted for residential customers.

Ms. Moore's bill puts a 4 percent tax on long distance calls within California to help low income customers keep their phones.

The bill was praised by Pac Tel and other phone companies as the first step toward preserving "universal telephone service."

But if the PUC were to allow competition in local markets, further subsidies will be needed, Phillips said.

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## Concern Raised That Rural Phone Service May Suffer

By JOE BIGHAM

Associated Press Writer  
FRESNO (AP) — Rural telephone users "would suffer terrible economic and social costs" if rates soar or remote services are abandoned after the breakup of American Telephone, an assemblywoman said Monday.

The effect of the divestiture of AT&T on rural areas was weighed by the Assembly committee on utilities and commerce at a one-day hearing in Fresno.

Chairwoman Gwen Moore, D-Los Angeles, noted that rural telephone service is expensive to provide and will get more expensive in areas served by small companies as they are forced to modern-

ize.

"If rates skyrocket or are abandoned, they and other Californians would suffer terrible economic and social costs," she said.

Rates for rural areas have been set on a statewide average with long distance revenues subsidizing local income. How such subsidies or averages will work after divestiture is uncertain.

Norman J. Phillips, Pacific Telephone's Northern California general manager, explained in an interview that it costs an average of \$29 a month to provide basic service in California. However, the basic charge to a customer has been \$6.70 with Pacific Telephone recovering the rest through Yellow Pages advertising and rebates from AT&T on long distance charges.

The basic cost in remote rural areas far exceeds the average because there are fewer customers and they are farther from the main switching office, he said.

"The real issue here is if we can't realize enough revenue to match the subsidy, we have to move away from a statewide average and charge closer to costs," Phillips said.

Dean Evans of the state Public Utilities Commission testified that phone companies serving California have agreed that during 1984 there will be "no change in sharing of toll revenues and access charges. The ability of small companies will be similar to 1983."