

Decision No. 83958

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE
AND TELEGRAPH COMPANY, a corporation,
for authority to file a permanent
tariff covering the offering of a
new customer service payment plan.

Application No. 55242
(Filed October 10, 1974)

OPINION AND ORDER

By this application The Pacific Telephone and Telegraph Company, hereinafter referred to as "applicant", seeks authority to file a tariff covering a new customer service payment plan designated "Two-Tier Payment Plan". The present pleading is limited to request for authorization of a tariff covering the basic conditions and contractual arrangements applicable to two-tier rates. No specific rates are proposed at this time; such rates will be specified from time to time in additional filings made with the Commission. Exhibit A, attached to the application, sets forth the tariff under which the plan would operate.

Applicant's proposed two-tier plan divides the cost of providing telephone equipment into two categories, one including capitalized costs and return, the other, maintenance and administrative expenses. For any item of telephone equipment offered under the concept, a customer can pay the applicant's capitalized costs portion of the equipment charges in a lump sum and/or in monthly installments over a longer period of time. The applicant's maintenance and administrative expenses are paid monthly as long as the equipment is in use.

In support of its request, applicant alleges that the two-tier concept offers the public a more personalized payment plan than available in present tariffs, and it is similar in effect to the options available throughout the business community. Customers would derive benefit by having considerable control over the payment

arrangements for their communications equipment. They could elect to pay a larger amount initially toward the capital costs portion of the equipment ordered and thus reduce subsequent monthly payments or they might find it more convenient to distribute this cost over a longer period of time. Applicant further alleges that from its standpoint, there would be an opportunity to effect faster collection of capital money spent for equipment, while offering a flexible customer oriented payment plan.

Protests

Protests to this filing have been received by the Commission from the following parties:

Com Path, 534 Twentieth Street, Oakland, CA 94612
G.C.E. Telephone Co., 670 Ninth Street, Oakland, CA 94607
Executone Communications Systems, 395 Beach Rd., Burlingame CA 94010
Panoramic Audio Corp., 1682 Langley Ave., Irvine, CA 92705
California Interconnect Ass'n., P. O. Box 1167, Oakland, CA 94604

All of the foregoing protestants, except California Interconnect Assn., are competitors of applicant in the provision of telephone terminal equipment. California Interconnect Ass'n. is an association of companies furnishing telephone terminal equipment. The general concerns of the protestants are that service offered under the two-tier concept may be noncompensatory, discriminatory, and anti-competitive. The protests also referred to Advice Letter No. 11366 of applicant, filed with the Commission on July 23, 1974, but not acted upon due to protests. Advice Letter No. 11366 concerned the offering of a new key telephone service, Com Key 1434, and also provided for application of two-tier rates.

The Commission requested each protestant, except the association, to furnish a copy of its protest to applicant and requested applicant to reply. Our records indicate that protestants Com Path and G.C.E. complied with this request and applicant duly replied. Because this correspondence summarizes the concerns which

have been expressed with respect to two-tier rates, we are assigning exhibit numbers and hereby receiving them as evidence in this proceeding, as follows:

- Exhibit No. 1 - G.C.E. letter of October 18, 1974
- Exhibit No. 2 - Pacific Telephone reply to G.C.E. (11/7/74)
- Exhibit No. 3 - Com Path letter of October 15, 1974
- Exhibit No. 4 - Pacific Telephone reply to Com Path (11/7/74)

While the letters of protest enumerate various objections to the proposed tariff, the focus of such objections is to the alleged noncompensatory nature of the tariff. Protestants cite the proposed rates for two-tier service as set forth in Advice Letter No. 11366 as applied to the Com Key 1434 system. Based upon such rates, protestants conclude that the two-tier rate would produce up to 27% less revenue than the same service offered under a conventional payment plan and may, therefore, be noncompensatory and a burden on other subscribers. Applicant did not make public its cost studies supporting the rates set forth in Advice Letter No. 11366, and protestants are basing their protest solely upon final rate levels.

Applicant, in its replies to the letters of protest, indicates that the current application is not concerned with rate levels and, in itself, would have no effect on revenues or expenses of the utility. Applicant does, however, plan to make future filings which would have the effect of assigning rates for specific applications of the two-tier plan.

Discussion

Applicant's objective of providing optional rate plans to meet the particular needs of customers has merit. It appears that the two-tier rates will be applied mainly to business services such as PBX and key systems. Under present rate-making procedures certain capital costs for these services are amortized over an average period of time in establishing rates. If a customer keeps

his service for less than the average time, the utility does not recover its full capital costs except to the extent that termination charges apply. By contrast, if the customer retains service for longer than the average time, the utility more than recovers its capital. The two-tier concept, on the other hand, tracks capital recovery with the service period specified by the customer. As a condition of service the customer will be required to sign a contract of the form set forth in the tariff attached as Exhibit A to the application. The net result of these factors is that the two-tier rates will appeal mainly to those customers who have a definite plan to use the service over a longer than average period. Such use will result in lesser total charges than would be realized under the usual average rate type tariff. On the other hand, the utility will have an assurance through the contractual arrangement that it will recover its full capital cost.

We share the concern of protestants that the two-tier service should be compensatory and place no burden on other subscribers of the utility. Since no rates or charges are specifically at issue in the present application, we cannot make a test of whether specific rates will be fully compensatory. In order to assure that specific applications of the two-tier principle meet this test, we will require applicant to provide full cost support in connection with any filing on the subject.

We anticipate that protestants will renew their objections at the time of filing specific two-tier rates. To expedite processing of such filings we will condition this order with a requirement that a full, detailed cost showing be included as a part of such filing open to public inspection. This procedure would serve to eliminate the time-consuming discovery procedure now used by protestants in formal proceedings. Such procedure will also serve to reduce or eliminate many of the issues raised by protestants.

As a further step to expediting proceedings related to two-tier rate treatment, we are hereby placing all parties on notice that any protestant to such a filing shall serve a copy of the protest upon the utility. The utility will be expected to promptly provide a factual response to such protest. We believe that such procedure will engender more meaningful protests based on facts rather than on speculation. It should also help the Commission in evaluating tariffs for acceptance, suspension or rejection and in considering applications for tariff authorization.

Findings and Conclusions

We find that applicant's proposed two-tier tariff will provide a desirable optional rate treatment, and that it is in the public interest.

We conclude that a public hearing is not necessary and that the tariff attached as Exhibit A to the application should be authorized subject to the condition that any specific two-tier rate filing shall have attached thereto for public inspection a detailed cost study which supports the claim that the filed rates are fully compensatory; therefore,

IT IS ORDERED that:

1. Applicant is authorized to file with this Commission after the effective date of this order, in conformity with General Order No. 96-A, the tariff schedule attached to the application as Exhibit A and, upon no less than five days' notice to this Commission and to the public, to make said tariff effective.

2. In connection with any future filing for specific two-tier rates, applicant shall file, as an integral part of its application or advice letter, a detailed cost study which will support a finding that the rates being filed are fully compensatory.

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

Dated at San Francisco, California,
this 7th day of JANUARY, 1975.

Vernon L. Stevenson
President
William J. Lyons Jr.
San Francisco

Commissioners