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Decision No. 84625

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 COM KEY 1434 System Service.	Application No. 55557
Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for a revised tariff for COM KEY 718 System Service.	Application No. 55603

INTERIM OPINION

By Applications Nos. 55557 and 55603 The Pacific Telephone and Telegraph Company seeks authority to file a permanent tariff covering the offering of Com Key 1434 System Service and to file a revised tariff for Com Key 718 System Service.

The difference between the two offerings is basically one of capacity. The regulatory problems involved in both applications are the same. Accordingly it is appropriate to consolidate the two applications.

A provisional tariff for Com Key 718 System Service was originally approved on November 19, 1973 by Resolution No. T-8278 for a period of 18 months ending on May 19, 1975. This tariff was extended for an additional year ending on May 19, 1976 by Resolution No. T-8924.

Pacific was to provide tracking data on its estimated costs. The proposed tracking procedure, however, had the following deficiencies: the number of offerings may not be large enough to justify sampling procedures; data on individual rate items are not tracked in every case; certain rate items indicate rate averaging; and no provision is made to set up a summary of cost for final filing. In brief, the tracking methods proposed by Pacific produce data which cannot be audited.

Pacific has previously attempted to establish a tariff offering the Com Key 1434 System by Advice Letter No. 11366. The proposed tariff was to be offered along with a two-tier payment plan option. Several parties protested the filing and Advice Letter No. 11366 was subsequently withdrawn.

Advice Letter No. 11366 and the instant applications have been protested by:

California Interconnect Association, P. O. Box 1167, Oakland, CA 94604.

Com Path, 534 Twentieth Street, Oakland, CA 94612.

Communications Supply Corporation, 541 Taylor, Belmont, CA 94002.

Executone of Northern California, Inc., 395 Beach Road, Burlingame, CA 94010.

GCE Telephone Company, 670 Ninth Street, Oakland, CA 94612.

Panoramic Audio Corporation, 1682 Langley Avenue, Irvine, CA 92705.

Phonetele, Inc., 15414 Cabrito Road, Van Nuys, CA 91406.

All of the foregoing protestants, except California Interconnect Association, are competitors of Pacific in the provision of telephone terminal equipment. California Interconnect Association is an association of companies furnishing telephone terminal equipment.

The general concerns of the protestants are that service offered by these tariffs might be noncompensatory especially when offered under the two-tier concept and that the 10 percent obsolescence adjustment factor assumed by Pacific is unrealistic. The two-tier rate offering, which Pacific sought in its Advice Letter No. 11366, is not being requested in Application No. 55557 and is therefore not an issue herein. The question of compensatory rate levels, however, is a matter of prime concern.

Cost support given for rate development shows substantial fluctuations between entries on preliminary tariffs and tariff proposals previously furnished the Commission staff and the current applications for the same items and components. These fluctuations have not been properly explained by Pacific.

Insofar as the equipment components supplied by Western Electric are concerned, Pacific argues that their cost support is proprietary with Western Electric and cannot be probed by the Commission. Protestants, on the other hand, allege that certain supplier's costs may have been artificially reduced for the purpose of gaining a competitive advantage.

Findings and Conclusions

In view of the questions raised on these applications, it will be necessary to examine, at hearings held subsequent to this interim decision, Western Electric's charges to Pacific as evidenced by published catalogs and invoices. Moreover, although Western Electric will not disclose its cost support data, Pacific is able to reconstruct these data because of the familiarity of its personnel with the relevant systems and processes and thus arrive at a reasonable estimate of Western Electric's cost structure. Protestants who allege that Pacific's rates are noncompensatory should likewise be required to present reconstructed costs in support of their allegations. Finally, both Pacific and the protestants should be required to substantiate their estimates of the obsolescence factor.

The public should not be deprived of having available to it this new key telephone system with its new features pending full hearings. However, the system should be provided to the public on a just and reasonable basis. It is impossible to determine on the basis of the presently available information whether the rates proposed by Pacific are just and reasonable. Should the subsequent investigation show that the rates must be increased, the

customers subscribing to the offering because of competitive considerations would be at a disadvantage. Accordingly a margin of safety should be provided by increasing the utility's proposed rates by 10 percent. We find that the rates, so adjusted, pending full hearings on this matter, and subject to refund if final rates are fixed at a lower level, are just and reasonable for the interim.

INTERIM ORDER

IT IS ORDERED that:

1. The Pacific Telephone and Telegraph Company is authorized to file with this Commission after the effective date of this order, in conformity with General Order No. 96-A, a provisional tariff schedule identical to Exhibit A attached to Application No. 55557 except that all rates and charges in the schedule shall be increased by 10 percent and rounded off in the usual manner. The duration of the provisional tariff shall be eighteen months unless extended or modified by the Commission.

2. The authorization granted in paragraph 1 hereof is conditioned upon applicant submitting to the Commission within five days of the date of this order written consent that all monies collected under the provisional tariffs authorized herein shall be subject to refund to the extent that the Commission finds the provisional rates to be in excess of what would normally be authorized on the basis of fully cost supported data.

3. Pacific is ordered to notify its customers and prospective customers of the temporary nature of the authorized tariffs.

4. Applications Nos. 55557 and 55603 are hereby consolidated for hearing before such Commissioner and/or Examiner as the Commission may designate at a time and place to be determined.

5. Pacific is ordered to initiate forthwith an improved cost tracking procedure which will provide data on individual rate items for both the 718 and 1434 Com Key systems. A summary of the collected data shall be filed with the Commission at the end of every quarter, the first such summary is to be filed for the quarter ending on

September 30, 1975. The detailed form and content of the summaries and tracking data shall be determined by Pacific in consultation with the Commission staff.

6. Pacific shall furnish the Commission suitable summarized data on equipment component costs provided by the suppliers to it and other Bell Telephone System operating telephone utilities in other states obtained from the published catalogs and invoices. In addition, for each tariffed item Pacific is ordered to furnish an estimate of manufacturing costs of production according to the best available information.

7. The protesting parties are placed on notice that in order that the merits of their allegations may be properly evaluated, they must furnish the Commission with specific data and estimates on which their protests are based.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 8th day of JULY, 1975.

President

Commissioners

I abstain
Robert Batinovich
Commissioner

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.