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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for authority to offer certain terminal products under a variable term payment plan and to limit certain offerings under the two tier payment plan.	Application 60634 (Filed June 5, 1981)
In the Matter of the Suspension and Investigation on the Commission's own motion of tariffs to establish the variable term payment plan filed under Advice Letter No. 14857 by The Pacific Telephone and Telegraph Company.	(I&S) Case 10978 (Filed April 21, 1981)

Christopher L. Rasmussen, Attorney at Law, for The Pacific Telephone and Telegraph Company, applicant.
Orrick, Herrington & Sutcliffe, by Robert J. Gloistein, Attorney at Law, for Continental Telephone Company of California; William L. Knecht, Attorney at Law, for California Interconnect Association; and Sylvia M. Seigel, for Toward Utility Rate Normalization; interested parties.
Richard D. Rosenberg, Attorney at Law, and David Shantz, for the Commission staff.

O P I N I O N

By this application The Pacific Telephone and Telegraph Company (Pacific) requests authorization to offer certain terminal products under a variable term payment plan (VTPP) and to limit some present offerings under its existing two-tier payment plan. The equipment involved is primarily the Dimension and Horizon[1] Private Branch Exchange (PBX) systems.

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[1] Bell System trademarks.

Proceeding Background

This proceeding started with Advice Letter (AL) 13858 filed by Pacific on March 6, 1981. AL 13858 requested authorization to limit the offering of services under the present two-tier plan to the same or superseding customers, a customer being anyone who placed an order on or before the effective date of the requested limitation. By AL 13587, filed the same day, Pacific proposed to replace the two-tier plan with the VTPP.[2] The California Interconnect Association (CIA) protested AL 13857 and the Commission issued an Order of Suspension and Investigation on April 21, 1981, Case (C.) 10978. That order postponed the effective date of the tariffs filed with AL 13857, ordered an investigation into the propriety and reasonableness of the tariffs, and ordered public hearings. On June 5, 1981 Pacific filed Application (A.) 60634 which contained more complete information on the VTPP proposal than AL 13857, including complete proposed tariffs and charges. Hearings were held before Administrative Law Judge (ALJ) Albert C. Porter on October 5 and 6, 1981 when the matter was submitted. Only three parties participated in the hearings, Pacific, the Commission staff (staff), and CIA.

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[2] Under the present two-tier plan customers contract for equipment over a 3-, 5-, 7-, or 10-year period, paying (1) a basic installation charge, (2) a fixed monthly amount (Tier A) over the life of the contract to pay off investment costs and return on investment, and (3) a variable monthly amount (Tier B) for maintenance over the life of the contract which usually is adjusted once each year. Under the VTPP the Tier A and B charges would be combined and the customer would pay one fixed monthly amount over the term of the contract which would be for 2, 4, or 6 years. Under both plans, if a customer wishes to give up the equipment before the term of the contract has run, the customer pays a penalty based on the amount of time the system has been installed. There is also a companion rate structure offered which is simply a month-to-month option similar to Pacific's conventional rate structures.

At the fifth prehearing conference in Pacific's current general rate case A.59849, held October 28, 1981, the ALJ indicated that after conferring with the assigned Commissioner he was considering reopening and consolidating the VTPP proceeding (A.60634 and C.10978) with the ongoing rate case and asked for Pacific's comments within 10 days. The reason for a possible consolidation was that there appeared to be some overlap in the VTPP case with problems the Commission must consider in the ongoing rate case such as the costing procedures used to determine rates under the VTPP. By letter dated November 9, 1981 Pacific addressed the matter brought up by the ALJ and opposed reopening and consolidation with the rate case. The ALJ concluded that reopening and consolidation with the rate case would serve no useful purpose and the matter is now ready for decision.

Pacific's Proposal

Pacific proposes to offer customers a selection of payment arrangements for certain services and equipment obtained from Pacific. These would include a month-to-month payment option under which customers agree to a one-month minimum payment for the use of a product, and one or more options for longer payment periods such as 2, 4, or 6 years. In addition, customers would pay an installation charge. The month-to-month option would involve no commitment by the customer beyond the one-month minimum payment. The longer payment options involve a commitment to a specified number of monthly payments at a specified rate which would be fixed over the life of the contract except for changes ordered by the Commission. The monthly payment, of course, would be less for the longer service periods than for the shorter periods because the payment would include a write-off of not only maintenance of the equipment but the investment and a return on investment. Under the VTPP Pacific would guarantee that it would not initiate increases in the monthly payments for the duration of the customer-selected service period.

Should the customer elect to discontinue use of the equipment before the end of the contract period, charges for premature termination would become due. Termination charges would be based on a specified minimum amount or a percentage of the balance due, whichever is less.

Pacific claims there are three major benefits to customers from the VTPP:

a. It provides rate stability for the term of the service period selected by the customer.

b. It offers economic benefits in the form of lower monthly payments in return for loss of flexibility when customers elect a longer term service commitment.

c. It limits the obligation of the customer to pay for only that portion of the product life used by the customer.

Pacific is introducing the VTPP at this time because it claims the telecommunications industry is in a period of rapid and drastic change in market conditions and technology. The plan is intended to assist Pacific in its adjustment to competition by improving customer perception of Pacific as a viable competitor. Pacific feels it has always offered competitive market products and features and the VTPP would make it more competitive in the business terminal equipment market by offering customers a choice of payment options similar to those they can obtain from other vendors.

Walter C. Feistel, district staff manager, business marketing, for Pacific testified that there is widespread use of variable payment options. He stated that a recent Federal Reserve Board of Governors' statistical release shows $318.4 billion of consumer installment credit outstanding on June 30, 1981. While that type of credit is primarily for the purchase of goods, the payment options offered are similar to those proposed by Pacific for the VTPP, that is, a selection of payment periods with lower payment amounts for longer payment periods. Feistel stated that different customers have unique needs in terms of their financial planning and capabilities and their business cycles. He found they prefer the option of choosing payment arrangements that meet individual business needs rather than settling for the single option of continuous monthly payments.

Feistel claims Pacific manages its product marketing to maximize profitability over the life cycle of its equipment. He testified that tariffs offered under the VTPP would make revenue contributions in excess of costs thereby supporting residually priced basic exchange services and subsidized social services such as lifeline.

He believes the use of VTPP will encourage the placement of Pacific products and enable it to be more competitive. Without the VTPP program and the customer benefits it offers Feistel claims Pacific will be less competitive in the market. If customers cannot obtain suitable payment options from one vendor, they will shop around until they find what they need from another. Unless Pacific can be competitive it will experience continued and possibly accelerated erosion of its terminal equipment revenues resulting in an ever-increasing revenue burden on cross-subsidized services. Presently, California customers are limited to the conventional month-to-month payment option with no rate stability, or the two-tier payment option with only partial rate stability.

Multilocation customers with service under VTPP in jurisdictions outside California cannot obtain uniform service and payment options in California according to Feistel. He stated that 45 of 53 Bell System jurisdictions now have the VTPP available to customers. It has been available in most of those jurisdictions since February 1980.

Feistel stated that Pacific's proposal to freeze some of its offerings under the two-tier payment plan is because of poor customer response. He claims this is due to such factors as a lack of full rate stability and a tariff plan under which the tier A amount of the two-tier plan covers 100% of the investment with no consideration given to reuse even for the shorter term commitments.

This causes customers to feel they are paying for more of the product than they use. In addition, termination liability is very high which discourages some customers from making long-term commitments. Also, customers have incorrect perceptions of the tax and accounting status of the equipment. Feistel stated that since the introduction of the two-tier payment plan in California less than 15% of its Dimension PBX customers have selected the plan. This is significantly less than the percentage anticipated by Pacific and indicates that customers are unhappy with the two-tier program. Pacific believes the VTPP will eliminate many of the reasons for customers not selecting the payment options under two-tier.

Pacific believes that offering both two-tier and VTPP would be confusing to its customers and cause a great amount of unnecessary customer contact time by Pacific to explain the differences between the two plans. Also Pacific believes the administrative expenses associated with offerings under both plans are not warranted.

The options available to existing customers of the two-tier plan if it is frozen would be:

a. Continue use of their systems under the present terms and conditions of the two-tier plan.

b. Add to the existing system up to its maximum capacity subject to availability of equipment.

c. Convert to VTPP.

Table A shows the scheme under which the equipment involved would be offered if the Commission approves Pacific's proposal. After AL 13857 was suspended by the Commission, Pacific filed advice letters seeking approval to offer specific new products and features under interim rates and conditions. The offerings are shown on Table A:

TABLE A

	Present Two-Tier Plan	Available Under Interim Rate(1) Effective	Proposed Two-Tier Plan Frozen(2)	Proposed VTPP
Dimension 100:FP15		7/4/81		
Dimension 400:FP2	x		x	x
FP3	x	7/19/81		x
FP4	x		x	
FP5	x		x	
FP10	x		x	
FP15		7/19/81		x
Dimension 400E:FP7	x		x	
Dimension 600:FP8		8/8/81		x
FP9		8/8/81		x
FP12		8/8/81		x
Dimension 2000:FP7	x		x	
FP8	x	10/22/81		x
FP9	x	10/22/81		x
FP11		10/22/81		x
FP12	x	10/22/81		x
Horizon, Type B	x			x
Horizon, Type VS				x
CSMDR(3)		9/14/81		x
Dataspeed 4540(4)				

x Indicates equipment is or would be offered.

(1) Would be frozen to existing systems. New systems will be under VTPP. Interim rates are month-to-month based on 48-month VTPP price levels plus 5%. Termination charge is based on five-year amortization.

(2) Would be limited to existing customers up to capacity of existing systems because they have been combined or included with offerings under VTPP. Dimension 400E has been redesigned and designated Dimension 600.

(3) Centralized Station Message Detail Recording System.

(4) Amended out of proposal at hearing 10/5/81.

The interim rates and conditions provide typical systems at conventional month-to-month payment plans at rates and charges based on the proposed 48-month VTPP price levels plus 5%. It includes a basic termination charge covering the total investment amortized over five years. If VTPP is authorized, Pacific proposes to continue offering the conventional month-to-month payment plan under interim rates and conditions for existing systems only; all new inward movement would be under the VTPP.

Pacific used the GE 100 costing procedure to develop cost inputs for the product pricings proposed under the VTPP.[3] Pacific's approach to VTPP costing for pricing decisions recognizes that each product could be used under any payment option and, therefore, only one cost study is required. Pacific proposes that installation charges be the same for all payment options. A procedure was developed to assist in identifying and summarizing customer-related costs and investment-related costs from the GE 100. The customer-related costs are recovered over the contract period or location life and the investment-related costs are recovered in the annual charges over the service life of the product.

The actual VTPP rates proposed by Pacific were developed by Pacific's product managers after an analysis of cost and market factors in Pacific's territory. The general development of VTPP rates was done by the National Product Management Group of AT&T and recommended to the Bell operating companies. Pacific's managers considered the value of uniform national rates for identical products and features and in those cases where cost levels and methods permitted, Pacific has proposed rates and charges recommended by

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[3] The GE 100 cost study process came under criticism in hearings on Pacific's rate application A.59849 et al. D.93367 issued August 4, 1981 by the Commission provided for further hearings on the GE 100 costing procedures used by Pacific. These are scheduled in early 1982.

AT&T. Where Pacific's costs were higher than rates recommended by AT&T its proposed rates differ. The following table identifies rates proposed by Pacific which are different from those recommended by AT&T.

Product	USOC	Payment Period	PT&T Proposed Monthly Rate	AT&T\1 Recommended Monthly Rate
D100	L1G	72 Mo.	$12.50	$12.00
D400	2DJ	48 Mo.	5.00	4.50
D2000	3FC	48 Mo.	7.00	6.00
D2000	3FB	48 Mo.	7.50	7.00

The proposed VTPP rates when compared to the GE 100 costs for typical systems would provide revenues greater than revenues from rates based solely on GE 100 costs. The contribution above GE 100-based rates is from 28% on the Dimension 400/48-month payment option to 148% on the Dimension 600/month-to-month option. Feistel testified that if changes are made to GE 100 methods or factors as a result of the further hearings in A.59849, it is unlikely that the contribution above the revised GE 100 base rates would be decreased. This is because most of the changes advocated in the A.59849 proceedings would reduce the annual charges based on GE 100 costs. An exception is the net plant factor. If the GE 100s are revised to reflect a net plant factor for the total account for the equipment at issue in this proceeding, the GE 100 costs could be increased. Therefore, Feistel prepared a special exhibit which shows the GE 100 costs revised to reflect a net plant factor of 100%, the maximum that could be used. Even with this change the proposed rates are sufficient to cover GE 100 costs. Feistel stated that because Pacific's proposed VTPP rates and charges are well above costs, they do not pose a threat to other vendors. Other vendors are currently providing over 50% of the new growth in the markets for equipment covered by this application. Pacific's proposed VTPP rates are higher than its competitors for comparable systems.

Feistel explained that the VTPP month-to-month option, in addition to multiyear options, would provide for customers who have shorter term service requirements. Such customers may be expecting to make a move or a change in their financial situations and are reluctant to commit to a long-term service arrangement such as presently offered under the two-tier payment plan or as offered by some of Pacific's competitors. Another reason for the month-to-month offering is that Pacific has traditionally had that option under its conventional payment plans. Pacific believes it supports its marketing position and strategy as well as being comparable to payment options offered in jurisdictions outside of California.

The rate stability that a customer would receive by agreeing to a VTPP would be from Pacific's side only. That is, Pacific would agree not to initiate any changes in rates during the contract period selected by the customer; however, if the Commission were to order rates changed then the customer would have no recourse but to either pay the changed rates or discontinue the service and pay whatever penalty would be due.

Feistel claims that the VTPP will be more profitable than the present two-tier plan because the proposed rates are higher than under the two-tier plan. Pacific believes that the VTPP options offer customers what they are interested in, however, and that is more stability. Customers will be more willing to engage in long-term contracts knowing exactly what their costs will be for the period. Under the two-tier plan Tier A remains constant throughout the contract period but Tier B can increase with any general increases in rates authorized by the Commission.

One of the reasons Pacific does not want to offer both the two-tier plan and the VTPP is the additional cost of explaining to customers the differences between the two plans. Under crossexamination, however, Feistel conceded that Pacific had made no study of what the costs would be for customer orientation for just the VTPP or the VTPP and the two-tier plan. Also, Pacific made no study to determine the number of customers who might prefer one plan or the other if they were both offered.

Fesitel testified that under the proposed VTPP no existing Pacific customers using products or services offered under two-tier or VTPP will experience any increase in rates or charges.

Position of CIA

Counsel for CIA stated that CIA believes it is essential that customers of Pacific who sign up for long-term service under the VTPP know whether they are going to receive service from a regulated or nonregulated company. CIA's reference is to the FCC's Computer II inquiry and the possibility that all the terminal equipment portion of Pacific's business might be spun off to a fully separated subisidiary operation. (See D.93367 in A.59849 for a complete discussion of this subject.) CIA believes it is important that customers have an opportunity, assuming there is a spin-off, to have VTPP contracts terminate without penalty. It reasons that under the present regulatory scheme this Commission is available as a forum to adjudicate disputes between customers and the utility providing equipment. CIA believes that a fully separated and unregulated subsidiary would not be responsive to this Commission should there be a dispute. Customers would not have what they originally bargained for and should be able to cancel their contracts. CIA suggests it would be very simple for the Commission to require, as part of the VTPP agreement, that customers be notified if their contracts are going to be passed-off to any other entity; and the customers would have a reasonable period to decide whether to terminate the agreement.

In response to the CIA, counsel for Pacific stated that CIA is asking Pacific to look into a crystal ball to determine what the FCC is going to do in this area and possibly what Congress might do since there are deregulation bills before it now. Pacific claims and CIA stipulates that AT&T has made a general announcement that any fully separated subsidiaries will honor pricing commitments made by the regulated Bell operating telephone companies under both two-tier and VTPP.

We take note of two events occurring after submission of this matter. First, the FCC has postponed the detariffing of terminal equipment to January 1, 1983 and detariffing will only apply to new equipment going into service after December 31, 1982. Under those terms any equipment offered by Pacific under its VTPP proposal would still be under the jurisdiction of this Commission. Second, AT&T and the U.S. Department of Justice (Justice) have entered a consent decree in Justice's antitrust suit which may affect provision of terminal equipment. We believe it is futile at this time to order Pacific to alert customers to all of the possibilities which might occur.

Communications Division
Evidence and Position

David M. Shantz, a senior utilities engineer, testified for the Commission's Communications Division (Division). Shantz presented the rate design policy and rate recommendations of the Division. He stated that the primary goals of the Division staff with regard to new offerings of competitive terminal equipment services and new optional payment plans are to ensure that the interests of the general body of ratepayers are protected from subsidization, that new services are not priced or offered under conditions which are anticompetitive, and that the customer requesting such a new service accepts a reasonable portion of the cost liability associated with providing service. Shantz believes the Division's role can be achieved if the Division's specific recommendations are adopted by the Commission. These are:

1. Limit all present non-two-tier (companion) tariff offerings to existing customers.
2. Limit the present interim conventional tariff offerings to existing customers where the Commission authorizes VTPP offerings for the same services.

3. Limit all present two-tier tariff offerings to existing customers where the associated equipment has been manufacturer-discontinued.
4. Authorize the VTPP concept.
5. Require that specific VTPP rates and charges recover the costs of providing the services.
6. Eliminate the one-month optional VTPP rates on new installations, i.e., the companion rate structure.

Shantz was especially critical of the companion rate structure because there are generally no termination liabilities or minimum periods of service. It results in a total lack of any commitment by the customer; it does not guarantee the recovery of the investment Pacific must make to provide the service. Therefore, the general body of ratepayers is commonly called upon through exchange access rates to ensure recovery of the costs of providing a competitive item such as a Dimension PBX. This is why Division recommends that all services offered under companion rates and charges be limited to existing customers. Pacific's request is consistent with the Division's recommendations.

Shantz testified that Pacific has two justifications for limiting certain items for further installations. The first relates to products scheduled for discontinuance by the manfuacturer or already discontinued. The second relates to a marketing strategy to limit certain current offerings after approval of VTPP. The Division staff concurs in the proposal to limit two-tier offerings of services which have been manufacturer-discontinued. They do not concur with the request to limit two-tier offerings purely for marketing purposes. Staff's position is that the two-tier rate structure virtually guarantees recovery of Pacific's investment from the first customer, the customer who generates the cost for the utility; this should be retained in order to reduce the possibility of the general body of ratepayers picking up recovery of Pacific's investment in competitive terminal services through exchange access rates.

Commenting on the interim offerings which are shown on Table A Division supports Pacific's movement into the marketplace through the interim tariffs as being consistent with the Commission's directions as set forth in Conclusion 12 of D.88465 dated February 7, 1978 which states:

> "12. A utility should be permitted to offer its services in a competitive situation as soon as reliability is established, even if there are disputes with competitors over the fairness of the rates."

Each of the new services filed by Pacific under the guideline discussed above was reviewed by Division. Each is offered at rates and charges which meet or exceed the cost of providing the service as determined by the standard GE 100 cost formula. Generally, the rates match the four-year VTPP option rates. The nonrecurring charges and installation charges applicable to these new services recover 100% of the up-and-down costs.[4] This is consistent with the Commission's direction for the Dimension PBX set forth in D.87962 dated October 12, 1977. Since the interim offerings of these new services are intended as temporary offerings the Division staff recommends the interim offerings be limited to existing customers should the Commission authorize Pacific's VTPP proposal. Should the Commission not authorize the VTPP proposal, Division recommends the interim offerings remain in effect as permanent offerings.

Although Division supports the VTPP proposal on a conceptual basis, it opposes the offering of the one-month optional payment period for new installations. Its position is that to allow a customer to subscribe to any new competitive service such as a Dimension PBX for a period as short as one month without any

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[4] Up-and-down costs are those costs associated with the installation and removal of a product or service.

termination liability does not provide sufficient assurance that the general body of ratepayers will not be required to pay through exchange access rates recovery of the costs associated with such a competitive service. Staff believes, however, that availability of the one-month rate is appropriate after the expiration of a VTPP contract period if the customer wants to retain the service but not sign up for another VTPP period. The one-month rate levels recommended by Pacific in this application are substantially in excess of the cost-based levels and are therefore appropriate. Staff points out, however, that the cost-based rate levels used for comparison are based on service lives in the area of 7 to 8 years.

Staff claims that although Pacific's showing implies that all proposed rates and charges are set at levels which meet or exceed the GE 100 cost-based levels, many are less than GE 100 costs in order to meet AT&T dictated nationwide rates and charges. Also, several of the installation and nonrecurring charges proposed in the application are not based upon 100% recovery of estimated costs. Division's recommendation and policy is that all up-and-down costs must be recovered through the installation charges to be consistent with the FCC-ordered expensing of station connections.

In Exhibit 12 Division recommended specific rates and charges for services to be offered under the VTPP. The staff proposes rates and charges at levels equal to or greater than the GE 100 basis with 100% of the up-and-down costs recovered through installation charges. Division proposes VTPP rates and charges for a new service provided under the VTPP 48-month plan be the same as the interim tariffs for the same service.

In addition, staff points out that adoption of Pacific's proposal will reduce rates for those customers electing to convert from the interim tariff to VTPP. The staff maintains that because of the uncertainty of the recovery of investment from the user of these highly competitive services, under either interim tariff offerings or VTPP, no such reductions should be allowed.

In summary, the staff proposal is to compare the interim tariff to Pacific's application proposal. Where the interim tariff is different rates shown in the appendix to Exhibit 12 of the staff should be adopted by the Commission. The staff points out that not every rate is shown in the appendix to Exhibit 12 but reference is made to existing tariffs so that if the staff does not show a rate, then it recommends the one that is contained in the existing interim tariff or the application.

Legal Division Position

Counsel for the Commission's Legal Division (Legal) recommended a position slightly different from the Communications Division staff's. Legal recommends Pacific be required to continue offering the two-tier plan, even if the Commission authorizes the VTPP. Legal claims this would give customers an option if, as Pacific claims, it is concerned about customer choice and flexibility to select a pricing system which meets their individual economic needs. Legal maintains Pacific's reasons for not including two-tier as an option are not supported by Pacific. The two reasons given by Pacific were administrative costs and the burden of educating customers on the difference between two-tier and the VTPP. Pacific, however, gave no estimates of the cost to inform potential customers. Nor did Pacific consider the benefit from customers selecting two-tier who might have gone to a competitor instead of taking the VTPP. Legal also recommends that the month-to-month rate level be continued but revised to a longer term than one month but shorter than the minimum under two-tier or VTPP. Legal's concern is the increase in competition and Pacific's admission that it is pricing its products above its competitors.

Discussion

The major issue in this proceeding is rate design. Depending on the rate design selected there may be related rate level issues. Pacific wants to essentially replace two-tier with VTPP continuing a month-to-month or companion rate. Division recommends

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some exceptions to Pacific, mainly the elimination of companion rates. Legal agrees with Division but recommends two-tier be continued and companion rates revised to assure collection of costs from the cost causer. We will adopt Legal's recommendation that two-tier should be continued in order to provide consumers as many options as possible, thereby giving Pacific a further step on the competitive market. We will offer Pacific the opportunity to file a companion rate that assures recovery of costs associated with the service and is developed in a manner consistent with the VTPP rates authorized by this decision.

As to level of rates, the record is clear that GE 100 costs produce VTPP rates which fully recover cost of service, if not more; therefore, the authorized rates are not anticompetitive. As used in this proceeding, they are based on a 15% return factor whereas in D.93367, the last rate case decision, we authorized 12.91%. Also, Pacific has shown that even by using a 100% net plant factor, the proposed rates cover costs. We do, however, agree with staff that no rates should be reduced as a result of this decision and that rates recover up-and-down costs through installation charges. Consistent with this position we will direct Pacific to apply to the VTPP rates we are authorizing in this order the same surcharges presently applicable to certain of the interim conventional offerings.

We believe Pacific should offer a wide variety of payment plans in order to provide customers as many payment options as are reasonable. By ordering continuation of the two-tier and authorizing Pacific to offer VTPP we believe a larger number of customers will select Pacific's competitive series than if only VTPP were offered. We agree with staff that the present companion rate may leave Pacific short of recovering costs if a customer discontinues service in a few months. We agree with Legal though that a short-term offering is required if Pacific is to be competitive. Therefore, we will deny Pacific's request to continue the present companion rate but authorize Pacific to file a 12-month rate that will recover all costs of providing the service. We note from the record that one reason two-tier may not have been too successful is that it is priced close to the companion rate. Customers may not see any advantage in committing to a long-term if there is little difference in price between long- and short-term. Also, its appears that it takes about 7 months for the companion rate to fully recover costs. It follows that a customer taking service for a shorter period is being subsidized by other ratepayers.

Findings of Fact

1. The variable term pricing concept proposed by Pacific is reasonable.

2. In order for Pacific to be truly competitive customers need as wide a range of payment plans as possible.

3. In addition to the VTPP, it is reasonable to require Pacific to continue to offer two-tier and short-term rates.

4. Twelve-month rates applicable to new systems, and reestablished within 90 days from the effective date of this decision, are reasonable so that customers pay out the full cost of the equipment furnished and there is no burden on other customers in the system.

5. It is necessary to make potential customers of products covered by this decision aware by written notice of the possibilities for changes in equipment ownership and rates which might be brought about by decisions of this Commission and the FCC.

6. Staff rate recommendations as modified by Appendix A are just and reasonable.

7. The sale plans and rates authorized by this decision fully recover the cost of service and will not result in unfair competitive practices by Pacific.

8. Because there is an immediate competitive need for the tariffs authorized by this decision, this decision should be made effective five days from today.

Conclusion of Law

Based on the foregoing findings of fact and under PU Code § 455 the Commission may authorize Pacific to place in effect the tariffs authorized by the following order.

O R D E R

IT IS ORDERED that:

1. Five days after the effective date of this order, The Pacific Telephone and Telegraph Company (Pacific) is authorized to file, and place into effect on not less than 5 days' notice, the tariff schedules described or set forth in Appendix A. Such filing shall be in conformity with the provisions of General Order 96-A.

2. Within 90 days from the effective date of this decision, and on not less than 5 days' notice, Pacific shall file by the advice letter procedure 12-month VTPP rates developed in a manner consistent with other VTPP rates authorized by this decision which provide that customers pay for the full cost of the equipment furnished.

3. Pacific shall provide by written notice to all potential customers of products covered by this decision the possibilities for changes in ownership and rates which could be effected by decisions of this Commission and the FCC.

4. In all other respects Pacific's request is denied.

The effective date of this order is 5 days from today.

Dated MAR 16 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

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APPENDIX A
Page 1
VARIABLE TERM PAYMENT PLAN

The Pacific Telephone and Telegraph Company is authorized to revise its tariff schedules as set forth in this appendix. The revised tariff schedules shall apply to services rendered on and after the effective date of the revised schedules.

Variable Term Payment Plan (VTPP), Schedule Cal. P.U.C. No. 164-T

The VTPP filed by Pacific in Advice Letter 13857 is authorized to become effective without modification. The effective date of Advice Letter 13857 will be not less than 10 days after the effective date of this order.

Dimension PBX Service, Schedule Cal. P.U.C. No. 12-T

Non-Two-Tier and Two-Tier Rate Structures

The Non-Two-Tier offerings including the companion offerings and the conventional tariff offerings of the Dimension 100, 400, 400E, 600, and 2000 PBX systems are to be limited to the same or superseding customers on the same premises and to those customers who place orders for these systems on or before the effective date of this limitation.

The Two-Tier offerings of Dimension 400 PBX Feature Packages 4, 5, and 10 are to be limited to the same or superseding customers on the same premises and to those customers who place orders for these systems on or before the effective date of this limitation. All other present Two-Tier offerings of the Dimension PBX's shall remain in effect as presently provided in existing tariffs.

Variable Term Payment Plan (VTPP) Rate Structure

The rates, charges, and conditions shown in Application 60634, Exhibit B, pages 3 through 111 with the following modifications are authorized:

All Service Establishment Charges (SECs) Installation Charges (ICs), and Nonrecurring Charges (NRCs) shall be those charges presently on file in Schedule Cal. P.U.C. No. 12-T for the same rate item.

All rates under the 48 months Optional Payment Period shall be the present rates shown in present Schedule Cal. P.U.C. No. 12-T for the same rate item offered under the respective present conventional tariff offerings which have been filed under Advice Letters 13922, 13939, 13957, and 14007 except as modified.

The VTPP One Month Optional Payment Period will not be available as an option for new Dimension PBX system installations but will be applicable to existing systems offered under the VTPP upon expiration of the initial or subsequent Optional Payment Period when the existing customer retains the existing system after such expiration date.

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VARIABLE TERM PAYMENT PLAN

Variable Term Payment Plan (VTPP) Rate Structure (Contd.)

The 5.4% surcharge authorized in Decision (D.) 93367 and the 8.09% surcharge authorized in D.93728 shall be applicable to the VTPP offerings of the Dimension PBX's filed under the authority granted in this decision. The Dimension 2000 PBX Feature Packages 8, 9, 11, and 12 VTPP offerings are excluded from the 5.4% surcharge authorized in D.93367.

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VARIABLE TERM PAYMENT PLAN

Dimension PBX Service (Continued)
Dimension 100 PBX System

Charges and Rates*

			Optional Payment Periods		
	USOC	IC	1 Month	48 Months	72 Months
Additional ECTS Carrier, each NOTE: Maximum of one per ECTS common equipment.	L10	$ 420.00	$51.50	$30.00	$28.00
Backup Station Set, each NOTE: One required for each RLT where backup station set is desired.	L2H++	85.00	10.50	10.00	9.25
Console Repeater** NOTE: One required per console equipped.					
Without range extension, each	2DBW1	636.00	45.50	28.00	27.75
Intermediate, with range extension, each	2DBN1	230.50	32.50	19.00	18.00
Display Interface Circuit Pack, each NOTE: One required for each system status indicator, or for a maximum of eight indicators for either UCD or DDC overflow.	L2L	71.50	10.50	6.00	5.60
Distributing Frame Cabinet, each	L1K+X	1,712.50	55.00	33.00	32.75
ECTS Station Sets and Lines					
Station Line, each	ELE04				
Replaced or installed new		50.00	1.00	1.00	1.00
In place and Reused		4.00	1.00	1.00	1.00
Line Circuit Pack, each NOTE: One required for each four line terminations.	L1C	6.50	23.00	13.50	13.25

* Applicable surcharges are in addition to the rates and charges shown.
** Charges, rates, and special conditions for Type 2001 Channels as shown in Schedule Cal. P.U.C. 45-T also apply.

VARIABLE TERM PAYMENT PLAN

Horizon Communications System Service, Schedules Cal. P.U.C. Nos. 22-T, 28-T and (NEW)-T

Non-Two-Tier and Two-Tier Rate Structures

The Non-Two-Tier offering of the Horizon Communications System Service will not be offered for new installations on or after the effective date of this limitation with additions to existing installations and conversions to Type B common equipment to be furnished subject to the availability of equipment.

The present Two-Tier offerings of the Horizon Communications System Service shall remain in effect as presently provided in existing tariffs.

Variable Term Payment Plan (VTPP) Rate Structure

The rates, charges and conditions shown in A.60634, Exhibit C, pages 3, 4, and 6 thru 42 with the following modifications are authorized:

For the authorized limitations applicable to the Non-Two-Tier and Two-Tier offerings of the Horizon Communications System see "Non-Two-Tier and Two-Tier Rate Structures" above.

The VTPP One Month Optional Payment Period will not be available as an option for new Horizon Communications System installations but will be applicable to existing systems offered under the VTPP upon expiration of the initial or subsequent Optional Payment Period when the existing customer retains the existing system after such expiration date.

VARIABLE TERM PAYMENT PLAN

Horizon Communications System Service (Continued)

	USOC	IC	Optional Payment Periods 1 Month	48 Months	72 Months
V. CHARGES AND RATES - VTPP					
System Common Equipment					
VS Common Equipment consisting of power unit, tone supply, one Touch-Tone receiver, common control circuits, power failure transfer unit, basic carrier, and connecting units, one per system	4W2	$630.00	$380.00	$255.00	$230.00
Type B Common Equipment consisting of power unit, tone supply, three Touch-Tone receivers, common control circuits, power failure transfer unit, basic carrier, and connecting units, one per system	3W2	$940.00	600.00	385.00	345.00
Additional power Failure transfer unit, per 10 stations, each	3WX	16.00	12.00	7.00	6.50
Station Equipment					
Out-of-building MET set or out-of-building Customer Access Unit, per two MET sets or Customer Access Units, per location	3WR	46.00	12.00	7.00	6.50
Note: May also require out-of-building MET Station Power Supply (3WL).					
Out-of-building MET set station power supply, each distant location	3WL	23.00	10.00	6.00	5.50

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VARIABLE TERM PAYMENT PLAN

Horizon Communications System Service (Continued)

	USOC	IC	Optional Payment Periods 1 Month	48 Months	72 Months
V. CHARGES AND RATES - VTPP - Continued					
Station Equipment - Continued					
Non-MET set Feature Capability Charge, per set	3WV	-	$ 3.00	$ 3.00	$ 3.00
Central Answering Positions					
20-button position, each	KLK++	$118.00	35.00	20.00	18.00
40-button position, each	KLV++	138.00	50.00	30.00	27.00
Selector Consoles					
39-station position, each	KHS+X	161.00	45.00	25.00	22.00
79-station position, each	KHU+X	281.00	75.00	45.00	40.00
Stations					
Non-MET set-desk, each	TEL++	-	#	#	#
Non-MET set-wall, each	TEL++	-	#	#	#
10-button MET set-desk, each	KLB+6	77.00	17.00	10.00	9.00
10-button MET set-wall, each	KLB+4	84.00	17.00	10.00	9.00
10-button MET set-desk, with busy lamp field, each (max. of 8 per system)	KLG++	93.00	22.00	13.00	11.50

Monthly rate applicable to business extension telephone set shown in Schedule Cal. P.U.C. No. 4-T.

APPENDIX A
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VARIABLE TERM PAYMENT PLAN

Horizon Communications System Service (Continued)

	USOC	IC	Optional Payment Periods 1 Month	48 Months	72 Months
V. CHARGES AND RATES - VTPP - Continued					
Miscellaneous					
Auxiliary Interface Arrangement:					
Interface unit, one per four Interface Circuit Cards, each	3W5	$56.00	$10.00	$6.00	$5.50
Interface Circuit Card, one for the Direct Group Calling-Delayed Announcement feature and one for each Extended Station	3W6	9.00	3.00	2.00	1.50
Customer Access Units:					
With tape transport, each	3WU	86.00	120.00	70.00	65.00

Centralized Station Message Detail Recording System (CSMDR), Schedule Cal. P.U.C. No. 32-T

Variable Term Payment Plan (VTPP) Rate Structure

The rates, charges and conditions shown in A.60634 Exhibit D pages 2 thru 7 with the following modifications are authorized:

All rates under the 48-month Optional Payment Period shall be the present rates shown in present Schedule Cal. P.U.C. No. 32-T for the same rate item offered under the present conventional tariff which have been filed under Advice Letter 13981.

The present conventional offering of CSMDR service is to be limited to existing or superseding customers on the same premises.

The VTPP One Month Optional Payment Period will not be available as an option for new installations but will be applicable to existing systems offered under the VTPP upon expiration of the initial or subsequent Optional Payment Period when the existing customer retains the existing system after such expiration.

The 8.09% surcharge authorized in Decision 93728 shall be applicable to the VTPP offering of CSMDR service filed under the authority granted in this decision.

(END OF APPENDIX A)