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ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of GENERAL TELEPHONE COMPANY OF CALIFORNIA to modify Resolution T-10651, paragraphs 1 and 4, relating to costs of a direct sales plan and tariff provisions covering an over-the-counter exchange program for out-of-warranty repairs. (ADV. LTR. 4774)	Application 83-05-12 (Filed May 6, 1983)

O P I N I O N

Background

The General Telephone Company of California (General) filed this application requesting that we modify two of the ordering paragraphs of Resolution T-10651 (Resolution), adopted on February 2, 1983. That Resolution directed General to implement a final direct sales plan for selling single line terminal equipment within 9 months. General was directed to ultimately have the same sales plan which we authorized for The Pacific Telephone and Telegraph Company (Pacific) in Decision (D.) 82-08-017. As discussed more below, General now wants us to wait and see what it estimates the related costs to be before we direct General to put the final sales plan in place which would parallel Pacific's.

General first tendered the filing as an "Application for Rehearing or Modification of Resolution T-10651." However, its filing was correctly docketed as an application to modify the Resolution; it was not docketed as an application for rehearing because: (1) more than 30 days passed from the time the Resolution was issued until General's pleading was tendered; and (2) it did not allege legal error. General asks us to reconsider the Resolution based on policy grounds.

The issue of General's sales plan for in-place single line terminal equipment first arose in its Advice Letter 4774, which was filed on October 26, 1982 and supplemented on November 19, 1982. A proposed resolution on General's proposed plan was before us at our public conference of December 15, 1982. We expressed our opinion at that time that General's plan should parallel Pacific's. General responded by letter that it should be authorized to proceed on an interim basis with its original sales plan, and that if it was allowed 9 months to prepare to put a sales plan in place exactly like Pacific's there would be a $1.7 million expense savings. Finally, on February 2, 1983 we issued the Resolution, which authorized General to put its proposed sale plan in place as an interim measure, but with the following modifications to bring it substantially in line with Pacific's:[1]

"1. Elimination of the requirement for customers to bring purchased in-place equipment to the designated utility location for application of the ownership and warranty sticker and provide for such stickers to be provided to the customer by mail.

"2. A 180-day warranty on equipment sold from inventory.

"3. All customers are to be notified of the authorized sales plan by a bill insert within 60 days of the effective date of this resolution.

"4. Addition of provisions covering minor repairs for out-of-warranty equipment under tariff. The charges for such repairs should be based on the cost of making such repairs.

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1 Pacific's direct sales plan was authorized by D.82-08-017, in Application (A.) 59849 et al., on August 4, 1982.

> "5. Addition of tariff provisions covering an over-the-counter exchange program for out-of-warranty repairs." (From Resolution T-10651. Paragraph 1.)

We also set a deadline of November 2. 1983 for General to start a direct sales plan that fully parallel Pacific's:

> "(4) Within 9 months of the effective date of this resolution General shall implement a direct sales plan which is the same as the direct sales plan authorized for The Pacific Telephone and Telegraph Company in Decision No. 82-08-017 and to report to the Commission within 5 months of the effective date of this resolution on the costs of such a plan based on the actual experience from the interim sales plan authorized in this resolution. wording of detailed customer notices and more specific plans for implementation of such a sales plan."

The principal changes General must make by November 2 to bring its plan in line with Pacific's are to: (1) provide for a 6-month installment payment option: and (2) provide each customer with a separately mailed detailed notice which lists the single-line equipment for which he is being assessed a recurring monthly charge, the amount of each charge and the purchase price for the equipment under the direct sales plan.

We note that Pacific's sales plan tariffs have no provisions as specified in (4) above. Accordingly, our decision here modifies Resolution T-10651 to remove this requirement.

The sales prices for General's single-line telephone sets, as contrasted to Pacific's, which were authorized by the Resolution are:

	Sales Price ($)				
	Pacific		General		
	In-Place	Inventory	In-Place	Inventory	New*
Type of Telephone Set					
Standard Telephone-Rotary	19.00	35.00	19.95	29.95	-
Standard Telephone-Touch Calling	34.00	55.00	34.95	44.95	54.95
Dial-In-Handset Telephone Rotary	34.00	55.00	34.95	44.95	-
Dial-In-Handset Telephone Touch Calling	49.00	75.00	49.95	59.95	74.95

*New sets offered only on a non-tariffed direct sale basis.

General's Proposed Modifications

1. Ordering Paragraph 4 of the Resolution

General wants Ordering Paragraph 4 of the Resolution changed so that it will not be required to implement a direct sales plan that fully parallels Pacific's until further order. Its application, pages 3-4, states that:

> "General is informed and believes that many of the assumptions underlying Pacific's plan have been shown to be incorrect, such as the extent of the public interest in purchasing in-place telephones and the cost associated with the program. Therefore, it may not be in the public interest to require General to implement the same plan.
>
> "The proposed modification of Ordering Paragraph 4 will enable the Commission to decide, based on General's report as well as Pacific's actual experience with its plan, whether General should go forward with the same plan. The Commission

can either order General to proceed with the plan authorized for Pacific within the nine-month deadline, or direct General to continue with the interim sales plan approved by Resolution T-10651.

"If General is not required to implement a plan that is identical to Pacific's, substantial costs would be avoided. These costs are primarily those associated with preparing the three[2] mailers to advise customers of the cost of buying their in-place equipment, and the costs associated with mailing these notices to all of General's single line customers. They could be avoided if the Commission issued a further order in this matter within two months of the receipt of General's report. This should give the Commission sufficient time to review General's report along with any data provided to it by Pacific regarding its plan and to issue an order either cancelling the further filing or directing General to go forward with Pacific's plan."

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2 We are not sure why General would make 3 mailers when we required Pacific to make only 2.

In addition, General states in its application that it now estimates an additional $1.2 million would be required if its Plan were fully consistent with Pacific's, and that this does not include an estimated cost of $15.51 per transaction for "issuing service orders" for in-place sales transactions.[3] General does not explain why the $15.51 cost does not arise for an in-place sales transaction under its existing interim plan, but would for an in-place sales transaction under Pacific's plan. We cannot see the relevance of the alleged transaction cost to General's incremental avoided cost if General does not conform its sales plan to Pacific's.

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3 We note that Pacific did not use the "service order" approach for its direct sales program for in-place equipment. We allowed Pacific $6 average sales expense per transaction, but broke it down to reflect a $4 cost savings if a customer did not visit one of Pacific's phone centers; thus $2 was allowed for in-place by mail transactions and an additional $4 for transactions at a phone center. General's $15.51 cost is unusual in view of developments in A.59849 et al. when sales expense per transaction was developed (D.82-08-017, page 11): "Staff adds to its net book value figure a flat $3.00 transaction charge for sale of equipment. Pacific adds $7.19 consisting of three items: sales, administrative, and warranty expense. Staff's $3.00 is based on estimates provided by General Telephone Company of California of the cost of notifying customers of equipment for sale and the transaction costs of sale. Pacific's estimate is based on an analysis of the potential 'take' if sets are offered, whether the sale would be handled by mail or through phone service centers, the costs of notification, record updating, and billing and collecting."

We will not modify the Resolution's Ordering Paragraph 4. General is correct in its application when it indicates that it assumes we have a "desire to have a uniform program for the two largest telephone utilities in the state which have many adjacent exchange areas, particularly in Southern California" (Application, page 2). Further, since a plan reflected in tariffed rates must be in place well before the end of 1983, to preserve the opportunity for customers to purchase embedded equipment at the rates we set, we think it is time to bring some certainty to the situation. We will require General to fully implement the Pacific plan on or before November 2, 1983. General had a chance to take timely exception with the Resolution. It did not. Rather, approximately 3 full months passed before it filed this application. The longer it appears to General that we are undecided on this point, or if it has a continuing hope of changing our decision, the more difficult it may be for General to fully gear-up to implement a final direct sales plan in November.

We recognize that General will have some incremental 1983 costs in connection with the sales programs we directed. However, it may have experienced some offsetting expense savings. Further, it received a $50.7 million increase for attrition on Janaury 1, 1983. Given these circumstances, we expect General to absorb the incremental 1983 costs associated with this program. If General incurs continuing incremental expenses in 1984, there is nothing to prevent it from quantifying such costs and reporting on this matter in its pending general rate proceeding which has a 1984 test year. Naturally if General chooses to pursue this course of action, it must meet the requisite burden of proof that such costs are reasonable for purposes of determining its 1984 revenue requirement.

The reasons General gives to justify the modification are based on assumptions and "what may happen." General has given us no compelling reasons to change our order. Further, we believe the 2 additional features of Pacific's plan which General shall implement can significantly stimulate customer interest in the direct sales plan: the installment sales feature affords a convenient option, and having customers receive the itemized mailer showing recurring monthly charges and the direct sales price should heighten awareness of the potential benefits of purchasing terminal equipment.

We want General to get the full direct sales plan ordered by the Resolution in place on schedule. It is unclear when deregulation or detariffing of embedded customer premises equipment may occur with respect to General and other non-Bell companies through the Federal Communications Commission's CC Docket No. 81-893. When detariffing occurs it is possible that General will be able to charge whatever it wants for single-line equipment. American Telephone and Telegraph Company has requested detariffing of such Bell System equipment by January 1, 1984, and it is conceivable that General could be put on the same schedule. The question of timing for non-Bell companies has not been clearly resolved.

We are requiring General to go ahead with the full Pacific-type sales plan because that plan will best place customers in an informed position to make a decision, with an optional installment sales plan to facilitate purchases. It is critical to the public interest that General's customers have every reasonable opportunity to avail themselves of the reasonable purchase prices and terms now available under regulation.

2. <u>Ordering Paragraph 2 of the Resolution</u>

The second modification General requests is to add the following language to subparagraph 5 of the Resolution's Ordering Paragraph 1 (which deals with out-of-warranty period maintenance of purchased equipment):

> "Said program shall terminate effective January 1, 1984, or the date when the exchange program authorized for [Pacific] terminates, whichever is later."

We see no reason to terminate General's obligation to have a program for out-of-warranty repairs at the same time Pacific may be relieved of that obligation in view of tentatively scheduled deregulation of Pacific's terminal equipment. General and other non-Bell System telephone companies face deregulation on a potentially different time schedule. General provides us with the rationale that its obligation to perform maintenance for sold out-of-warranty equipment should be no more onerous than Pacific's. However, this overlooks the different circumstances the two utilities may have vis-a-vis the timing of deregulation from the federal level. We will deny General's requested modification.

Ensuring General's Final Sales Plan
Is In-Place So Customers May Purchase
Under It Before January 1, 1984

Finally, in view of the above discussion and since we expect General to proceed with the final modifications to its plan no later than November 2, 1983. we will order General to commence sending the detailed mailer to all customers on or before November 2, itemizing their existing single-line terminal equipment, and showing the recurring monthly charge and the sales price. This mailing shall be completed within 30 days after November 2. It should also give a complete description of the sales plan and advise customers of the optional installment purchase plan. The wording of this detailed mailer must, of course, be submitted for our review and approval no later than July 2, 1983, as previously ordered by the Resolution.

Findings of Fact

1. Resolution T-10651 was adopted and effective on February 2, 1983.

2. The only features of Pacific's direct sales plan for single-line terminal equipment which General has not implemented are the sending of a detailed itemized mailer and the optional installment payment plan; both features can substantially stimulate customer interest in purchasing terminal equipment.

3. Any recurring expense which General will have in 1984 can be analyzed in its pending rate proceeding with a 1984 test year (NOI 99).

4. General's embedded terminal equipment may not be deregulated at the federal level on the same schedule as Pacific's; however, deregulation could occur as early as January 1, 1984.

Conclusions of Law

1. General has not demonstrated that its proposed modifications to the Resolution should be made.

2. General should be directed to commence sending its detailed itemized mailer no later than November 2, 1983 and to complete the mailing within 30 days.

3. The following order should be effective today because it is in the public interest for General to make final preparation to have its final sales plan in place and operating by November 2, 1983.

O R D E R

IT IS ORDERED that:

1. The modifications to Ordering Paragraphs 1 and 4 of Resolution T-10651 proposed by the General Telephone Company of California (General) are denied.

2. General shall commence sending its detailed itemized mailer, as approved by this Commission under the procedure set out in Ordering Paragraph 4 of Resolution T-10651, no later than November 2, 1983; the mailing shall then be completed within 30 days.

3. Ordering Paragraph (1)4 of Resolution T-10651 is deleted.

This order is effective today.

Dated June 29, 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

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

Joseph E. Bodovitz, Executive Director

> "5. Addition of tariff provisions covering an over-the-counter exchange program for out-of-warranty repairs." (From Resolution T-10651, Paragraph 1.)

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<u>Findings of Fact</u>

1. Resolution T-10651 was adopted and effective on February 2, 1983.

2. General shall commence sending its detailed itemized mailer, as approved by this Commission under the procedure set out in Ordering Paragraph 4 of Resolution T-10651, no later than November 2, 1983; the mailing shall then be completed within 30 days.

This order is effective today.

Dated JUN 29 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
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