

ORIGINAL

Decision No. S7614 JUL 19 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Amended Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for authority to file a permanent tariff covering the offering of COM KEY 718 & 1434 System Services.

Applications Nos. 55557 & 55603
(Amendments filed December 15, 1976)

OPINION AND ORDER

By these applications, The Pacific Telephone and Telegraph Company, hereinafter referred to as "applicant", seeks to increase rates and charges for its key telephone systems, Com Key 718, which has a capacity of 7 lines and 18 stations and Com Key 1434, which has a capacity of 14 lines and 34 stations.

By our Interim Opinion, Decision No. 84625, dated July 8, 1975, in Application No. 55557, we authorized applicant to file provisional tariffs covering the offering of Com Key 1434 System Service (Com Key 1434). The provisional rates for Com Key 1434 were authorized subject to refund to the extent that the provisional rates were found by the Commission to be in excess of what would normally be authorized on the basis of fully cost supported rates and charges. Applicant was required to notify its customers of the temporary nature of the authorized tariffs for Com Key 1434.

A provisional tariff for Com Key 718 System Service (Com Key 718) was originally approved on November 19, 1973 by Resolution No. T-8278 for a period of 18 months ending May 19, 1975. Resolution No. T-8924 extended the tariff for one year until May 19, 1976. Application No. 55603, filed April 7, 1975, requested authorization to revise the rates and charges for Com Key 718 to reflect the results of tracking data gathered during the provisional term of the offering. Due to deficiencies in the tracking procedure used to gather cost data on the Com Key 718, authorization to revise the Com Key 718 tariff as requested in Application No. 55603 was not granted in Decision No. 84625.

Decision No. 84625 consolidated into one proceeding Application No. 55557 in which applicant sought a permanent tariff covering the offering of Com Key 1434 and Application No. 55603 in which applicant sought a revised tariff for Com Key 718. Applicant was ordered to institute improved cost tracking procedures for both Com Key 718 and 1434 with a summary of collected data to be filed with the Commission on a quarterly basis. Applicant was also ordered to furnish the Commission with suitable data obtained from published catalogs and invoices which provided the equipment component costs to applicant of Com Key 718 and 1434 equipment when purchased from applicant's suppliers. In addition, applicant was ordered to furnish an estimate of manufacturing costs of production according to the best available information.

Additional time extensions for the provisional offerings of Com Key 718 and 1434 have been requested by applicant and granted by the Commission. Resolution No. T-9347 authorized the extension of the Com Key 718 tariff until February 15, 1977. Resolution No. T-9573 authorized the extension of the Com Key 718 and 1434 tariffs until a decision is rendered by the Commission on Amended Applications Nos. 55557 and 55603.

By Amended Applications Nos. 55557 and 55603 considered herein, applicant seeks authority to revise the tariffs covering Com Key 718 and 1434 services to reflect tracking data gathered from October, 1975 through September, 1976. Based upon this tracking data, applicant has determined that the provisional rates and charges do not fully cover the costs of providing these Com Key services. Accordingly, applicant requests authority to revise its tariffs in accordance with Exhibit A of the Amended Application to increase rates and charges for Com Key 718 and 1434 services. Exhibit A of the Amended Application also includes proposed tariff revisions for the following: introduction of new station

equipment with rotary and Touch-Tone capabilities, multiple console capability, and "718" ringing option; revised change of location charges; a decrease in the premise visit charge with related special conditions; and restructuring of charges and rates for privacy arrangements.

The requested increase in rates and charges represents an annual revenue increase of approximately \$1,451,500. This annual revenue effect is based upon the approximately 2,100 Com Key 718 systems and the approximately 275 Com Key 1434 systems in service as of December 15, 1976. The average monthly rate increases would be about 21.7% per Com Key 718 system and about 8.4% per Com Key 1434 system if the rates as requested by applicant are authorized.

The requested revisions in change of location charges and premise visit charges represents an annual revenue increase of approximately \$58,500.

The cost tracking procedures used by applicant to gather the data reflected in the revised tariffs filed as Exhibit A of the Amended Application were established by applicant in consultation with the Commission staff. Summaries of the collected data were filed with the Commission on a quarterly basis.

In compliance with Decision No. 84625 applicant filed summarized cost data obtained from the price catalogs of its supplier, Western Electric, and an estimate of the manufacturing costs of production according to the best information available to applicant.

Protests

Protests to the Amended Application have been received by the Commission from the following parties:

Com Key 718 Customers

Ciara Corporation, 10913 Venice Blvd., Los Angeles, CA 90034

Inland Counties Chapter March of Dimes, 2120 South Waterman Ave.,
San Bernardino, CA 92408

Weatherman Waterproof Coatings, 220 Glasgow Ave., Inglewood CA 90301

Com Key 1434 Customers

Charles E. Thomas Company, 13701 South Alma, Gardena, CA 90249
DeBano Realty, 33954 Alvarado-Niles Blvd., Union City, CA 94587

As indicated, all of the foregoing protestants are customers of applicant and are provided Com Key service by applicant. The protestants allege that the requested rate increases are unreasonable and create additional burdens on small businesses which will ultimately be passed on to the consumer. Protestants also allege that applicant's installers were untrained and inexperienced resulting in many repair calls and unnecessary visits to protestants' premises by additional installers or repairman being required before the Com Key systems would function properly. Protestants believe that they should not be penalized with increased rates because applicant did not train its personnel properly.

As noted in Decision No. 84625 there were seven protestants to the original Applications Nos. 55557 and 55603. All seven of these protestants are competitors of applicant in the provision of telephone terminal equipment or represent such competitors. These protestants alleged that the rates and charges requested in the original Applications Nos. 55557 and 55603 might be noncompensatory and that a 10 percent obsolescence adjustment factor assumed by Pacific was unrealistic and unsupported. These protestants also alleged that certain supplier's costs may have been artificially reduced for the purpose of gaining a competitive advantage. Recognizing the deficiencies in applicant's showing we concluded that it was impossible to determine, on the basis of the available information, whether the rates and charges proposed by applicant were just and reasonable. To ensure that sufficient information would be available at the conclusion of the provisional term of the Com Key 718 and 1434 tariffs, we ordered applicant to initiate an improved tracking procedure with summaries of tracking results filed periodically with the Commission, to furnish costs of equipment as

purchased from its suppliers, and to furnish an estimate of manufacturing costs of production. We also placed the protesting parties on notice that in order that the merits of their allegations may be properly evaluated, they must furnish the Commission with specific data on which their protests are based. The Commission has received no written protests of the Amended Application considered herein from any of applicant's competitors.

The Commission has received the comments of ComPath, A Division of Scott-Buttner Communications Inc., of Oakland. ComPath is one of the applicant's competitors and was also one of the seven protestants noted in Decision No. 84625. Mr. Effron of ComPath raised several issues in his letter to the Commission all but one of which has been answered to his satisfaction. The one remaining issue raised by Mr. Effron concerns the development of the installation charges for the stations and station busy consoles used in conjunction with Com Key 718 and 1434 systems. Mr. Effron requests that the Commission give consideration to the reasonableness of these installation charges. Mr. Effron urges the Commission to act expeditiously on the Amended Application and finds no objection if the Commission were to approve the tariffs requested by applicant in its Amended Application No. 55557 and 55603 effective immediately without benefit of a public hearing.

Discussion

Applicant filed, as Exhibit B attached to its Amended Application, a showing of the basis of its proposed rates and charges for Com Key 718 and 1434. Exhibit B contains cost support (GE-100's) which shows the derivation of the proposed rates and charges. The allocated cost methodology embraced by the GE-100 has been used by applicant for many years for developing rates and charges for terminal equipment.

The GE-100's in Exhibit B reflect the most current cost data available to applicant. The location and revenues lives used in the GE-100's have been lowered from those lives upon which the rates and charges for the provisional offerings of Com Key 718 and 1434 are based to reflect the most currently expected lives for this equipment. The equipment costs used are based upon current costs to applicant from its supplier, Western Electric, and are substantiated by published catalogs and invoices. The Western Electric equipment costs are developed in a manner consistent with Western Electric's standard methods of determining costs for such equipment. Installation and maintenance labor costs used in the GE-100's are based upon actual experience gained through approximately twelve months of tracking such costs. Other costs and cost factors used in the GE-100's are those currently used by applicant in the rate development for similar offerings of terminal equipment.

In view of this documented cost support we must agree with applicant that the present provisional rates and charges for Com Key 718 and 1434 do not fully cover the costs of providing these services.

The tracking procedures and reporting requirements ordered in Decision No. 84625 have served their purpose. The rates and charges for Com Key 718 and 1434 proposed by applicant reflect the results of tracking. The reporting requirements of Decision No. 84625 should be removed.

Previous filings by applicant for Com Key 718 and 1434 services were vigorously protested by applicant's competitors. These protestants alleged that applicant was requesting Commission approval of rates and charges which were noncompensatory and that certain supplier's costs may have been artificially reduced for the purpose of gaining a competitive advantage. In Decision No. 84625 we placed the protestants 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. Since no protests to the Amended Application have been received from applicant's competitors we must

conclude that the competitors no longer believe their original allegations apply to the rates and charges requested in the Amended Application. Also, applicant, in compliance with Decision No. 84625 and as a part of its Amended Application, has provided sufficient support for us to determine that applicant's proposed rates and charges for Com Key 718 and 1434 are compensatory and are based upon full cost.

Five Com Key 718 and Com Key 1434 customers protest the increased rates and charges. Existing rates and charges for Com Key services do not cover the costs of providing such services and result in a deficiency which is a burden on the general ratepayer. Applicant's proposed rates and charges are reasonable and when implemented, will place the burden of costs on the customers who are the users of the service.

Two protesting customers' allege they are being penalized with higher rates and charges because of the lack of training of applicant's installation and repair forces. The Com Key 718 services for the two customers who make this allegation were installed in May, 1975 and October, 1975. As is true of any new service involving new equipment, there is a need to provide on-the-job training both initially and on an ongoing basis for the forces whose task it is to install and maintain the equipment. The costs of training installation and maintenance forces to install and maintain the Com Key systems should be and are included in the rate development for Com Key services.

Mr. Effron of ComPath in his comments to the Commission raises the issue that the proposed installation charges for the stations and station busy consoles for the Com Key 718 and 1434 as shown in Exhibit B are not developed by applicant in the standard manner in that the proposed installation charges are not always 50% of the nonrecoverables. Mr. Effron suggests that since the proposed installation charges for

stations and station busy consoles exceed 50% of the nonrecoverables, applicant is not placing the proper cost burden on existing customers through raising of the monthly rate. Mr. Effron indicates that if the monthly rate is low and the installation charge high, the existing Com Key customer may be "locked in" to applicant's service.

The installation charges developed, as shown in Exhibit B, for the stations and station busy consoles for use on a Com Key 718 system properly place the cost burden on both the existing and future customer. The increases in these installation charges primarily reflect the increase in the loaded hourly labor rates which occurred since the provisional rates were developed in 1973. The actual installation labor hours upon which the provisional rates and charges were based are basically the same as those used by applicant in development of the proposed rates and charges. The labor hours upon which the proposed rates and charges are developed are supported by tracking studies. All other increased or decreased costs are mutually shared by both the existing and future customer through the applicable monthly rates. Mr. Effron's suggestion that the cost burden is not being properly shared between existing and future customers has no merit.

In Exhibit A applicant includes two new wall sets for use on Com Key 1434 systems. The development of the rates and charges for these new sets is shown in Exhibit B. The proposed installation charge of \$80 for these new sets is based upon 50% of the nonrecoverables. To ease customer understanding and acceptability applicant proposes to have the same \$80 installation charge applicable to wall sets, desk sets and station busy consoles used in conjunction with a Com Key 1434 system.

Mr. Effron is in agreement with applicant that the present rates and charges do not cover the costs of furnishing Com Key services and urges the Commission to approve applicant's tariff as proposed in Amended Applications Nos. 55557 and 55603 to be effective immediately without benefit of a public hearing. We agree that the public interest will not be served by lengthy formal proceedings and will authorize applicant's proposed tariff ex parte.

Findings and Conclusions

1. We find the present provisional rates, charges and conditions for Com Key 718 and Com Key 1434 do not cover the full cost of providing such service.

2. We find that the reporting requirements of Decision No. 84625 have served their purpose and support the increased rates filed by applicant.

3. We find that no refunds of rates and charges for Com Key 1434 are required.

4. We find the rates, charges and conditions as authorized herein are just and reasonable and the present rates, charges and conditions, insofar as they differ therefrom, are for the future unjust and unreasonable.

We conclude that a public hearing is not necessary and that the tariff attached as Exhibit A to the Amended Application should be authorized as a permanent tariff; 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 Amended 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. Applicant is hereby relieved of the reporting requirements of Ordering Paragraph 5 of Decision No. 84625.

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3. Revenues collected subject to refund pursuant to Decision No. 84625 shall not be refunded. Rates and charges for the Com Key 1434 system shall no longer be subject to refund.

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

Dated at San Francisco, California, this 19th day of JULY, 1977.

Lobstein
W. T. D. eddy

Robert Bateman
President
William Aguirre Jr.
Vernon L. Livingston
Richard D. Hoyle
Commissioners