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Decision No. 92747 MAR 3 1981

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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 revise portions of Schedule Cal.)
P.U.C. No. 36-T, to provide new)
criteria for establishing credit for)
residence service, and to change)
billing and collection rules for)
residence service.)

Application No. 59752
(Filed June 23, 1980)

John N. Howarth, Attorney at Law, for applicant.
George Agnost, City Attorney, by Leonard L. Snaider, Deputy City Attorney, for City of San Francisco;
John Blethen, Attorney at Law, and Linda Sloven, for Toward Utility Rate Rate Normalization; and Ruth Benson, Attorney at Law, for Communication Workers of America, District 11; interested parties.
Alvin S. Pak, Attorney at Law, and Emily T. Marks, for the Commission staff.

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific) seeks authority to revise its tariff Schedule Cal. P.U.C. No. 36-T, Rules Nos. 6, 7, 10, and 11, to provide new criteria for establishing credit for residence service and to change its billing and collection rules for residence accounts.

According to Pacific's application, the proposed new credit criteria, which were developed following a year-long study of more than 12,000 accounts, will provide an objective, more easily understood method of establishing credit that will benefit customers and help protect Pacific from escalating uncollectible revenue losses. Pacific alleges that the proposed tariff revisions will produce an estimated \$4,500,000 reduction in uncollectible residence revenue and an estimated \$480,000 reduction in associated expenses, for a net effect of \$4,980,000, and that this change represents less than a one percent increase in Pacific's revenue.

Pacific further alleges that its Advice Letter No. 9585, filed July 14, 1967, demonstrated that without making deposits to establish residence service, uncollectible revenues could not be held to a reasonable level. Studies at that time showed the average monthly residential bill to be \$11.50, and the Commission, by Resolution No. T-6342 dated August 15, 1967, granted Pacific authorization to establish a \$25 deposit requirement where credit could not otherwise be established by new applicants for residence service, in accordance with Pacific's rules. According to Pacific, that amount, which was equal to approximately twice the then current average bill, was believed to be reasonable protection and enabled Pacific to reduce its losses below the then high level of uncollectible revenues. Pacific alleges that between 1967 and 1979 the average monthly residence bill has risen from \$11.50 to \$29 (Appendix E) and that it is reasonable to assume that this trend will continue.

Pacific contends that its studies show residence accounts with less than 13 months' service contribute only 15 percent of the total live account billing but 74 percent of the uncollectible revenues (Appendix G). Pacific states that the customer who allows an account to become delinquent has accumulated two months of charges before becoming eligible for disconnection of service. For this reason, Pacific believes that a deposit to establish credit should be adequate to cover usage for a minimum of two months, which in 1979 was \$58 based on the usage of all residence customers. Pacific points out that customers with less than 13 months' service have even higher bills than those of the average (Appendix H) and believes that the existing \$25 deposit clearly is no longer adequate to protect its revenues.

In general terms, Pacific's proposed tariff changes are as follows:

(a) The amount of deposit to establish new service will be increased to equal twice the average monthly residence service usage in an applicant's area of the state. It is anticipated that the amount of deposit will range from \$55 to \$65 initially. No current subscribers would be required to pay an increased deposit because of this application.

(b) Advance payment of installation charges will no longer be required to establish service.

(c) Subscribers with more than one year of uninterrupted service will be allowed more time to pay before the bill is considered delinquent.

(d) New applicants for service who answer affirmatively to three out of nine credit criteria on a credit application will not be required to post a deposit to establish credit.

(e) Applicants who are unable to meet three out of the nine credit criteria will be offered an option of providing a guarantor in lieu of a deposit.

(f) Where special toll bills are rendered for unusually high long distance charges, payment intervals will be reduced from 15 to 7 days.

Following notice, public hearings in this matter were held on September 16, 17, 18, 19, and 29 in San Francisco, on September 22 and 23 in Los Angeles, and on September 24 in San Diego before Administrative Law Judge William A. Turkish, and the matter was submitted upon the filing of concurrent briefs on October 24, 1980.

Public witness testimony was received on September 16, 20, and 22. Statements were made by representatives of the American Association of Retired Persons, the National Teachers Association, the Citizens Party of Northern California, the National Council on Aging and the Community Services Administration, the Santa Cruz County Consumer Affairs Agency and the California Department of Consumer Affairs, the Gray Panthers of California, the California Commission on Aging, and the Los Angeles County Department of Consumer Affairs. Testifying on behalf of Pacific were Maud E. Thiebaud, district staff manager, residence billing and collection methods, and Dirk J. Van Aggelen, facilitator and member of Pacific's Consumer Advisory Council (CAC) II.^{1/} Testifying on behalf of the Commission staff (staff) was Emily T. Marks, senior utilities engineer, communications division.

^{1/} CAC II was a group of citizens organized by Pacific to study and prepare policy recommendations on Pacific's deposits and collections procedures. A previous CAC, called CAC I, studied and made recommendations on other matters.

Public Witness Statements

A total of eight members of the public, some representing the organizations indicated above, testified or presented statements at the hearings. Toward Utility Rate Normalization (TURN), the city and county of San Francisco, and the Communication Workers of America appeared as interested parties and cross-examined some or all of the witnesses. Six of the eight members of the public were generally favorable to Pacific's proposed tariff changes, although some had reservations concerning one or two of the specific changes while one person was generally opposed to all the proposed tariff changes without being specific. Another public witness made a general statement condemning several of Pacific's current policies which, according to the witness, result in unjust access to telephone facilities and improper use of discretionary decision-making power. Of those who were generally in favor of the proposed changes but had some reservations on specific proposals, two expressed concern about the reduced payment period for special toll bills from 15 to 7 days and felt this could cause a hardship to senior citizens. The one individual generally opposing Pacific's proposed tariff changes expressed the opinion that social injustice was involved in the proposed changes which weighed more heavily on the poor and lower middle class. He stated that only people who have a history of nonpayment or repeated late payment should make deposits and that he was not opposed to raising the initial deposit or shortening the billing period from 15 to 7 days for those people only.

Pacific's witnesses Thiebaud and Van Aggelen testified on Pacific's proposed tariff rule changes. Pacific sponsored Exhibits 1 through 11.

Staff and TURN opposed either some or all of Pacific's proposed tariff rule changes. Staff presented alternative proposals and sponsored Exhibits 12 and 13. TURN presented no witness or evidence.

According to witness Thiebaud, Pacific's present methods and practices have evolved over the years as the company has grown and its tariffs have been changed in piecemeal fashion. Pacific now feels that as a result of review of its present practices plus input received from individuals, groups, and staff, and the fact that it is faced with increasing amounts of uncollectible revenues affecting not only the company adversely but the general body of ratepayers as well, a total revision is needed of its residence account billing and collections. With these changes, Pacific hopes to provide a well-defined, objective, easily understood procedure that is both responsive to subscriber needs and economically feasible for the company. A discussion of Pacific's specific proposals follows.

Pacific's Proposed New Credit Screen and Credit Criteria for
Establishing Credit for New Applicants

Under current procedures, very few applicants for new telephone service are asked to fill out an application for service. Under Pacific's proposed tariff, all applicants for new residence service will be required to complete a credit application. The information requested of applicants generally tracks the criteria by which Pacific intends to evaluate a given applicant's credit worthiness. Along with the credit application, consumers will be given full disclosure statements so that it will be clear that credit is being granted and the terms of that credit will be stated more clearly than under current practices.

According to the recommendations made by the CAC II study and the testimony of Van Aggelen, consumers are used to providing certain types of information to credit grantors and that once they have the perception that they are in fact applying for credit from Pacific when they request new telephone service, it will be acceptable to them to provide standard credit information.

Staff, although not opposing the concept of a credit application, is opposed to the requirement that all new applicants complete Pacific's proposed credit application. Staff recommends instead that rather than requiring all new customers to complete the entire application, the wording should be modified to indicate that only information sufficient to establish credit need be provided by applicants for residence service. In other words, persons establishing credit by providing a guarantor or a deposit should be asked to complete only the top portion of the credit application which asks for name, current address, and previous telephone number information, and not the remainder of the application which consists of the credit screen. Staff's recommended credit application format also differs from Pacific's in that staff separates out two credit factors from the remainder of the credit factors and places them into another section of the application in keeping with staff's proposal that each of these credit factors should be a stand-alone criterion which, if either is answered affirmatively, should be sufficient to establish credit.

Under Pacific's present tariff rule, an applicant may establish credit and forego the payment of a deposit upon satisfying any one of the following six credit factors:

- "1. Applicant is a customer of the Utility or any other telephone utility in California, for a similar class of service and has paid all bills for service without having been temporarily or permanently discontinued for nonpayment thereof, for a period of twelve consecutive months immediately prior to the date of the present application.

- "2. Applicant has been a customer of the Utility or any other telephone utility in California, for a similar class of service in the last two years and during the last twelve consecutive months that service was provided has paid all bills for such service, without having been temporarily or permanently discontinued for nonpayment thereof.
- "3. Applicant is the owner of the premises upon which the Utility is requested to furnish service, or is the owner of other local real estate; in the case of business service, real estate must be business property.
- "4. Applicant for residence service has been continuously employed by his present employer (including military) for a period of two years or more, or is retired on pension.
- "5. Applicant furnishes a guarantor satisfactory to the Utility to secure payment of bills of applicant for telephone service requested in the application. The amount of the guarantee shall be in the same amount as the deposit computed in accordance with Rule No. 7, and this amount shall be specified on the Guaranty Form. This guaranty shall continue in full force and effect for one year from the installation date of the service or until applicant's credit is otherwise established. An advance payment may also be required from the applicant.
- "6. Applicant's credit is otherwise established to the satisfaction of the Utility."

Pacific's new proposed credit standard is the result of a comprehensive credit study of new Pacific account applications conducted in 10 of its California Residence Service centers during 1977 and 1978. The methodology used in the credit study was the gathering of extensive credit information on 12,006 new residence customers from whom no initial security was requested. Then, those accounts were tracked for a period of one year or to the point of default, whichever came first, in order to determine which credit questions would be predictive of good credit. Nine credit factors were determined by Pacific to be key indicators of credit worthiness and these were used to create the credit screen, the credit application, and the credit criteria under the proposed tariff rules.

Under the proposed tariff, in order to qualify for service without having to pay a deposit, a new applicant for service must affirmatively answer at least three of the following nine verifiable credit factors:

1. Owns a home in California.
2. Owns a car or truck registered in California.
3. Has been continuously employed two or more years with current employer.
4. Has an authorized major national credit card.
5. Has an authorized major oil company credit card.
6. Has any other acceptable credit card or charge account.
7. Has a bank checking account.
8. Has a savings account with any bank, savings and loan association, or credit union.
9. Is 50 years of age or older.

Credit may also be established without the necessity of having to post a deposit if an applicant has verifiable prior or concurrent residence telephone service in California, or with any Bell System company, for a period of 12 consecutive months within the last two years, and has demonstrated credit worthiness during the period of such service.

Still another way an applicant may establish credit in lieu of making a deposit is by providing a guarantor satisfactory to the company in accordance with its proposed tariff rules on guarantors. Rule No. 6.G.5. proposes:

- "a. The guarantor must be an individual (not a business) and must be a concurrent customer of the Utility for residence service in Account Group III above, except that a parent or guardian who has concurrent residence service with another Bell System company established for two years or more, may be a guarantor for his/her children or wards.
- "b. A guarantor, other than a parent or guardian, may guarantee only one account."
- * * *
- "d. The guaranteed amount will be equal to the amount of the deposit requested from the applicant..."

According to witness Thiebaud, the new credit standard will sharply decrease the number of applicants from whom the company will ask for a security deposit. In 1979, Pacific obtained initial security, either by an advance payment or a deposit, from 58.8 percent of new residence customers. Pacific estimates that its proposed credit standard will reduce the number of new residence applicants from whom it will have to request a deposit, to less than 35 percent or 40 percent fewer of its new customers. Since the use of the new standard is expected to identify potentially credit-worthy customers, advance payments as required under current tariff rules will no longer be required.

Staff generally adopts Pacific's proposed credit standard as reasonable, but proposes minor modifications be made to the proposed credit standard and application form as previously indicated above. Staff urges that homeowners and applicants who have been continuously employed by their present employer for a period of two years or longer be granted credit without regard to the remaining seven factors appearing in the credit screen. Persons not qualifying for credit under either of these two stand-alone criteria could then establish credit by meeting three of the remaining seven factors.

Staff's objection to the three out of nine credit standard is tied in with Pacific's proposed increase in the amount of security deposit which will be required from those new applicants who are unable to qualify for credit under any of the deposit waiver alternatives.

Since Pacific's tariff rule changes include a doubling of the security deposit currently required (discussed elsewhere in this decision), staff is of the opinion that this could pose a serious hardship on a number of new residence service applicants, even to the point of preventing certain persons from obtaining service. For this reason, staff has accepted Pacific's proposed tariff changes which permit a greater number of applicants to establish credit by some means other than by the posting of a deposit. Staff believes that its credit standard goes even further than Pacific's in increasing the ways in which credit, and thus service, may be established and strikes an appropriate balance between the need to reduce Pacific's growing uncollectible residence revenue and the hardship which doubling of the amount of security deposit would impose on the general body of applicants, particularly those who are elderly or poor.

Pacific believes that staff's proposal of using homeownership or continuous employment as stand-alone criteria for establishing credit will be more complex to explain and administer and, even more important, would result in a 25.7 percent smaller reduction in uncollectible revenue than Pacific's proposals. Pacific's estimate is based on the fact that by allowing people who have two years' employment with the same employer to be granted service without any other criteria, it would be allowing additional risk customers in; and according to Pacific's study (Exhibit 9), the risk customers who had two years' employment with the same employer comprised 19 percent of Pacific's total risk customers.

TURN contends that Pacific's proposal to require an applicant to meet three criteria in order to escape the deposit requirement is both arbitrary and unreasonable, and argues that it believes that the objectives of Pacific's study would be met if Pacific extended credit to all applicants who were able to meet at least one of Pacific's nine-factor credit screen. TURN urges that the Commission follow the lead of the State of Michigan and the recommendation of the original CAC II report and require deposits from proven bad credit risks only. In support of its contention, TURN argues that Pacific's conclusions drawn from its study are flawed. TURN believes Pacific's conclusions are flawed because (1) Pacific never studies "stand-alone" criteria factors as indicators of credit worthiness; (2) Pacific never investigated other possible methods of establishing credit; (3) there is no one credit criterion that is the best indicator of credit; and because (4) the likelihood of payment by an applicant claiming prior service cannot be compared to the likelihood of payment by other applicants.

Although Pacific admitted it had not looked at stand-alone criteria to determine the probability of payment, TURN utilized Pacific's 12,006 account study results to consider the probability of payment by individuals according to each separate criterion. TURN's figures show a range of 86 percent to 100 percent probability of payment. TURN argues that Pacific proposes to allow applicants with verifiable prior telephone service and good payment record to escape the deposit

requirement, and that this credit factor as a stand-alone factor in Pacific's credit study shows a 91 percent probability of payment. Thus, TURN contends that since there are at least seven of Pacific's nine credit factors which show a probability of payment higher than 91 percent and only two factors lower than 91 percent but higher than 85 percent, any affirmatively answered single criterion should be sufficient to establish credit.

Discussion

While it is recognized that Pacific's uncollectible debt record represents but 2 percent in terms of gross revenues, which is deemed a favorable rate in most businesses, it is also noted that Pacific's uncollectible debt has been increasing steadily since 1973 and more rapidly since 1977. This uncollectible debt, in addition to having an adverse effect on company revenues, places an unfair burden upon the general body of Pacific's ratepayers. Thus, regardless of the ratio of uncollectible debt to gross revenues, the utility's credit and collections procedure should be reviewed and revised from time to time to the extent that uncollectible debt can be further reduced while at the same time avoiding the placing of undue burdens upon credit-worthy applicants and customers.

We agree with Pacific that new applicants for residence service should be made aware that at the time they are applying for service, and upon approval, they are being extended credit in addition to being provided telephone service. The credit application along with a full disclosure statement given to new applicants for residence service will reinforce the fact that credit is being extended and conform to the business practices of most credit-granting organizations. Additionally, terms of that credit will be stated more clearly than under current practices and applicants will be fully notified in advance of the special toll-billing procedure instead of discovering it when the first advanced toll bill arrives. The nine-factor credit screen, selected by Pacific as the most predictive indicators of credit worthiness, stems from a comprehensive credit study of 12,006 California applicants who provided over 70 items of credit information. We believe these credit criteria to be reasonably related to such predictions and should be adopted.

Pacific's proposed credit standard of three affirmative out of nine credit factors is estimated to result in a reduction of the number of applicants who will be required to post a deposit or to provide a guarantor from the 58 percent currently required to provide money in advance to 35 percent. Pacific estimates that 75 percent of its risk customers will be included within that 35 percent. Since the evidence indicates that approximately 71 percent of Pacific's uncollectible accounts were for customers with less than 13 months' service and they accounted for almost 74 percent of the uncollectible dollars, it follows that new customers present a greater risk of loss

in revenues to the company and it is thus reasonable for Pacific to utilize a credit screen and deposit requirement at the initiation of service. Both staff and TURN concede that a reasonable deposit procedure should be established. TURN believes that Pacific's objectives would be met if it extended credit to all applicants who were able to meet at least one of the criteria, while staff would utilize only homeownership and employment of at least two years with the same employer as stand-alone criteria sufficient to escape the deposit requirement.

In establishing credit standards, there is always the likelihood of tension between the competing interests of protecting the utility by allowing it to require deposits from applicants who are not likely to pay their bills and of relieving applicants likely to pay their bills from the obligation of paying a deposit as a condition of obtaining service. While it can be argued endlessly that affirmatively answering only one or two of the nine criteria would satisfy these competing interests, we are convinced that there is no group of credit criteria that will place the hardship only on individuals who are certain to be poor credit risks or nonpayers of bills and allow all those who will be good-paying customers to escape the net. We believe the credit standard proposed by Pacific, while not acknowledging it to be perfect, does provide a reasonable accommodation of the competing interests. They have been determined by measurement of the specific requirement against the actual performance of a sample

group and although approximately 19 percent or less credit-worthy customers will be captured in the three-out-of-nine criteria net, the fact is that the standard will also capture a very high percentage of the bad risks, who contribute greatly to Pacific's uncollectible debt.

Pacific should have every opportunity to reduce these uncollectibles to the maximum extent possible, and for these reasons we shall adopt Pacific's credit screen, credit standard, and credit application as proposed. At the same time, since Pacific has the mechanism and methodology for conducting credit studies, we shall direct it to conduct a one-year credit study of new applicants under the new credit rules adopted by this order, to include examination of stand-alone as well as two affirmative out of the nine-factor credit screen to determine if predictability of future bill-paying performance can be improved upon which will further reduce the number of credit-worthy applicants who will be subjected to the deposit requirement. Pacific will be ordered to report its findings to the Commission by advice letter and to refer to this order and case number rather than by a formal filing.

Deposit Amount

Pacific's current rules provide for a \$25 deposit from all applicants for new residence service who fail to qualify for credit. Pacific proposes that this be changed to an amount equal to "twice the average monthly billing for other residence accounts with service of less than one year in the applicant's region of the state" with provisions made for adjusting that amount subsequent to the commencement of service. The initial deposit amount proposed by Pacific will be \$55, except for customers served by Pacific's Sacramento Revenue Accounting office, for whom the deposit would be \$50. No advance payments in lieu of deposit would be required of residence customers in the proposed tariff, except those ordering residence complex service.

Pacific contends that requiring a deposit equal in amount to twice the average monthly usage is reasonable and appropriate because a customer who defaults on an account will have used the service for an average of two months before his or her telephone could be disconnected for nonpayment. Also, according to evidence submitted by Pacific, a comparison of average billing based on length of service indicates that the average bill of a customer with less than 13 months' service is higher than the average of all customers billed by \$1.83, or approximately 6.8 percent more. Pacific further argues that the new customer presents a much greater risk of loss in revenues to the company.

In 1980, Pacific conducted a final account study of 1,001 unpaid final accounts from four statewide locations which were over 45 days old and which had failed to respond to collection efforts. Pacific determined from this study that 70.7 percent of the uncollectible accounts was for customers with less than 13 months' service and that they accounted for 73.9 percent of the uncollectible dollars. These figures are significant to Pacific, since new customers are generating only approximately 15 percent of total billing.

Pacific further believes it should have the ability to alter deposit levels at regular intervals of six months or a year to maintain pace with actual usage so that existing customers who pay their bills do not have to subsidize the customers who default on payment. In support of this, Pacific submitted evidence showing that not only has the amount of uncollectible revenue dollars been growing more rapidly in recent years, but the percentage of each billed residence dollar that goes to uncollectible has been mounting as well.

Witness Thiebaud testified that Pacific conducted a detailed study in early 1980 to determine the net impact its total proposal would have on actual uncollectible revenue and concluded that the new procedures for handling delinquent live accounts and the proposed extension of live account delinquency periods would increase uncollectible revenues by 1.2 percent using existing criteria and the existing \$25 deposit. However, it found that implementation of the complete proposal will reduce uncollectible revenues by 11.3 percent.

Furthermore, expense savings in connection with the elimination of mailing separate denial notices to delinquent customers in two of four new account groups contained in the proposed tariff, based on 1979 expenditures, are estimated at \$480,000.

Staff agrees with Pacific that an appropriate deposit amount should equal twice the average monthly bill. However, staff opposes Pacific's proposal to base such amount on twice the average monthly bill for residence accounts with less than 13 months' service in the area of the state in which an applicant resides, and further opposes any provision for adjusting the deposit amount once paid. Staff contends that Pacific's proposal is too complex and that there is no discernible benefit which can be seen as a saving to either Pacific or to Pacific's customers from such proposal.

Staff believes that Pacific's seven-region deposit approach will create additional administrative burdens for both Pacific and staff, breaks from the tradition of uniformity in setting of residence rates, and poses potential customer dissatisfaction. Staff points out that Pacific had no evidence showing that the rate of defaulted billings tends to vary between regions or that usage varied significantly from region to region. Of the seven regions proposed to be designated by Pacific, the deposit would be different only for the Sacramento region where the deposit would be \$50 while in the other six regions it would be \$55. Pacific contends that its evidence shows average bills between areas of the state varying as much as almost \$7.

Staff witness Marks testified that the Commission has heretofore calculated deposits based upon the average monthly billing of all residence customers and established Pacific's basic exchange rates on a uniform basis. She also pointed out that rates for message toll service have also been uniform statewide. She stated that staff opposes Pacific's proposal of using only residential customers with less than 13 months' service as the basis upon which to calculate the amount of deposit and, instead, urged using the average of all residential customers as the basis upon which to determine such amount. She pointed out that the monthly average difference between the two amounted to only \$1.83 and that the difference in magnitude of the customer billings did not warrant the confusion, extent of explanation, and requirement to review this segment of customer body periodically, which would be required under Pacific's proposal.

Staff further contends that establishing a deposit of an unspecified amount in the tariff, based on a subsection or subgroup of residential groups as proposed by Pacific, is an unnecessary refinement since, despite such refinement by Pacific, staff's calculation of the projected deposit amount is \$55 and equals or exceeds Pacific's estimate.

Staff also opposes Pacific's proposal to adjust a customer deposit up or down, following the first three full billing periods when the existing deposit amount differs significantly from an amount equal to twice the current bill or twice the average monthly bill for the previous three months.

Staff refers to witness Thiebaud's testimony wherein she testified that high usage and billings are not related to the likelihood of default and that usage patterns are a better predictor of defaults than usage. Staff contends that three months is too short a time in which to establish a norm and identify an abnormality in usage.

Staff submits that since Pacific's evidence shows that 84 percent of new customers turn out to be nonrisk customers and that a large proportion of customers from whom deposits will be taken turn out to be nonrisk customers, the deposit adjustment mechanism is unwarranted by Pacific's risk. Furthermore, staff contends that in the operation of the rule, there will be very few or no refunds of deposits since telephone rates and average billings are constantly rising. Pacific's witness conceded as much. More importantly, staff argues that this rule will be applied on a case-by-case subjective basis which is contrary to Pacific's intended goal of implementing objective, easily understood credit rules.

TURN opposes Pacific's deposit proposal and takes the position that deposits should be required only from proven bad credit risks based on the following two premises: (1) a deposit is a security against nonpayment of an account, and (2) the general body of ratepayers is already burdened by the company's uncollectibles to the extent of its rates. Since timely paying customers already pay for uncollectibles, which are not their responsibility, TURN contends that it

would be unreasonable to require them to pay again in the form of a deposit. TURN believes that a reasonable and logical proposal regarding deposits was made in the CAC II report (Exhibit 8) wherein the council recommended the elimination of all deposit requirements on new accounts, except in the case of the reestablishment of service for previously non-payment disconnected accounts. Deposits would be required only at the time that service is temporarily disconnected, and the deposits would be in incremental amounts of \$10 and would be cumulative.

Discussion

While staff and Pacific agree that an appropriate deposit amount should equal twice the average monthly bill, they differ as to the composition of the group to which the deposit formula of twice the average monthly bill is applied. TURN, on the other hand, urges the requirement of a deposit only at the time service is temporarily disconnected and then only in incremental amounts of \$10 which would be cumulative with each succeeding temporary disconnect. TURN's recommendation ignores both the long-standing policy of this Commission regarding deposits held by a regulated utility and the evidence adduced during the course of these proceedings. The courts and this Commission have uniformly held that a utility, unable to pick and choose its customers, is entitled to take reasonable measures to guarantee payment for the services it renders under compulsion of law. (In re Deposit Practice (1915), (7 C.R.C. 830, 836.)^{2/} The taking of a deposit is such a measure.

^{2/} The full title is "In the Matter of the Practice of Water, Gas, Electric and Telephone Utilities Requiring Deposits Before Rendering Service".

Due to the manner in which billings by a utility and payments by a customer are rendered, the Commission established that a deposit reasonably calculated to ensure that the utility will not suffer loss would equal "twice the estimated average monthly billing of the consumer within (any given) class." (Id., at 840.) Thus, a deposit less than twice the average consumer's monthly billing fails to protect the utility to the extent heretofore held reasonable. The record clearly reflects the effect of holding the amount of the security deposit constant while the average monthly billing was doubled. While average live billing has doubled between 1970 and 1979, the average final bill has nearly tripled and uncollectible revenue has more than tripled. While we do not necessarily agree with staff that Pacific's proposed deposit rule with its "fine tuning" procedure is necessarily complex, we do see additional administrative burdens placed upon Pacific and staff since separate calculations will have to be made by Pacific and verified by staff.

Furthermore, we fail to see where the seven-region deposit approach will generate any discernible benefits to either Pacific or its customers. Pacific's deposit rule changes are further likely to create confusion and potential customer dissatisfaction. Additionally, the seven-region deposit approach also departs from the tradition of uniformity in setting residence changes. Usage does not vary significantly from region to region and under Pacific's proposal, initially, the deposit would be different in Sacramento only. There was

no showing that the rate of defaulted billings tends to vary between regions or that the seven-region approach would cause any savings in uncollectibles. Since we are not convinced of the need for the seven-region deposit proposal, we will adopt instead staff's proposal that the deposit be based on twice the average monthly billing of all residence customers as this should be a sufficient security against the billings of the large majority of customers.

Finally, with respect to the deposit adjustment mechanism proposed in Rule No. 7.B.2.a.(2) whereby a customer's deposit could be "adjusted, up or down, following the first three full billing periods if the existing deposit amount differs significantly from an amount equal to twice the current bill or twice the average monthly bill for the last three months, when available^{3/}7," we agree with staff that three months is too short a time in which to establish a norm and identify an abnormality in usage.

Pacific's witness Thiebaud testified that, in her opinion, usage patterns are a better prediction of defaults than usage. She further stated that high usage and billings are not related to the likelihood of default. Thus, upward adjustments of deposits will be required without regard to the risk to Pacific or the credit worthiness of the customer. Witness Thiebaud also testified that Pacific had not calculated the revenue effect of Rule No. 7.B.2.a.(2), and she did not estimate any benefit to the company as a result of this proposed tariff rule. Since we are not convinced by any evidence of a need for this deposit adjustment mechanism, we shall reject it.

3/ Bracketed language from Rule No. 7.B.3.

Account Group Classifications and Special Toll Bills

Among Pacific's proposals is a classification system of residence accounts whereby each resident account will be categorized by length of service or special risk into four account groups as follows:

- I. Accounts with 0 to 12 months' service.
- II. Accounts with 13 to 24 months' service.
- III. Accounts with 25 or more months' service.
- IV. Accounts with more than 14 months' service that have been temporarily or permanently disconnected within the last 12 months or that have any unpaid final residence bill over 45 days old.

These account groupings will determine when to trigger service denial notices for delinquent accounts. All residence accounts would be considered to be delinquent if not paid by the printed "pay by date" on the bill which currently is 15 days from the date it was mailed. However, for subscribers in Account Groups II and III, having demonstrated their credit worthiness, notices of service denial for nonpayment would be included with the next regular monthly statement. These subscribers would then have a full billing month between receipt of the bill and receipt of the denial notice. For subscribers in Account Groups I and IV, existing procedures would not change, including separate mailing of the denial notice.

Special residence toll bills rendered because of high message toll service would be considered delinquent in 7 days instead of the current 15 days, and such bills would be sent only to Account Groups I and IV subscribers. Pacific's witness Thiebaud testified that the shortened period is not only reasonable but essential. She testified that since only 2 out of 1,000 customers will receive special toll bills, the shortened payment period will only impact the small number of subscribers who run up unusually high amounts of toll charges. All subscribers will be advised, through a full disclosure statement, at the time they apply for service that if they are in Account Groups I or IV, they may possibly receive a special toll bill in addition to and in advance of their regular monthly bill in any month if their long distance charges exceed \$150 in less than a full billing period. They would further be informed that payments for such bills are due seven days from the date mailed and that, thereafter, subsequent special toll bills would be sent when long distance charges exceed \$400.

Pacific presented evidence of six sample accounts to demonstrate the rapidity with which these six accounts accumulated toll charges. Testimony was given that the six accounts had less than sixty days' service without ever having made any payments and their final bill accounts ranged from \$330 to \$2,666. Their special toll bills ranged from \$179 to \$647. Pacific's Final Account Study (Exhibit 3) on 1,001 accounts shows that accounts disconnected for nonpayment of

special toll bills in 1979 averaged \$432 compared to \$176 for other final bills. In further support of its proposal, Pacific's Exhibit 4 shows a significant increase in both percent and absolute dollars of uncollectible revenues in 1978 over 1977. Witness Thiebaud attributed that change, in part, to the Commission's extending the payment date of special toll bills from 5 days to 15 days in December 1977.^{4/}

Pacific's proposals provide for the option, in lieu of a deposit, of obtaining a guarantor who agrees to guarantee an applicant's account up to the amount of deposit. Pacific proposes that such guarantors be limited to subscribers in Account Group III since these subscribers have established themselves as Pacific's most reliable customers. According to the evidence, 77 percent of Pacific's subscribers will be in Account Group II, and Pacific believes that 24 months is an appropriate length of time to qualify as a most reliable customer.

Staff generally agrees that the use of Pacific's proposed account group classification would be beneficial to residence subscribers, but does recommend that three changes be made to the classification and the consequences attaching to them. Staff would classify persons with "less than 13 months' service" as falling into Account Group I to fill in the gap between Account Groups I and II and to fully comport with Pacific's evidence concerning Account Group I.

^{4/} Decision No. 88232 dated December 13, 1977, in Application No. 55492.

However, staff objects to the proposed reduction in the payment period applicable to special toll bills from the current 15 days to the proposed 7 days because, in its opinion, there was no evidence to suggest that a large number or percentage of special toll bills goes unpaid or that unpaid special toll bills represent an inordinate amount of uncollectible residential revenue. According to the testimony of Pacific's witness Thiebaud, only 1.6 percent of risk accounts is classified as a risk because of unpaid special toll bills. Staff also points out that unpaid special toll bills constitute but 4 percent of uncollectible revenue and that the reduction in the payment period will only amount to a savings of a quarter million dollars of uncollectible revenue on an annual basis, compared to a 1979 recorded uncollectible figure of \$40 million. Staff thus contends that, from this record, Pacific has hardly demonstrated a sufficient reason for affecting the presumably large number of subscribers who timely paid their special toll bills. Staff proposes instead that subscribers in Account Groups I and IV be permitted the current 15 days in which to pay special toll bills and points out the Commission's action in Decision No. 88232, supra, whereby we extended the special bill payment period from 5 days to 15 days.

The issuance of special toll bills results in residence subscribers being provided notice of a sudden large increase in the current month's toll usage. Such large increases in toll usage may be due to toll calls being placed by others having access to a residence telephone without notifying the customer who has to pay the increased bill. The decision herein provides for special toll bills to be issued to the subscribers in Account Groups I and IV, but consideration should be given to providing notice to all residence subscribers when an excessive increase in toll billing occurs. Accordingly, it is desirable that Pacific study the feasibility of providing such notice to Account Groups II and III and to develop workable procedures for doing so. ✓

Also, staff objects to Pacific's proposal of limiting guarantors of new applicants to subscribers in Account Group III. Staff points out that, under current rules, subscribers with 13 to 24 months of residence service who have never been late in payment may act as a guarantor and that no reasons were advanced by Pacific as to why this group should be eliminated from the eligible pool of guarantors. Staff argues that since Account Group II subscribers already have unlimited credit for their own account, an additional \$55 maximum deposit liability, which Pacific would otherwise receive from the guaranteed applicant, still amounts to unlimited credit granted to the Account Group II subscriber. Staff points out that Pacific presented no evidence to show that a subscriber who would fall into Account Group II has proved to be an unreliable guarantor. Thus, staff proposes that a subscriber fitting the Account Group II classification remains eligible as a guarantor.

TURN opposes Pacific's proposed payment dates for the various group account classifications. Specifically, TURN contends that the 15-day payment period for bills rendered to Account Groups I and IV and the next regular bill payment date for those in Account Groups II and III are confusing. TURN argues that customers in Account Groups I and IV may mistakenly believe they have more than 15 days to pay their phone bills and this is liable to cause responsible customers to inadvertently become delinquent. TURN suggests that the "due by date" on regular telephone bills for all account groups be extended to the next regular billing date to avoid this confusion.

Discussion

We shall adopt staff's suggestion that Account Group I should consist of subscribers with less than 13 months' service to conform better with the Account Group II classification. We also agree with staff's recommendation that subscribers in Account Group II also be permitted to act as guarantors in addition to those in Account Group III, as recommended by Pacific, since it makes no sense, on the one hand, to grant Account Group II subscribers unlimited credit but, on the other hand, deny them the opportunity to also undertake an additional potential liability of up to a maximum \$55 on behalf of the guaranteed individual.

We agree with staff that Pacific's proposal to reduce the payment period for subscribers in Account Groups I and IV from 15 to 7 days for the payment of special toll bills might be too short a time for those subscribers to render payment. Because the days would begin running from the date the bills are mailed and several days will be eaten up in the mail delivery system both ways, we can foresee problems developing whereby disconnect notices are mailed on the seventh day while the check is still in the delivery system, causing confusion and consternation. Weekends could also pose a problem because of the mail delivery system.

We also agree with Pacific that permitting a 15-day payment period for the payment of special toll bills only permits additional time for some bad risk subscribers to run up high bills which they have no intention of paying. The evidence indicates that accounts disconnected for nonpayment of special toll bills in 1979 averaged \$432 compared to \$176 for other final bills. Testimony was also given that the results of the special Final Account Study on 1,001 accounts indicate 15 Account Group I accounts were discontinued on special toll bills, and Pacific calculated that an 8-day reduction time for payment on those 15 accounts was equal to 0.64 percent reduction in uncollectible revenue or in terms of 1979 dollars, a \$254,000 reduction in uncollectible debt. In Decision No. 88232, supra, we increased the payment date for special toll bills from 5 days to 15 days to conform to the regular 15-day payment period of regular bills. However, this was not a major issue in that proceeding and very little discussion took place on the matter. The change was one of many changes proposed in staff's presentation as contained in Exhibit 167 which were ordered implemented by Decision No. 88232.

While we generally agree with Pacific's proposal to decrease the number of days for payment of special toll bills, we believe seven days is too short a time, as stated earlier. Instead, we believe it more reasonable to permit payment for special toll bills to be made within seven working days (excluding Saturdays, Sundays, and holidays), rather than the seven calendar days proposed by Pacific. This will alleviate the vagaries of mail delivery service and take into account the effect of weekends and holidays on the mail delivery system. We shall thus provide for this in our order.

Other Issues

Staff objects to the proposed revision to Rule No. 6.D.2., which has been renumbered Rule No. 6.E.2., wherein Pacific has added language to the current rule concerning previous subscribers of the utility who have an unpaid final bill over 45 days old, on the grounds that the added language clearly affects business customers as well as residence customers and notice of the application was not given to business customers. For this same reason staff opposes any change to Rules Nos. 10 and 11 since these revisions would also affect business customers.

We agree with staff that the additional language added to current Rule No. 6.D.2 (renumbered as Rule No. 6.E.2.) could clearly affect business customers, to whom no notice was provided, though it was primarily aimed at residential customers. For this reason we reject the additional language.

Pacific stipulated during these proceedings that current Rule No. 10 should be unchanged by this application. Likewise, in response to staff's objection to the revision in Rule No. 11.A.2.g.(2) wherein reference is made to seven days within which a customer must make a deposit to the Commission in the case of disputed bills, Pacific stipulated that this revision be changed back to the current Rule No. 11.A.2.g.(2) wherein it reads "fifteen days". Pacific has indicated that it will pursue these changes by way of an advice letter filing. We recommend that Pacific seek revisions to Rules Nos. 10 and 11 in a single package.

Implementation

Pacific requests that it be allowed to implement its proposed tariff rule changes in phases, with completion of all aspects not later than eight months after the effective date of this decision. Pacific contends that it is essential to be allowed to proceed as rapidly as possible with each item of the application. However, Pacific indicates that some of the proposals, such as including the denial notice with the next month's bill, will require substantial computer programming changes that will take up to eight months to complete, but that applicant assignment to account groups and the new deposit amount be instituted as soon as possible. According to Pacific, by phasing in each of its proposals as soon as possible, customer records will be positioned for smooth implementation of the final items. Staff opposes such phase-in and recommends a delay in implementation of the application until all aspects could be implemented simultaneously.

We believe that Pacific's argument for implementing the tariff rule changes in phases is more sound than staff's recommendation that they be delayed until all aspects could be implemented simultaneously. The order, which follows, will permit Pacific to proceed as rapidly as possible to implement each item of the application, as approved, since the sooner Pacific undertakes these changes, the sooner the burden can be lifted from Pacific's credit-worthy customers who share the burden of carrying Pacific's uncollectible debts. We expect completion of all phases to be implemented within eight months from the effective date of this decision.

Finally, one issue raised by both staff and TURN concerned the testimony of Pacific's witness Van Aggelen. TURN contends that Van Aggelen's support of Pacific's application is suspect and not credible in face of the CAC II original recommendations and TURN's subsequent withdrawal of such recommendations and support of Pacific's application herein.

Staff argues that witness Van Aggelen's perception was that his testimony placed the consumer's stamp of approval upon Pacific's proposals and motives. It is staff's contention that the CAC II was not comprised of a reasonably representative sample of consumers but rather as a group of Van Aggelen's friends and their acquaintances. Furthermore, staff argues that Van Aggelen was a paid participant in a public relations program sponsored by Pacific. Staff points out that none of the organizations, which consistently appear before the Commission representing their various constituencies, were asked to participate in the CAC II. Also, staff argues that the entire body of the data upon which the CAC II relied was received from Pacific and that information was apparently accepted on faith without any investigation as to its accuracy. No attempt to verify data through the Commission or its staff was made. Staff further points out that even after the CAC II learned from Pacific that it had been supplied incorrect data by Pacific, the CAC II undertook no investigation of the new information which was presented to it before accepting, on faith once again, the provisions of Application No. 59752.

Although it would appear that neither witness Van Aggelen's testimony nor the CAC II report has broad-based consumer input behind their conclusions and recommendations, and despite the fact that the CAC II group operated in a Pacific-permeated environment, depending for the most part on data supplied by Pacific, there is little doubt that the members of the CAC II honestly believed themselves to be objective in their study of Pacific's deposit and collections procedures and in their policy recommendations. While it is true that Van Aggelen's testimony in support of Pacific's application is contrary to some of the recommendations of the CAC II, the fact, according to testimony, is that the members of the CAC II undertook their study in 1978 and issued their report prior to the Credit Study conducted by Pacific in 1979. According to Van Aggelen's testimony, the CAC II met again in 1980 after its report had been presented to Pacific to review the data from Pacific's Credit Study, which had not been previously available to the CAC II, and to determine if the proposed changes in the application which differed from the recommendations in the CAC II report were acceptable to the CAC II members. Following this review, Van Aggelen received a clear mandate from the other members to advocate the changes as contained in Pacific's application. While the CAC II could have been more thorough in reviewing this later data from Pacific in view of the fact that earlier information supplied by Pacific proved to be erroneous, we are of the belief that the testimony of Van Aggelen is both sincere and worthy of consideration.

Discussion

The hearings on this matter concluded in late September 1980 just prior to the rapid rise in interest rates nationwide in the fall of 1980. Although no proposal was presented to have interest assessed on delayed payments on customers' bills, the payment plan authorized herein may tend to increase the amount of delayed payments, thereby posing a burden on ratepayers who pay their bills promptly. Under the circumstances, it is appropriate that Pacific study a possible plan for assessing interest on delayed payments.

Findings of Fact

1. Between the years 1970 and 1979, annual uncollectible residence account revenue rose from about \$10 million to approximately \$40 million. For those same years, however, uncollectibles have remained relatively constant as compared to total residence account revenue.

2. The current \$25 deposit by which new residence service applicants may establish credit has proven to be an ineffective device at checking the growth of uncollectible residence account revenue.

3. It is reasonable to assume that increasing the deposit will reduce uncollectible residence account revenue.

4. It is reasonable to assume that taking deposits from residence service applicants most likely to default payments will reduce uncollectible residence account revenue.

5. A deposit less than twice the estimated average monthly billing for residence telephone service fails to reasonably insure the utility against losses from unpaid billings.

6. Use of Pacific's seven-region deposit approach will create administrative burdens upon both the utility and staff as well as inequalities between various regions.

7. Since the deposit level would not vary to any significant degree, the proposed seven-region approach is unnecessary and will not be adopted.

8. The difference between the average monthly billings for new and all other residence accounts is slight and does not warrant the review of the billing level of new accounts.

9. Pacific's calculation of the deposit using the average monthly billing for all new residence accounts is unreasonable and will not be adopted.

10. Pacific's proposed procedures for upward and downward adjustments of the deposit amount are unrelated to the credit worthiness of the customer or the risk of default borne by the utility. Those procedures are, as a result, unreasonable and will not be adopted.

11. The current credit screen by which new residence service applicants may establish credit has proven to be ineffective in checking the growth of uncollectible residence account revenue.

12. Pacific's proposed credit criteria screen of three affirmative answers by new applicants for service will reduce uncollectible residence account revenue.

13. Pacific's proposed account group classification, which will identify credit-worthy and risk customers, designate the payment periods for regular bills and special toll bills by members of such groups, and designate the group from which guarantors shall be accepted, is reasonable and should be adopted.

14. It is reasonable to include subscribers in Pacific's proposed Account Group II as guarantors since they have proven to be credit-worthy customers and have been extended unlimited credit by Pacific.

15. The current 15-day period in which to pay a special toll bill is unreasonable since it permits noncredit-worthy customers additional time within which to increase higher bills, which they may have no intention of paying.

16. Reducing the time for payment of special toll bills will reduce uncollectible residence account revenue.

17. A seven-day period in which to pay special toll bills could be insufficient time due to weekends and a sometime delayed mail delivery system, and is thus unreasonable.

18. A seven-working-day period within which to pay special toll bills is reasonable and will be adopted.

19. Pacific's proposed credit application providing Pacific with credit information upon which it may make a judgment as to the credit worthiness of a residence service applicant is reasonable and should be adopted.

20. No notice of the pending of Application No. 59752 was provided to Pacific's business customers.

21. Implementation of the proposals considered herein and the order herein will result in a \$4,980,000 net annual reduction of Pacific's uncollectible residence account revenue. The intrastate portion of the \$4,980,000, at the 1981 level of business, should be reflected in the revenue requirement ultimately found reasonable in the Commission's forthcoming decision in Pacific's Application No. 59849.

22. Pacific's proposal to implement each phase of the proposals approved herein as soon as possible is reasonable.

23. A written disclosure statement outlining Residence Account Policy and Procedure and given to all new applicants for residence service at the time of applying for service as proposed by Pacific is reasonable and should be adopted.

24. Pacific should study the possible impact of charging interest on delayed payments by both residence and business customers and develop a proposed tariff to charge such interest subject to approval by the Commission.

25. Pacific should study the feasibility of expanding its special toll billing procedures to Account Groups II and III to provide appropriate notice to all residence subscribers of unusually large increases in monthly toll billing. Pacific should report on its study and develop a proposed tariff for expansion of special toll billing to Account Groups II and III. ✓

Conclusions of Law

1. The application should be granted to the extent set forth in the order which follows. The adopted tariff rate charges are just and reasonable.

2. Pacific's right of protection against unreasonable losses due to uncollectible debt must be balanced against the burdens which the measures taken in the name of loss prevention would place on its customers.

3. Pacific should be directed to conduct a one-year study of new accounts to determine if any stand-alone or two affirmative answers out of its nine credit criteria screen will permit it to further decrease the number of credit-worthy customers who would be required to post a deposit which, at the same time, would not reduce the number of risk applicants identified in its credit screen net, and report such findings to the Commission.

4. No changes to Rules Nos. 6.D.2., 10, and 11, Schedule Cal. P.U.C. No. 36-T, should be made due to the lack of notice provided to potentially affected business customers.

5. The following order should be effective the date of signature so Pacific can expeditiously prepare and train its personnel to implement the adopted rate charges.

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 the revised tariff schedules attached to this order as Appendix A and concurrently to cancel presently effective schedules. Such filings shall comply with General Order No. 96-A. The effective date of the revised schedules shall be not less than five days after the date of filing. The revised schedules shall apply only to service rendered on or after the effective date. ✓

2. Pacific shall undertake a one-year study of new accounts after full implementation of the revised schedules to determine if stand-alone credit criteria or two affirmative answers out of its nine credit criteria screen will permit a further reduction in the number of credit-worthy applicants required to post a deposit without appreciably increasing the number of risk customers who will escape the deposit requirements under either criteria.

3. Within fifteen days of the effective date of this order, Pacific shall report to the Commission the estimated increase in intrastate operating revenues for the 1981 test period on a full-year basis that will result from the \$4,980,000 net annual reduction in uncollectible revenue stemming from the decision herein. A copy of this report shall be entered in evidence in Pacific's Application No. 59849 and Pacific shall serve it on all parties to that proceeding and this application.

4. Within forty-five days of the effective date of this order, ✓
Pacific shall submit a report on the possible effects of assessing interest on delayed payments together with a proposed tariff to assess interest against both residence and business customers for delayed payments. Such tariff is subject to Commission authorization

prior to being put into effect. Copies of the report and the proposed tariff shall be served on all parties to Application No. 59752 and Application No. 59849.

5. Within ninety days of the effective date of this order, Pacific shall submit a report on the feasibility of expanding its special toll billing to Account Groups II and III to provide appropriate notice to all residence subscribers of unusually large increases in monthly toll billing. Pacific shall report on its study and develop a proposed tariff for expansion of special toll ^{with} ~~use of~~ ^{to} ~~to~~ Account Groups II and III. Such tariff is subject to Commission authorization prior to being put into effect. Copies of the report and proposed tariff shall be served on all parties to Application No. 59752 and Application No. 59849.

The effective date of this order is the date hereof.
Dated MAR 3 1981, at San Francisco, California.

John E. Coyne
President
Walter D. Kovalch
Stanley J. ...
Victor ...
Commissioners

SCHEDULE CAL. P. U. C. NO. 36-T

RULE NO. 6

ESTABLISHMENT AND REESTABLISHMENT OF CREDIT

A. Establishment of Credit for Business Service - Temporary Service, Speculative Projects and Risk Services

An applicant for temporary telephone service, speculative projects and risk services with no unpaid balance from any previous service will be required to establish credit by payment of the deposit prescribed in Rule No. 7, 3.4. before service is connected.

B. Establishment of Credit for Business Service - Other Business Applicants

Each applicant for telephone service will be required to establish credit, which will be deemed established upon qualifying under any one of the following:

1. Applicant is a customer of the Utility or any other telephone utility in California, for a similar class of service and has paid all bills for service without having been temporarily or permanently discontinued for nonpayment thereof, for a period of twelve consecutive months immediately prior to the date of the present application.
2. Applicant has been a customer of the Utility or any other telephone utility in California, for a similar class of service in the last two years and during the last twelve consecutive months that service was provided has paid all bills for such service, without having been temporarily or permanently discontinued for nonpayment thereof.
3. Applicant is the owner of the premises upon which the Utility is requested to furnish service, or is the owner of other business real estate.
4. Applicant furnishes a guarantor satisfactory to the Utility to secure payment of bills of applicant for telephone service requested in the application. The amount of the guarantee shall be in the same amount as the deposit computed in accordance with Rule No. 7, and this amount shall be specified on the Guaranty Form. This guaranty shall continue in full force and effect for one year from the installation date of the service or until applicant's credit is otherwise established. An advance payment may also be required from the applicant.
5. Applicant's credit is otherwise established to the satisfaction of the Utility.
6. Applicant makes the deposit and advance payment, if required, as prescribed in Rule No. 7.

SCHEDULE CAL. P. U. C. NO. 36-T

RULE NO. 6

ESTABLISHMENT AND REESTABLISHMENT OF CREDIT - Continued

C. Establishment of Credit for Residence Service

Each applicant for telephone service will be required to prepare and sign the Utility's Credit Application. Credit must be established in one of the following ways:

1. If applicant has prior or concurrent telephone service -
 - a. A deposit or other form of security will not be required provided the applicant:
 - (1) has verifiable prior or concurrent residence telephone service in California, or with any other Bell System Company, for a period of 12 consecutive months within the last two years, and
 - (2) does not have an unpaid final residence bill over 45 days old, and
 - (3) has not had prior or concurrent residence service temporarily or permanently disconnected for nonpayment or abandonment during the last twelve months of service, and
 - (4) can provide the Utility with the telephone number and the disconnection date of the previous service to be verified.
 - b. A deposit determined in accordance with Rule No. 7 3.2.a. or Rule No. 7 3.3., as appropriate, will be required for applicants who do not meet C. 1.a. (2) or (3) above, or if verification reveals false information was provided.
 - c. Except for C.1.b. above, applicants who do not meet C.1.a. (1) or (4) above, may establish credit by qualifying under C.2. below.
 - d. Except for C.1.b. above, and where an applicant provides the telephone number of his/her previous service and the number cannot be verified, the applicant may establish credit by meeting one criterion under C.2. below.
2. If applicant has no prior or concurrent residence service:
 - a. A deposit or other form of security will not be required provided the applicant qualifies for three of the nine Credit Application criteria listed below and verification can substantiate that the criteria have been met.

SCHEDULE CAL. P. U. C. NO. 36-T

RULE NO. 6

ESTABLISHMENT AND REESTABLISHMENT OF CREDIT - Continued

C. Establishment of Credit for Residence Service - Continued

2. If applicant has no prior or concurrent residence service: - Continued

a. Continued

The applicant:

- (1) owns a home in California
- (2) owns a car or truck registered in California
- (3) has been continuously employed two or more years with current employer
- (4) has an authorized major national credit card acceptable to the Utility
- (5) has an authorized major oil company credit card acceptable to the Utility
- (6) has another credit card or charge account acceptable to the Utility
- (7) has a bank checking account
- (8) has a savings account with a bank, savings and loan company or a credit union
- (9) is 50 years of age, or older

b. A deposit will be required if verification reveals false information was provided.

3. Applicant pays the deposit set forth in Rule No. 7 3.2.a.

4. Applicant furnishes a guarantor in accordance with the conditions set forth in Rule No. 6 C.5.

SCHEDULE CAL. P.U.C. NO. 36-T

RULE NO. 6

ESTABLISHMENT AND REESTABLISHMENT OF CREDIT - Continued

D. Reestablishment of Credit for Business Service - Temporary Services, Speculative Projects and Risk Services.

1. A customer whose service has been discontinued for nonpayment of bills or nonpayment of an additional deposit will be required to pay any unpaid balance due the Utility for the premises for which service is to be restored, to reestablish credit by making the additional deposit prescribed in Rule No. 7 B.4., and to pay a "Restoration - Reconnection Charge"* as prescribed in Rule No. 11, before service is restored.
2. An applicant for temporary telephone service, speculative projects and risk services with an unpaid bill from any previous service will be required to pay such bills in full and to reestablish credit by making the deposit prescribed in Rule No. 7.3.4. before service is connected.
3. An applicant for temporary telephone service, speculative projects and risk services to be used in behalf of, or for the benefit of a candidate, a committee, an organization, person or persons will be required to pay any outstanding balance for any previous service furnished on behalf of or for the benefit of that candidate, committee, organization, person or persons.

E. Reestablishment of Credit - Residence Applicants and Other Business Applicants

1. A customer whose service has been discontinued for nonpayment of bills will be required to pay any unpaid balance due the Utility for the premises for which service is to be restored, pay a reconnection charge* as prescribed in Rule No. 11 under "Restoration - Reconnection Charge", and to reestablish credit by making the deposit prescribed in Rule No. 7.3., before service is restored.
2. An applicant who previously has been a customer of the Utility and during the last twelve months of that prior service, has had service temporarily or permanently discontinued for nonpayment of bills will be required to pay any unpaid balance due the Utility and to reestablish credit by making the deposit prescribed in Rule No. 7-3-3.

F. Limit of Credit for Toll Service

Each customer shall be informed of any limit or the amount of credit for monthly message toll service applicable to their account prior to presentation of any special bills. The Utility may change the limit of credit applicable to a particular account and the customer shall be advised in writing of such change.

* Refer to Schedule Cal.P.U.C. No. 28-T, IV., Multi-Element Service Charges, for restoration charges for all exchange services.

SCHEDULE CAL. P. U. C. NO. 36-T

RULE NO. 6

ESTABLISHMENT AND REESTABLISHMENT OF CREDIT - Continued

G. Residence Credit, Billing and Collections

1. Account Credit Classification

Residence service accounts will be classified in one of the following account groups:

<u>Account Group</u>	<u>Criteria</u>
I	Less than 13 months service
II	13-24 months service
III	Over 2 years service
IV	Service of more than 12 months that has been temporarily or permanently disconnected for nonpayment within the last 12 months or any disconnected service of the same class with an unpaid final bill over 45 days old

Applicants who have had verifiable prior or concurrent residence telephone service in California or with any other Bell System Company will be assigned to Account Group II, III or IV as indicated by the prior treatment or length of service.

- An account will be considered delinquent if the payment is not received by the Utility by the "Due-by-Date" shown on the bill. The "Due-by-Date" will normally be the next regular bill date for Account Groups II and III. For Account Groups I and IV, the "Due-by-Date" will normally be 15 days from date of presentation.
- Where applicable, a temporary disconnection of service notice will be enclosed with the regular monthly billing if the account is delinquent.
- A special bill and payment notice for excess message toll usage may be submitted to customers in Account Groups I and IV above with a written notice for payment within 7 business days from the date of presentation. The Utility may discontinue service if payment is not received by the Utility within 7 business days or an alternative payment arrangement has not been accepted by the Utility. If the negotiated payment arrangement is not fulfilled by the customer, the service may be discontinued without further notice.

SCHEDULE CAL. P. U. C. NO. 36-F

RULE NO. 6

ESTABLISHMENT AND REESTABLISHMENT OF CREDIT - Continued

C. Residence Credit, Billing and Collections - Continued

5. GUARANTOR

The Utility will accept a guaranty of payment in lieu of a deposit for residence accounts under the following conditions:

- a. The guarantor must be an individual (not a business) and must be a concurrent customer of the Utility for residence service in Account Group III or III above, except that a parent or guardian who has concurrent residence service with another Bell System company established for two years or more, may be a guarantor for his/her children or wards.
- b. A guarantor, other than a parent or guardian, may guarantee only one account.
- c. The Utility must receive the appropriate form completed and signed by the guarantor.
- d. The guaranteed amount will be equal to the amount of the deposit requested from the applicant and will remain in force and effect for one year from the installation date of the service or until the applicant's credit is otherwise established.
- e. When the Utility is unable to collect a bill on a guaranteed account, the amount unpaid (not to exceed the guaranteed amount) shall be transferred to the account of the guarantor. This step shall be taken seven days from the date of presentation of a verified notice to the guarantor requesting payment. The amount transferred to the guarantor's account shall be subject to Rules No. 9, Rendering and Payment of Bills, and No. 11, Discontinuance and Restoration of Service, as well as any other applicable Rule or tariff schedule.

SCHEDULE CAL. P. U. C. NO. 36-T

RULE NO. 7

DEPOSITS AND ADVANCE PAYMENTS

A. Advance Payments

1. An applicant for business service or residence complex service may be required to pay in advance of installation an advance payment for the applicable service connection, in place connection, installation and nonrecurring charges for service and equipment ordered.
2. Existing business customers or residence complex service customers who apply for additional service or equipment, or changes in their existing service or equipment, may be required to make advance payments as described above.

B. Deposits

1. Collection of Deposits

The Utility may, in order to safeguard its interests, require an applicant to make a suitable deposit to be held as a guarantee of the payment of charges. In addition, an existing customer may be required to make a deposit or to increase a deposit presently held.

DEPOSITS AND ADVANCE PAYMENTS - Continued

3. Deposits - Continued

2. Amounts of Deposits to Establish Credit

a. For Residence Service

The deposit amount will be equal to twice the average monthly billing for other residence accounts in the state.

b. For Business Service

An amount equal to twice the estimated average monthly bill, but not less than \$25.00. Advance payments may also be required.

3. Amount of Deposit to Reestablish Credit for Residence or Business Service

An amount equal to twice the current bill or twice the average monthly bill for the last three months, when available.

A-59752 /KJ/ec

APPENDIX A

SHEET 7 OF 9

SCHEDULE CAL. P. U. C. NO. 33-T

Revised forms as shown in Exhibit X.