ALJ/lq

Decision 93191 JUN 16 1981 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of The Pacific Telephone and Telegraph Company to modify D.90642 re implementation of a teleprocessing system for service representatives.	Application 59855 (Filed July 31, 1980)

(Appearances are listed in Appendix A.)

INTERIM OPINION ON PETITION TO MODIFY D.90642

By this application The Pacific Telephone and Telegraph Company (Pacific) requests that the Commission relieve Pacific of the requirement that it implement a teleprocessing system[1/] for service representatives by December 31, 1982 as ordered[2/] by D.90642 dated July 31, 1979.

1/ Teleprocessing is a term used to describe the use of cathode ray tube computer terminals (TV-like screens) by Pacific's business office service representatives to process customer record inquiries and requests for service changes without handling paper records.

2/ Ordering Paragraph 14 of Decision (D.) 90642 states:

"Pacific shall implement a teleprocessing system for its service representatives no later than December 31, 1982 to realize the economies available therefrom. In the next general rate proceeding Pacific shall submit a complete showing of its teleprocessing implementation schedule including the plant expense and force effects, including estimated net savings."

Pacific claims it is physically unable to implement teleprocessing by December 1982. Pacific states it has diligently examined the feasibility of business office teleprocessing, made plans for further development of teleprocessing systems, and proceeded to implement certain precedent modernization programs.

Hearing on this application was held on a consolidated record with Application (A.) 59849 et al., Pacific's current general rate proceeding, before Administrative Law Judge Albert C. Porter in November and December 1980. Pacific presented one witness in support of its application and the Commission's staff (staff) sponsored a witness to support the staff recommendations discussed later.

Pacific's Evidence

Pacific's witness, M. J. Callahan, testified that he is in charge of Pacific's Business Office Modernization (BOMOD) feasibility study. BOMOD was initiated on July 5, 1979 for the purpose of modernizing the operations of Pacific's residence and business service centers and its phone centers. The study was later amended to reflect D.90642. Callahan testified that BOMOD is not Pacific's first step toward providing teleprocessing for its service representatives. Conversion from manual to mechanized operations using a central data base accessed by display terminals is only a part of the broad issue of modernizing service center and phone center operations. The success of a teleprocessing system rests on the availability of current and comprehensive customer data including services and equipment provided, credit information, and toll records.

To provide such data Callahan said Pacific is improving two major systems already in operation. These are the service order delivery and customer records system, and the billing system. The first of these, the Service Order Retrieval and Distribution System (SORD) was developed from 1973 to 1975 and implemented during 1975 through 1978; it is an upgraded service order delivery system. SORD mechanized the service order process through the use of video terminals and on-line input and edit. Since its initial implementation SORD has gone through a series of planned enhancements to improve data validity and reduce transaction processing time. The second system, Customer Record and Billing (CRB), is a computer program developed in 1976 to mesh customer record information with mutually dependent operational support systems. The final stage of conversion involves two regional data centers using third generation computers and four remote operation centers.

Callahan testified that Pacific has developed several other systems for controlling customer records. These systems have been growing in size, complexity, and diversity, and integration between them and operations is a critical issue. A number of other systems Pacific is developing include some developed by Bell Laboratories. Callahan said the residence segment option selected in the BOMOD study, which was completed in May 1980, was for a centrally developed Billing and Order Support System (BOSS). Pacific planned to undertake a preliminary design effort for the residence service center system beginning in January 1981 and has scheduled completion for July 1981. The initial conversion, assuming the preliminary design study verifies the economic benefits and technical feasibility, could begin in early 1983. The period from July 1981 to early 1983 would be required for design and development. Callahan testified that once conversion begins about three years will be required for total implementation; the earliest Pacific can expect to have the BOSS system fully implemented is approximately June 1986, hence this application. In full operation BOSS is projected to cost $12.4 million annually against annual savings of $53.0 million for annual net savings of $40.6 million; Pacific's work force would be reduced by 1,766 persons. Capital costs and startup expenses would total $115 million. Savings would be realized by increased productivity brought about through the elimination or reduction of existing manual functions.

Callahan testified that Pacific's business segment intends to implement a processing system known as TOPS for Total Order Processing System. This would be done by expanding SORD to include complex service orders and video terminal displays for the order writer and service representative. Design and development for TOPS was scheduled to begin in January 1981 with a TOPS pilot office scheduled to be in place and fully operational by the end of 1981. Assuming that the pilot office is successful the conversion of all other business service centers would be completed by late 1984. Startup costs would be $44 million. After full implementation, savings are projected to be $23.9 million annually against expenses of $4.5 million for net savings of $19.4 million. Personnel force reductions are estimated at 434 persons.

Staff's Evidence

Harry Strahl testified for the staff stating that teleprocessing will improve productivity through a significant reduction in the handling of paper records and an improved customer information flow in the central records system. The result would be substantial annual savings to the utility and the ratepayers. Strahl testified that at least 13 utilities that he knows of have implemented or are implementing teleprocessing in their operations; included are such California utilities as Southern California Edison Company, San Diego Gas & Electric Company, Pacific Gas and Electric Company, Southern California Gas Corporation, General Telephone Company, Sierra Pacific Power Company, and Continental Telephone of California. Strahl testified that after a thorough review of all the documents and extensive discussions with Pacific's staff concerning this application he formed the following opinions and recommendations:

a. Pacific made no effort to get a formal study with an independent overview from external sources. He does not question the expertise of Pacific's staff; however, a project such as this which has already been done for other utilities would benefit from a contribution by consultants experienced in teleprocessing. Pacific should solicit a formal independent study from qualified sources outside the Bell System.

b. No consideration was given to the possibility of using the experience gained by other utilities in this field. Some utilities used other utility's program as stepping stones thereby cutting costs and reducing the time required for implementation.

c. The BOMOD study is not complete. It is still being revised; cost figures are constantly being refined to account for later and more precise information. Business offices are subject to changes, including future deregulation of terminal equipment, which might require revised cost figures and different system configurations.

d. The staff study in A.58223 which led to D.90642 indicated that implementation of teleprocessing would have resulted in an annual net saving of $57,674,000. (Pacific's witness Callahan testified in this proceeding and Pacific stipulates that the anticipated annual net saving by 1986 would be $60 million.)

e. Pacific's timetable for implementing teleprocessing as shown in the BOMOD study is overly optimistic. The project has been frozen and unfunded for reasons known only to Pacific's top management. This delay, if allowed to continue, might shift completion of conversion into 1987 and beyond.

f. Pacific's original basic approach to teleprocessing was a total package approach, wherein all the program subgroups are designed to fit into the system. Other utilities in California are using the modular approach wherein one sub-system is implemented while the next one is being developed. That procedure provides a greater flexibility in allocating resources, a phased and current implementation of existing technology, the flexibility to tailor the system to a changing regulatory environment (e.g., deregulation of terminal equipment), and a reduction of costs borne by ratepayers.

g. The Commission's present order on teleprocessing should have included a penalty/incentive provision tied to the completion date.

Strahl testified that he does not believe Pacific can accomplish conversion to a teleprocessing system by the end of 1982 as ordered by the Commission because, as of October 1980, Pacific had not committed itself to a conversion. Strahl believes that under the best of circumstances, and by using proven software packages and reliable hardware, conversion will require a minimum of three years. Such an accelerated endeavor will require the full support of Pacific's top management, something Strahl has not seen to date. His primary concern is that for each year the project is delayed Pacific's customers are paying rates beyond what is fair and reasonable. He testified that by early 1984 all but one of the major gas, electric, and telephone utilities under the Commission's Regulatory Lag Plan will have teleprocessing systems for most if not all of their service representatives. Pacific will be the only exception.

Strahl recommends that the Commission reject Pacific's request for extension to 1986 and direct the company to complete implementation by the end of 1984. Also, Pacific should retain a competent non-Bell System consultant to conduct a feasibility study on the implementation of teleprocessing. The study should be commissioned within a period of two months and completed six months after its commencement. The results of the study should be published and distributed to all interested parties and Pacific should be directed to incorporate the study in its implementation plans. Finally, Strahl recommends that Pacific should be encouraged to implement the project as quickly as possible through an incentive and penalty treatment which would grant Pacific a higher-than-authorized rate of return on the plant portion of the teleprocessing system if the project is implemented by the end of 1984. If it runs past 1984 there should be a rate of return penalty.

Pacific's Rebuttal to the Staff

By rebuttal testimony Callahan said he did not believe Pacific needs a consultant to study its teleprocessing needs. He believes Pacific has gathered the information necessary and compiled an existing study that is more than adequate to satisfy both Pacific's internal needs and the Commission's current order.

Discussion

We agree with Pacific and staff that it is not possible to complete the teleprocessing project by the end of 1982. However, as we concluded in D.90642, there is little question that teleprocessing at Pacific is long overdue. We will adopt the staff recommendations with the exception that we will not require Pacific to hire a consultant. We will leave that up to Pacific's management; if they believe the implementation can be accomplished by the end of 1984 without a consultant then they will be free to accomplish it that way. The staff's recommendation of a penalty if the teleprocessing system is not in operation in the near future is reasonable and should put Pacific on notice that we will not tolerate further delay; the size of that penalty or incentive and its timing will be based on further evidence to be taken as implementation moves along and net savings can be more closely estimated; this proceeding will be kept open for that purpose.

Although we have delayed this decision until the conclusion of the substantive hearings in the current rate case, we do not believe this should have held up work necessary for installation of Pacific's teleprocessing system. Pacific's witness claims that Pacific is committed to teleprocessing both from the standpoint of the Commission's decision and the economies involved.

Ed Perez, appearing for the City of Los Angeles, raised the question of antitrust considerations in his closing argument. Perez pointed to Pacific's apparent deliberate rejection of teleprocessing systems available from competitors of the Bell System. In view of the staff's recommendation we will not second-guess Pacific on this matter at this time but, if necessary, will look at it again in the further hearings.

Findings of Fact

1. Pacific will be physically unable to comply with the Commission's current order in D.90642 to implement a teleprocessing system by the end of 1982.

2. Pacific's request to extend the date for implementation of teleprocessing to 1986 should be rejected, and the staff's recommendation to extend the date to the end of 1984 should be adopted.

3. Pacific has been dilatory in planning for teleprocessing and, of the major utilities in California including General Telephone, is the only company that has not implemented or is not implementing teleprocessing in its operations.

4. The staff's recommendation of a penalty/incentive provision relative to implementation of teleprocessing should be adopted.

5. The terms and timing of the penalty/incentive provision should be determined by further hearings.

Conclusion of Law

Ordering Paragraph 14 of D.90642 should be rescinded and replaced by the following order.

INTERIM ORDER

IT IS ORDERED that:

1. Ordering Paragraph 14 of D.90642 is rescinded.

2. The Pacific Telephone and Telegraph Company (Pacific) shall implement a teleprocessing system for its service representatives no later than December 31, 1984.

3. Beginning January 1, 1982 and each six months after, Pacific shall submit a report to the Commission showing the following:

   a. Pacific's current schedule for implementing a teleprocessing system for its representatives.

   b. Expenditures for the system, both capital and expense, to the report date.

   c. On an annual basis at full implementation, the estimated cost of the system, savings of the system, and net savings.

   d. A description of the work accomplished to the report date.

4. Pacific shall:

   a. File an original and 12 copies of the report required by Ordering Paragraph 3 with the Commission's Docket Office in San Francisco.

   b. Enclose a letter of transmittal stating the proceeding and decision numbers.

   c. Attach a certificate of service to the transmittal letter showing service of the document by mail upon all parties to this proceeding.

The original of the document shall be placed in the formal file by the Docket Office.

5. This proceeding is continued for further hearings on a date to be set.

This order becomes effective 30 days from today.

Dated JUN 16 1981, at San Francisco, California.

I concur in this matter but feel it essential to indicate that P.T.&T must complete implementation of this program by the end of 1984 and that no further extensions will be granted.

Richard D. Gravelle

John E. Bryson
President

Richard D. Gravelle

Leonard M. Grimes, Jr.

Victor Calvo

Priscilla C. Grew
Commissioners

APPENDIX A
Page 1

LIST OF APPEARANCES

Applicant: Walter J. Sleeth, Diane B. Prescott, Randall E. Cape, and Paul H. White, Attorneys at Law, for The Pacific Telephone and Telegraph Company.

Protestant: Richard S. Kopf and Jose E. Guzman, Jr., Attorneys at Law, for Southern Pacific Communications Company.

Interested Parties: Orrick, Herrington, Rowley & Sutcliffe, by James F. Crafts, Jr., and Robert J. Gloistein, Attorneys at Law, and Richard Pfeifer, for Continental Telephone Company of California; A. M. Hart, R. H. Snyder, Jr. and Kenneth K. Okel, Attorneys at Law, by Kenneth K. Okel, and Richard L. Ohlson, for General Telephone Company of California; Warren A. Palmer and Michael F. Willoughby, by Michael F. Willoughby, Attorney at Law, for Cal-Autofone, Radio Electronics Products Corp., Chalfont Communications, Industrial Communications, and Peninsula Radio Secretarial Service; Antone S. Bulich, Jr., and Allen Crown, Attorneys at Law, for California Farm Bureau Federation; William L. Knecht, Attorney at Law, for Telephone Users' League; Stanley Sackin and Morrison & Foerster, by James P. Bennett, Attorney at Law, for Telephone Answering Services of California, Inc.; Ann Murphy, Attorney at Law, for Toward Utility Rate Normalization (TURN); Graham and James, by Boris H. Lakusta, David J. Marchant, and Thomas J. MacBride, Attorneys at Law, for California Hotel and Motel Association; Virginia Bane, for Tel Rad, Inc.; Brobeck, Phleger & Harrison, by Gordon Davis, William H. Booth, and James M. Addams, Attorneys at Law, for California Retailers Association and Tele-Communications Association; McKenna, Wilkinson & Kittner, by Joseph M. Kittner and Norman P. Leventhal, for American Broadcasting Companies, Inc. and CBS, Inc.; Carl Hilliard, Attorney at Law, for Delphi; Virginia Lyons, for Lyons Answering Service; Robert W. Whitehead, for The Phone Exchange Answering Service; Joel A. Effron and Kathryn Beck, for California Interconnect Association; David A. Artson, for Artson Answering Service; John L. Mathews, Attorney at Law, for Executive Agencies of the United States; Allen B. Wagner, Attorney at Law, for

APPENDIX A
Page 2

The Regents of the University of California; Gold, Herscher, Marks & Pepper, by Lessing E. Gold, Attorney at Law, for Western Burglar & Fire Alarm Association; Dinkelspiel, Pelavin, Steefel & Levitt, by David M. Wilson, Attorney at Law, for Allied Telephone Companies Association; Ross J. Cadenasso, for California Association of Utility Shareholders; Burt Pines, City Attorney, by Ed Perez, Attorney at Law, for the City of Los Angeles; George Agnost, City Attorney, by Leonard L. Snaider, Attorney at Law, and Robert R. Laughead, P.E., for the City and County of San Francisco; John Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, and Ronald L. Johnson, Attorney at Law, for the City of San Diego; Alberto Saldamando, Carmen Estrada, and Robert Gnaizda, Attorneys at Law, and Jose Guerrero, for Mexican-American Political Association, League of United Latin American Citizens, American G.I. Forum, IMAGE, and Los Padrinos; Manuel Kroman and Sidney J. Webb, for themselves; and James Nelson, for County of Los Angeles, Department of Communications.

Commission Staff: Rufus G. Thayer, Jr., Attorney at Law, and R. M. Moeck, T. Lew, and J. Pretti.

(END OF APPENDIX A)