

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Telecommunications BranchRESOLUTION NO. T-12033
JULY 29, 1987R E S O L U T I O N

PACIFIC BELL. ORDER AUTHORIZING IMPLEMENTATION OF OPTIONAL PAYMENT PLANS FOR CENTREX, AIRPORT INTERCOMMUNICATING SERVICE AND ELECTRONIC TANDEM SWITCHING SERVICES.

SUMMARY

This resolution authorizes Pacific Bell to establish a tariff schedule implementing optional payment plans for Centrex, Airport Intercommunicating Service and Electronic Tandem Switching Services.

The optional payment plans consist of a Fixed Rate Plan and an Advance Payment Plan to be implemented July 22, 1987. The Fixed Rate Plan allows the customer to obtain a fixed monthly rate for a period of one to ten years by paying a 3% premium over tariff rates in effect at the time of the agreement. The Advance Payment Plan permits the customer to fully or partially prepay the monthly rates in the Fixed Rate Plan. These optional payment plans are necessary for PacBell to remain competitive with PBX and key system companies who already provide multiple payment plans.

The estimated annual revenue effect is \$1.8 million which reduces Pacific Bell's annual revenue requirement by \$1.1 million.

Pacific Bell's Advice Letter No. 15257, and related tariffs were mailed to competing and adjacent utilities and interested parties as requested.

BACKGROUND

Pacific Bell filed Advice Letter No. 15257 on June 10, 1987, and Advice Letter No. 15257A on June 23, 1987, to request authority under Section 454 of the Public Utilities Code to offer payment plan options to customers for Centrex, Airport Intercommunicating Service (AIS) and Electronic Tandem Switching (RTS) Services.

AIS and ETS are central office features. AIS is a centrex-like service offered only to businesses engaged in providing passenger and cargo services at designated airports. ETS is a feature that can be added to central office centrex or AIS service to provide cost controls to customers.

Today, Pacific Bell's Centrex, AIS and ETS Services compete with unregulated PBX and key system vendors who offer multiple payment options and financing plans. Pacific Bell, however, can only offer these services on a monthly tariffed basis which is subject to change. Commission Decision 88465 does not generally allow Pacific Bell to offer these services under a GO 96-A contract. The decision only allows contracts for competitive service that are so unique or exceptional that it is not practicable to deal with them by tariffs. These limitations definitely have Pacific Bell at a competitive disadvantage.

The necessity to predict and budget communication expenses have for some time been the desire of Centrex, AIS and ETS customers. Pacific Bell attempted to fulfill their needs through a tariff Rate Stability Plan which was authorized in 1985 with a limited subscription period -- April 1984 to March 1985. The Rate Stability Plan (RSP) guaranteed rates to customers who signed the plans and subscribed to Centrex Service, and/or Airport Intercommunicating Service for three years. All RSPs terminate no later than January 1, 1988. Over 350 customers have subscribed to an RSP.

Since interest in predicting communication expenses on a long-term basis has remained strong, Pacific Bell, by this Advice Letter, proposes a Fixed Rate Plan and an Advance Payment Plan which will provide payment options to the Centrex, AIS and ETS customer. The payment plans have been cost-based and are based on the premise that the existing tariff rates authorized by the Commission are fair and reasonable with special attention given to assure that the general body of ratepayers do not subsidize these offerings.

A brief description of the plans follow:

Fixed Rate Plan

The Fixed Rate Plan is a payment option that permits a customer to pay fixed monthly rates (current tariffed rate for Centrex and AIS lines plus a premium) for a specified period of time of not less than one nor more than ten years. The premium is calculated by multiplying 3% times the average price paid per line, including the access line, and all features, but excluding End User Common Line charges. All Centrex lines (i.e. primary, semi-restricted, etc.) in the same Centrex system must be covered under the Fixed Rate Plan and the Advanced Payment Plan. Both payment plans for the same Centrex system must have the same

expiration date. No rate increases will be imposed on subscribers during the contracted payment period; however, rate reductions for these services will be passed on. The Fixed Rate Plan can be extended by signing another agreement, but the new agreement will be at the prevailing tariffed monthly rates plus premium tariff rate. A termination charge will apply if the customer cancels the Fixed Rate Plan prior to expiration.

Advance Payment Plan

The Advance Payment Plan is a payment option plan which permits customers to fully or partially prepay for service, in lieu of paying tariffed monthly recurring rates, for a term of not less than one nor more than ten years. The Advanced Payment Plan amount is calculated on the monthly rates established for the Fixed Rate Plan using a present worth advance payment factor. Under this plan, the customer is not required to pay additional payments nor be entitled to refunds if the advance payment factor or the tariff rates are subsequently changed. No refund or termination charge is applied upon termination of this plan.

A minimum of 25 percent to a maximum of 100 percent of all Centrex lines may be prepaid. If 100 percent of the Centrex lines have been prepaid, the customer may also prepay other features associated with Centrex such as touchtone, automatic callback, call forwarding, conference calling, etc. If less than 100 percent of the lines are prepaid, then these extra features cannot be prepaid and will be billed at the prevailing monthly rates or may be covered by a Fixed Rate Plan.

Conditions applicable to both plans are:

No nonrecurring charges -- additions, deletions, moves and changes, etc -- are included under either plan. Prevailing non-recurring charges apply throughout the length of the plan. The End User Common Line charge (FCC access charge) is not included in the option payment plans.

Customers who wish to upgrade their Centrex service to another Pacific-provided service will receive a credit for the amount of the termination penalty to be applied to the upgrade of the new service. (An upgrade is defined as an enhancement which is a substitute for the existing service and which results in an increase in capacity or capability that would serve the same communication needs that were served by the Centrex system.)

Centrex dormitory service is not eligible for either plan as it is considered a residential and seasonal service.

While neither plan is subject to Rule No. 33 - Billing Surcharge Adjustment, both plans are subject to the 5.4% surcharge pursuant to Decision 93367, dated August 4, 1981.

It is anticipated that these payment option plans will provide the incentive for customers to remain or new customers to subscribe to Centrex services. Pacific will now be in a position to more effectively compete with other available terminal systems such as PBX.

PROTEST

On July 1, 1987, AT&T-C filed a protest to Pacific Bell's Advice Letters 15257/15257A. In its protest letter, AT&T-C objects to the consideration of establishing rate stabilization plans through an advice letter filing. It is their contention that the "Assigned Commissioner's Ruling on Corporate Officer Testimony", dated June 12, 1986, directed that for any proposal of a new type of ratemaking regulation, Pacific shall file an application or propose a proper forum for considering the matter. AT&T-C proposes that an appropriate forum for considering a rate stabilization plan include either an application proceeding or an Order Instituting Investigation.

AT&T-C also protests that the plans authorize up to a ten-year contract which is beyond the traditional three-year rate cycle and therefore any possibility of rate increases for the services under the option payment plans are foreclosed. Additionally, they state this proposal may have significant anticompetitive effects in the California telecommunications marketplace.

In response to AT&T-C's protest, Pacific Bell argues that the cited Assigned Commissioner's Ruling was made in response to a new and innovative regulatory framework proposal that impacted residential rates. Pacific contends the proposed optional payment plans simply extend the concept of their previously approved rate stability plan for Centrex which became effective pursuant to Commission D. 84-04-016, dated April 4, 1984.

Regarding the anticompetitive issue, Pacific states that fixed pricing, installment payment plans and equipment leases with fixed monthly payments are all standard options offered in the telecommunications industry. Pacific further contends that it is anticompetitive if Pacific cannot offer its Centrex customers fixed prices and terms like AT&T-C and other suppliers.

DISCUSSION

We have reviewed Pacific's response to the protest and conclude that AT&T-C's protest should be denied. The Fixed Rate Plan and

the Advance Payment Plan are a continuation of the now defunct Rate Stability Plan and not a new type of ratemaking regulation. The Commission, however, would like to track this tariff offering before making it permanent to determine if any minor modifications are warranted. Pacific Bell is therefore requested to file an advice letter supplement to make this a two-year provisional offering. This means that multi-year (one to ten years) contracts cannot be written two years after the effective date of the tariff. Pacific Bell is requested to file with the Evaluation and Compliance Division a semiannual tracking report whose content is satisfactory to the Evaluation and Compliance Division. The report will contain such information as number of new customers, existing customers, former RSP customers, and additional capital and expense costs to serve new customers.

It is noted that centrex rates can be increased/decreased in any proceeding and new payment-plan customers will be affected in the same manner as the monthly-pay customers. The payment-plan customers also pay a premium over the tariff rates, authorized as just and reasonable by the Commission, at the time of the contract. This provides additional protection to the basic ratepayer. Additionally, we believe it is only fair that Pacific Bell should be allowed to have payment plans similar to its competitors. To do otherwise would put the company and ratepayers at risk if existing centrex customers left the system because optional payment plans were not available when the existing RSP expires this year.

FINDINGS

1. AT&T-C's protest of July 1, 1987 should be denied.
2. The Fixed Rate Plan and the Advance Payment Plan are payment options for Centrex, Airport Intercommunicating Service and Electronic Tandem Switch Services which will benefit customers who desire to budget their communication expenses.
3. The Fixed Rate Plan provides for equal monthly payments for a period of not less than one year nor more than ten years. The monthly rate is based on prevailing tariffed rates plus a 3 per cent premium.
4. The Advance Payment Plan calls for full or partial prepayment of services based on prevailing Fixed Rate Plan tariffed rates and a prepayment factor for a period of not less than one year nor more than 10 years.
5. These payment options will provide an incentive for existing customers to remain or new customers to subscribe to Pacific Bell's Centrex, Airport Intercommunicating and Electronic Tandem Switch services.

6. A two-year offering of these plans will allow the Commission to reevaluate this offering to determine if any minor changes are warranted. Pacific Bell is requested to file semiannual reports with the Evaluation and Compliance Division.

IT IS ORDERED that:

1. AT&T-C's July 1, 1987 protest is denied.
2. Pacific Bell's request for authority to make the necessary tariff revisions to offer the Fixed Rate Plan and the Advance Payment Plan is granted.
3. Pacific Bell shall file a supplemental advice letter to reflect the offering of the Fixed Rate Plan and the Advanced Payment Plan for a period not to exceed two years after the effective date of the tariff. The tariff revisions authorized in this resolution shall be filed within five days of the effective date of this resolution and will become effective on August 10, 1987.
4. Pacific Bell shall monitor customer participation in the Fixed Rate Plan and the Advanced Payment Plan and file a report semiannually with the Evaluation and Compliance Division.

The effective date of this resolution is today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 29, 1987. The following Commissioners approved it:



Executive Director

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners