

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Telecommunications Branch

RESOLUTION NO. T-13002
July 22, 1988

R E S O L U T I O N

PACIFIC BELL. ORDER AUTHORIZING ON LESS THAN REGULAR NOTICE AN EXTENSION OF TIME FOR PACIFIC BELL'S PROVISIONAL TARIFF OFFERING ON DIRECT CUSTOMER ACCESS TO DIRECTORY INFORMATION (DCA/DI) SERVICE TO DECEMBER 31, 1989. THE CURRENT PROVISIONAL TARIFF EXPIRES ON JULY 22, 1988.

SUMMARY

This resolution authorizes an extension of time to Pacific Bell for its provisional tariff on Direct Customer Access/Directory Information (DCA/DI) Service to December 31, 1989. The service was originally authorized by Commission Resolution T-12004 on February 11, 1987 to be provided on a one year provisional basis from February 15, 1987 to February 15, 1988. By Resolution T-12063 dated February 16, 1988, the Commission authorized a temporary extension of time for DCA/DI service to March 9, 1988 to allow Pacific time to complete a new feasibility study on the viability of DCA/DI service and obtain a contract with GTE California Incorporated (GTEC) for sharing directory lists. On March 9, 1988, Pacific submitted a firm contract which expires on December 31, 1989. An additional 90 days to June 7, 1988 was subsequently granted by Resolution T-12075 dated March 9, 1988 to give Pacific extra time to complete a revised feasibility study on the profitability of continuing the provision of the DCA/DI service. On June 8, 1988, the Commission further extended the service to July 22, 1988 by Resolution T-12088. The 45 day extension was granted to allow Pacific time to complete a feasibility study on restructuring the present DCA/DI service to address the Department of Justice (DOJ)'s concerns that the present offering may not be consistent with the requirement of the Modification of Final Judgment (MFJ).

On June 8, 1988, Pacific submitted a proposal which includes a feasibility study seeking authority to restructure the present DCA/DI service. The proposed restructure revises the existing DCA/DI service rate structure to one that is tier based and makes available the service to Interexchange Carriers (IECs) and Resellers for resale. With the restructured offering, customers can have the

option of subscribing the DCA/DI service through either Pacific's Exchange Tariff or the IECs or the Resellers. Under the Exchange Tariff, DCA/DI service provides customers with DA information pertaining to their home Local Access and Transport Areas (LATAs). IECs or Resellers, however, provide customers with statewide DA information except that of the customers' own LATA. Therefore, a combination of DA information access may exist for some customers that desire statewide access to DCA/DI information.

By revising the DCA/DI service's present rate structure to one that is tier based on an overall usage rate, with no fixed recurring monthly charge, Pacific believes that the DCA/DI service will be in a better market position to attract additional heavy DA users. This option provides a more attractive pricing structure than the previous one which included a \$100 per area code recurring monthly charge; it allows the medium and light DA users with a more economical alternative for DA information. Moreover, with substantial price breaks for large volume usage, the tiered pricing structure will also encourage interexchange carriers and resellers to subscribe and resell the service to their identifiable markets. By combining the new tiered pricing structure with the availability of statewide DA information, Pacific is optimistic on the future profitability of the DCA/DI service. According to a ten-year financial projection, the DCA/DI service will become profitable in 1993.

BACKGROUND

Pacific Bell, by Advice Letter No. 15422 filed June 30, 1988 requests authority to revise Schedule Cal. P.U.C. No. A5, Exchange Services, A5.7.9 Direct Customer Access/Directory Information (DCA/DI) and Schedule Cal. P.U.C. No. 175-T, Access Service, Section 9, to add an additional mode of customer access. These changes provide customers with a tiered pricing structure in the exchange offering and makes DCA/DI service available to Interexchange Carriers and Resellers.

The DCA/DI service is an alternative to the conventional 411 Directory Assistance (DA) service for large volume DA users. The service is a computer-based DA service allowing users to have direct access to DA information with a customer owned computer terminal without the assistance of a DA operator.

In Pacific Bell A.85-01-034, the Commission found that allowing direct customer access to Pacific Bell's directory assistance information database would benefit both large DA users and Pacific Bell. With this service, large DA users could reduce their costs per call and Pacific Bell could lower expenses by reducing the number of required DA operators. As a result, the Commission ordered Pacific Bell to make final advice letter filings for the implementation of DCA/DI service in Ordering Paragraph 11 of D.86-01-026 dated January 10, 1986.

In compliance with D.86-01-026, Pacific filed Advice Letter No.15070 and a Supplement on January 7, 1987 to establish a tariff schedule for the implementation of the DCA/DI service. By Resolution T-12004 on February 11, 1987, the Commission authorized Pacific to provide DCA/DI service on a one year provisional basis to be effective on February 15, 1987. On February 16, 1988, by Resolution T-12063, the Commission authorized a temporary extension of time to March 9, 1988 to allow Pacific time needed to submit for staff's review a feasibility study on the DCA/DI service and a firm contract between Pacific and GTEC on sharing their directory listings for the provision of the DCA/DI service.

In compliance with Resolution T-12063, Pacific submitted on March 9, 1988 a firm contract with GTEC which would allow Pacific to offer statewide DA information to its customers of DCA/DI service. The feasibility study submitted by Pacific, however, was not based on the current costs of providing the DCA/DI service and could not be used for evaluating the future profitability of the DCA/DI service. In view of Pacific's efforts in reaching a firm contract agreement with GTEC, the Commission, by Resolution T-12075, authorized a 90 day extension of time to allow Pacific additional time to complete and submit for CACD review a revised feasibility study on the profitability of continuing the provision of the DCA/DI service.

On April 22, 1988, Pacific submitted to CACD a revised feasibility study. Subsequent to filing the study, Pacific was informed by the DOJ in a telephone conversation on April 25, 1988 that Pacific's DCA/DI service may not be consistent with the requirement of the MFJ. According to Pacific, DOJ's main concern was that Pacific's DCA/DI service offers customers with statewide DA information outside of the customers' own LATAs, which may not be consistent with the requirement of the MFJ.

To address the DOJ's concerns, Pacific was authorized by Resolution T-12088 dated June 8, 1988 to revise the DCA/DI tariff from a statewide DA information service to a LATAwide DA information service. A 45 day extension was also granted to allow Pacific time to reassess the effects of offering DCA/DI service on a LATAwide basis and complete a revised feasibility study for a restructured offering.

DISCUSSION

On June 8, 1988, Pacific submitted a proposal to restructure the present DCA/DI service. The proposed restructuring revises the present rate structure of the DCA/DI service to one that is tier based and makes available the service to the IECs and the Resellers.

The tiered pricing structure eliminates the fixed recurring \$100 per area code monthly charge, the \$0.25 per connection minute usage rate, and the call back feature which has allowed customers to

connect with the DCA/DI database without having to pay toll charges. With a unique customer identification code, DCA/DI system access can either be initiated by direct dial up via a toll free local restricted number under the Exchange Tariff or through feature group access under the Access Tariff; dedicated access is also available through Pacific's Access Tariff.

The proposed tiered pricing structure consists of four usage rates each for both the Access Tariff and the Exchange Tariff, and a nonrecurring charge per user identification. The proposed usage rates under the Exchange Tariff are higher than that of the Access Tariff. It is to allow the recovery of the local access costs in providing the toll free local restricted number. They are as follows:

(A) DCA/DI screens delivered per month	Usage Rate per Screen	
	<u>ACCESS TARIFF</u>	<u>EXCHANGE TARIFF</u>
0 - 9,999	\$0.18	\$0.20
10,000 - 24,999	0.16	0.18
25,000 - 249,000	0.14	0.16
250,000 plus	0.12	0.14

(B) Establish DCA/DI service	<u>Nonrecurring Charge</u>
- each account, includes one user ID	\$100.00
- each additional user ID	10.00

With the tiered pricing structure, Pacific expects that a considerable number of heavy users, medium users, and light users will be attracted to subscribe the DCA/DI service by the end of the ten year study. Negotiations are being conducted with the interexchange carriers for service subscription. The projected ten year discounted revenue to cost (R/C) ratio is 1.29. The cash flow cross over (the point in time when revenue catches up with on-going cost) is expected to occur in mid-1990 and the service is expected to become profitable in 1993.

The CACD, however, has serious doubts about the viability of this DCA/DI service based on its past performance and Pacific's current projection of the profitability of the service. According to Pacific's tracking reports for the full year of 1987 and the first quarter of 1988, the total DCA/DI service revenue was \$17,225 while the total operating expense was \$3,593,057. This equates to a total net loss of \$3,575,832. Although the losses were partly attributed to the fact that only two area code databases were available during 1987, CACD is uncertain that, even with the availability of statewide area code database, Pacific will attain the customer subscription as projected in the proposal.

It is likely that the tiered pricing structure and the availability of statewide DA information will make the DCA/DI service more attractive to the heavy DA users. However, the medium and the light DA users still may not find the DCA/DI service to be equally attractive. According to Pacific, no formal study has been conducted on the medium and light DA users market. The inclusion of the medium and light DA users into Pacific's customer projection is therefore speculative. Moreover, with the high possibility of competitive DA information services becoming available from the electronic publishers in the marketplace and in view of the rapidly changing telecommunications industry, CACD remains skeptical of Pacific's economic analysis. There is too much uncertainty associated with Pacific's estimates.

In order to allow Pacific an opportunity to test the DCA/DI service for true market conditions, especially with the new tiered pricing structure and the availability of statewide DA information, CACD recommends Pacific be authorized an extension of time for its DCA/DI service to December 31, 1989. In granting the extension, we remind Pacific that its obligation to comply with Ordering Paragraph 11 of D.86-01-026 has been fulfilled and it is at Pacific's option that the DCA/DI service be continued. However, in view of the uncertainty that DCA/DI service will be profitable and, in order not to adversely burden the general ratepayers, we will not consider the revenues and costs associated with the provision of the DCA/DI service for rate making purposes. The ratemaking treatment of excluding revenues and costs associated with the provision of the DCA/DI service for ratemaking purposes is based on the unique circumstances of this service and does not represent an overall policy for other services.

FINDINGS

The Commission finds that:

- (1) It is reasonable to allow Pacific the opportunity to test the DCA/DI market with the proposed tiered pricing structure until December 31, 1989.
- (2) It is reasonable to exclude the revenues and costs associated with the provision of the DCA/DI service for rate making purposes.
- (3) The ratemaking treatment of excluding revenues and costs associated with the provision of the DCA/DI service for ratemaking purposes is based on the unique circumstances of this service and does not represent an overall policy for other services.

IT IS ORDERED that:

- (1) Authority is granted to make the above revisions effective on July 23, 1988.

(2) Pacific Bell shall continue to monitor the results of its Direct Customer Access/Directory Information Service and file a report every 3 months with the Telecommunications Branch of the Commission Advisory and Compliance Division until December 31, 1989. The report shall reflect the revenue, costs, profitability, and customer subscription of the DCA/DI service. The first report is due October 31, 1988.

(3) The revenues and costs associated with the provision of the DCA/DI service shall be excluded for rate making purposes.

(4) All tariff sheets filed under Advice Letter No.15422 shall be marked to show that such sheet were authorized by Resolution of the Public Utilities Commission No. T-13002.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 22, 1988. The following Commissioners approved it:

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



Executive Director