

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION  
Telecommunications Branch

RESOLUTION NO. T-13039  
January 11, 1989

R E S O L U T I O N

RESOLUTION ESTABLISHING AN ANNUAL BUDGET FOR THE YEAR 1989 TO PROVIDE FOR DEAF AND DISABLED TELECOMMUNICATIONS EQUIPMENT AND SERVICE PROGRAMS PURSUANT TO PUBLIC UTILITIES CODE SECTION 2881 AND FOLLOWING.

SUMMARY

By this Resolution, the Commission adopts an annual budget for the year 1989 of \$28,000,500 to provide for telecommunications equipment and services to the deaf and disabled pursuant to Section 2881 and following of the Public Utilities Code.

Resolution T-13023, September 28, 1988, established the interim Commission review process of the proposed 1989 budget submitted by the Deaf Equipment Acquisition Fund (D.E.A.F.) Trust Administrative Committee to the Commission on November 14, 1988. The Commission's Advisory and Compliance Division (CACD) conducted a workshop to receive public comment on the proposed budget, and reviewed data request responses of its own from the operating companies providing the equipment and services.

CACD prepared an analysis of the proposed 1989 annual budget submitted by the D.E.A.F. Trust Administrative Committee, which is attached as Attachment 1. We adopt CACD's recommendations on the proposed budget as contained in the analysis submitted by CACD in Attachment 1.

BACKGROUND

The Commission opened an Investigation, I.87-11-031, in order to review numerous issues relating to the deaf and disabled telecommunications equipment and service programs provided by the local exchange companies and AT&T Communications of California pursuant to PU Code Section 2881. The programs include provision of Telecommunications Devices for the Deaf (TDDs) to deaf subscribers, a dual party relay connecting TDD subscribers with hearing telephone

users by means of an operator, and specialized telecommunications equipment to physically disabled telephone subscribers to assure basic access to the public switched telephone network.

As part of a settlement reached among the parties to the investigation, and filed by the Commission's Division of Ratepayer Advocates before the Commission for adoption, is a proposal for a formal review of the program budgets submitted to the Commission by the D.E.A.F. Trust Administrative Committee, the organization the Commission has established to provide fiscal management of the programs. The Commission will be deciding on the appropriate means for the formal budget review process in its final decision to I.87-11-031, expected in early 1989.

In the interim, however, the Commission recognized that the 1989 proposed budget for the programs submitted by the D.E.A.F. Trust Administrative Committee to the Commission on November 14, 1988, should be reviewed and approved by an interim process. Accordingly, the Commission passed Resolution T-13023 on September 28, 1988, in which it ordered the D.E.A.F. Trust Administrative Committee to submit its proposed 1989 budget to the Commission and to serve copies on all parties to I.87-11-031.

The Commission's Advisory and Compliance Division was ordered to conduct a workshop on the proposed budget to receive comments from interested parties. CACD held a workshop on November 7, 1988, to discuss the proposed budget; representatives from the Commission staff, D.E.A.F. Trust Administrative Committee, local exchange companies, and AT&T (operator of the relay) were present to receive comments and answer questions from interested parties. Copies of the revised 1989 budget submitted to the Commission on November 14, 1988, were also served on all parties to I.87-11-031.

In addition, Commission staff also submitted data requests on the proposed budget to the D.E.A.F. Trust Administrative Committee, the local exchange companies, and AT&T. CACD has prepared an analysis of the proposed budget and reply comments received and submitted its recommendations to the Commission in Attachment 1. We have reviewed CACD's analysis of the proposed budget and reply comments, and adopt its conclusions and recommendations for the 1989 annual budget.

#### DISCUSSION

CACD's recommendations are contained in Attachment 1, Section VII.

Comments from Bay Area Center for the Law and the Deaf on behalf of the California Association of the DEAF (CAD) were received and were considered by CACD in its analysis of the proposed budget. CAD's comments are summarized in Attachment 2. CACD has considered CAD's comments and has incorporated many of them in its analysis in Attachment 1.

We concur with CACD's recommendations, and adopt a budget of \$28,000,500 for the provision of deaf and disabled telecommunications equipment and services for the year 1989. The D.E.A.F. Trust Administrative Committee has the flexibility to balance expenses within this amount to meet varying demand and contingencies in the different programs. Should the D.E.A.F. Trust experience that this amount is insufficient to meet actual expenses in 1989 to provide the equipment and services, the D.E.A.F. Trust Administrative Committee is ordered to advise the Commission of the changes it requires in its budget; it should request whatever additional funds are required to provide the equipment and services at least 90 days in advance of anticipation of approval by the Commission of any increase in funds beyond the budget of \$28,000,500 approved in this Resolution.

#### FINDINGS

1. The D.E.A.F. Trust served copies on October 14, 1988, of its proposed 1989 annual budget for telecommunications equipment and services for the deaf and the disabled to all parties to I.87-11-031. The D.E.A.F. Trust submitted a revised program budget for the year 1989 to the Commission and to all parties to I.87-11-031 on November 14, 1989.
2. CACD held a workshop on November 7, 1988, to discuss the proposed budget served by the D.E.A.F. Trust on all parties to I.87-11-031 on October 14, 1988. Copies of the revised budget of November 14, 1988 were also served on all parties to I.87-11-031.
3. Written comments on the proposed budget have been received from the Bay Area Center for Law and the Deaf on behalf of the California Association of the Deaf and have been considered by CACD in its analysis of the proposed budget.
4. CACD has submitted its analysis and recommendations on the proposed budget and reply comments in Attachment 1. CACD's recommendations are summarized in Section VII of Attachment 1.
5. CACD recommends an amount of \$28,000,500 for the budget of the D.E.A.F. Trust Administrative Committee for the provision of deaf and disabled telecommunications equipment and services for the year 1989.

IT IS ORDERED THAT

1) The budget recommendations submitted by CACD in its analysis contained in Attachment 1, Section VII be adopted for the year 1989 to provide telecommunications equipment and services for the deaf and the disabled. Should the D.E.A.F. Trust anticipate the need to spend in excess of the amount of \$28,000,500 for the provision of these programs, it will so advise the Commission and submit its request for additional funds to the Commission at least 90 days prior to expectation of approval for such funds.

2) The Executive Director is ordered to serve a copy of this Resolution on all parties to I.87-11-031.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 11, 1989.

The following Commissioners approved it:

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
JOHN B. OHANIAN  
Commissioners



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Executive Director

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ATTACHMENT 1

COMMISSION ADVISORY AND COMPLIANCE DIVISION (CACD) ANALYSIS AND  
RECOMMENDATIONS ON THE PROPOSED 1989 BUDGET FOR THE DEAF AND  
DISABLED TELECOMMUNICATIONS PROGRAMS PROVIDED PURSUANT TO PUBLIC  
UTILITIES CODE 2881 AND FOLLOWING

I - SUMMARY

By Resolution T-13023, dated September 28, 1988, the Commission required the DEAF Trust Administrative Committee (Deaf Trust) to submit to the Commission a 1989 proposed budget. The Deaf Trust submitted the proposed 1989 budget set forth in Exhibit 1 attached to this Analysis.

The Deaf and Disabled Telecommunications Programs in California which are administered by the Deaf Trust consist of the following three programs:

SB 597 Program - Provides for the distribution of Telecommunication Devices for the Deaf (TDDs) to the deaf and severely-hearing impaired.

SB 244 Program - Provides for the operation of the California Relay Service Center (CRS) to provide the deaf and severely hearing-impaired with direct access to California's public-switched telephone network through the use of a dual party relay connecting the TDD subscriber with hearing telephone users by means of an operator.

SB 60 Program - Provides for specialized or supplemental telephone communications equipment at no charge to subscribers who are certified disabled.

The Deaf Trust estimates that a budget of approximately \$28 million will be required to cover the costs providing and administering these three programs for 1989.

As discussed below in this Analysis, based on our review of the proposed budget, the workpapers which support the proposed budget and additional information obtained through data requests and discussions with the service providers and representatives of the deaf and disabled users, CACD recommends that the Commission adopt the budget of approximately \$28 million for 1989 set forth in Exhibit 1 of this Analysis.

Adoption of the budget herein for 1989 is for the purpose of establishing an appropriate amount for the surcharge in order to ensure the fiscal integrity of the Deaf Trust. CACD expects the

Deaf Trust to review closely all claims for reimbursement for reasonableness and prudence. CACD shall audit claims in order to ensure compliance.

Many of the budget items listed in Exhibit 1 including certain of the estimates for funds flowing into the Deaf Fund reflect an assumption that the activities of these programs for the deaf and disabled will see an increase of 20% over the activity levels for 1988. This estimated 20% increase in activity levels is based on the judgment of the entities providing the services and the Deaf Trust. CACD believes that this estimated 20% increase in activity level is appropriate for the purposes of establishing a budget for these programs for 1989. Because of the Deaf Fund budget crisis in late 1987 and through the first half of 1988 and the resulting requirement by the Commission that there be no increase in costs during the budget crisis period, the actual activity levels for 1988 may not be a clear indication of the actual unconstrained activity levels. This estimated 20% increase in activity levels is intended to compensate for both normal year-to-year growth in activity levels and the fact that the actual data for 1988 which forms the basis for much of the proposed budget for 1989 likely reflects constrained activity levels. The estimated 20% increase in activity levels is also intended to reflect stimulated growth in demand which could result from an expanded outreach program in 1989.

Since there is a degree of uncertainty with respect to activity levels, CACD's recommendation is based on the premise of maintaining fiscal integrity for the Trust. Reimbursement of claims will be based on actual activity levels. If activity levels are less than the 20% increase that is estimated, then CACD fully expects claims to be reduced accordingly.

CACD performed a line-by-line analysis of the Deaf Trust Budget. The purpose of the analysis was not to substitute CACD's judgment for the Deaf Trust, but rather to assure the overall appropriateness of the budgeted amount for establishing a surcharge.

As indicated above, many of the elements of the proposed 1989 budget filed by the Deaf Trust are based on actual data for part of 1988. The actual 1988 data available for use in the development of the 1989 proposed budget was typically for the first 9 months of 1988. In order to arrive at a full year of data for 1988 which could be used as a foundation for a 1989 budget, the actual 1988 data was expanded to the full year based on estimates for the remaining months of 1988. This mix of actual and estimated data is referred to in this Analysis as "1988 actual/estimated".

The present source of funds to cover the costs of providing these services is a billing surcharge of 0.5% which is applicable to intrastate billings of utilities which provide intrastate

telecommunications services in California. It is estimated that the 0.5% billing surcharge will yield substantially more funds than will be required to meet the budget amount of \$28 million. The Deaf Trust has suggested (see Exhibit 1) that the 0.5% be reduced in early 1989. As discussed below in this Analysis, CACD also recommends that the present billing surcharge be reduced to provide a level of funds which is necessary to meet the budget requirement of approximately \$28 million. Presently there are significant reductions in rates that have been recently approved by the Commission. Among these reductions are decreases for Pacific Bell totaling approximately \$725 million (includes financial attrition, operational attrition and elimination of the memorandum account balances) and decreases for AT&T of approximately \$130 million. CACD has also determined as a part of its analysis of the proposed budget that the estimated billing bases upon which the estimated surcharge yields set forth in Exhibit 1 of this Analysis are based are not consistent with the billing bases used to adjust Pacific's rates for 1989 attrition and the elimination of the memorandum account balances. Because these pending rate decreases and inconsistencies in billing base estimates for 1989 create a level of uncertainty as to the revenue stream which will be generated by the 0.5% surcharge and the expense as well as the customer confusion which occurs when the surcharge is changed, CACD recommends that the 0.5% surcharge remain in effect until mid-March 1989. By mid-March the pending rate reductions will have been implemented and a surcharge level can be established which should provide adequate funding for the remainder of 1989 thus mitigating the need for a subsequent change in the billing surcharge.

## II - REVENUES

The "Receipts" shown in Exhibit 1 to this Analysis reflect the sources and estimated amounts of funds to cover the costs of operating and administering the programs to provide services to the deaf and disabled. The "Surcharge" amounts are based on estimates provided to the Deaf Trust by CACD. The CACD estimates of funds are based on a trending of the recorded data on the amounts paid by the telecommunications utilities to the Commission as user fees (0.1% surcharge applicable to billings for intrastate services). The total estimated 1989 intrastate billing base developed from trending the recorded user fee payments to the Commission is approximately \$10.153 billion. The estimates of funds set forth in Exhibit 1 reflect the application of surcharges of 0.3%, 0.4% and 0.5% to this estimated 1989 intrastate billing base of approximately \$10.153 billion.

The development of a total intrastate billing base by trending the user fee payments to the Commission is an appropriate method of estimating such a billing base assuming that the billings of the utilities are not subject to significant gyrations due to

changes in rates. A current review of the matters pending before the Commission indicates that there are significant changes in rates pending especially for Pacific Bell and AT&T. Based on tentative estimates, the sum of reductions in rates pending for Pacific Bell for 1989 could be approximately \$500 million for the full year with an additional amount of approximately \$225 million to be returned to ratepayers through reductions in rates for the first four months of 1989. Similarly, the sum of reductions pending for AT&T could be approximately \$130 million. These significant reductions in rates are not reflected in the development of the estimated billing base of \$10.153 billion.

As a part of the CACD review of the proposed budget, CACD requested Pacific to indicate what portion of the \$50,764,989 "Surcharge Receipts" shown in Exhibit 1 (page 1) attached to this Analysis would be collected from Pacific's customers. Pacific responded that approximately 72% of this amount would be collected from Pacific's customers. Based on Pacific's response, an estimated 1989 surcharge billing base of approximately \$7.3 billion can be derived for Pacific. This \$7.3 billion billing base is approximately \$1.5 billion higher than the customer billing base filed by Pacific as a part of the 1989 attrition adjustments. This significant difference suggests that the estimated "Surcharge Receipts" reflected in Exhibit 1 attached to this Analysis may be overstated.

On July 22, 1988 the Commission issued Resolution No. T-13005 which provided for the implementation of the 0.5% surcharge to provide for funding of the programs for the deaf and disabled. Ordering Paragraph 2 of Res. No. T-13005 states, "A surcharge of one-half of one percent will be applied to all telecommunications utility subscriber intrastate tariffed services, both within a service area and between service areas." Ordering Paragraph 3 of Res. No. T-13005 states, "This surcharge will not apply to the basic monthly rate for Universal Telephone Service, nor to one-way radio paging service." Ordering Paragraph 4 of Res. No. T-13005 lists the following three exclusions from the surcharge:

- Public Utilities Commission Reimbursement Account Fees
- Universal Telephone Service fee
- FCC Network Access Charges for interstate calling

Ordering Paragraph 7 of Res. No. T-13005 states in part, "...the surcharge should not be imposed on any telecommunications service that is for interconnection or access by common carriers or purchased by utilities for resale to the public." Each telecommunications utility providing intrastate services was ordered to file tariffs providing for the implementation of these provisions.



Also as a part of the CACD review of the proposed budget, CACD has reviewed certain of the presently effective tariffs of the local exchange companies covering the application of the 0.5% surcharge authorized by Res. No. T-13005. The results of this review of these present tariffs indicate that there are inconsistencies in the application of the present 0.5% surcharge. There are two primary areas of inconsistencies in the tariffs filed to comply with the provisions of Res. No. T-13005. As an example of one area of inconsistency, the tariffs of Roseville Telephone Company (Roseville) and Citizens Utilities Company of California (Citizens) include exemption from the 0.5% surcharge for local and coin sent paid calls. Such calls are not among the services excluded by the provisions of Res. No. T-13005. However, from a practical perspective it is not possible to collect the 0.5% surcharge from the customers who utilize coin telephones and pay for calls with coins. The tariffs of Pacific and General Telephone Company of California (General) do not provide for the exemption of coin sent paid calls from the 0.5% surcharge. The second area of inconsistency involves the application of the 0.5% surcharge to the present surcharges such as the those of General as set forth in General's Schedule A-38 and Pacific's Rule 33 surcharge. General's present tariff Schedule A-38 provides for the application of a negative surcredit of 16.41% to a group of services including basic exchange access line service. Under General's tariffs the 0.5% surcharge would apply to the billed amounts after the 16.41% negative surcharge had been applied. Under Pacific's present Rule 33 a negative surcharge of 2.90% is applicable to a similar group of services including basic access line service. However, Pacific's tariffs provide for the exemption of the "Negative Billing Surcharge" from the application of the 0.5% surcharge. This exclusion of the "Negative Billing Surcharge" from the 0.5% surcharge does not comply with the provisions of Res. No. T-13005. CACD believes that the utilities should be required to revise their tariffs to eliminate these two areas of inconsistency.

On January 1, 1989 Pacific's Rule 33 billing surcharge could become a negative surcharge of approximately 14% due to the reductions in rates discussed above. If Pacific revises its tariffs to reflect the application of the 0.5% surcharge after the Rule 33 surcharge has been applied, the estimated yield to the Deaf Fund will be lower than if the 0.5% surcharge is applied prior to the Rule 33 surcharge. Until this inconsistency is corrected, the Commission will have difficulty determining the appropriate level of surcharge to authorize to recover the costs of providing the programs for the deaf and disabled.

Based on the uncertainties discussed above in estimating the surcharge billing base and the inconsistencies in the application of the present surcharge to fund the programs for the deaf and

disabled, CACD recommends that the Commission not revise the present 0.5% surcharge until mid-March of 1989. The interim period should be used to develop an appropriate billing base and to address the inconsistencies in the tariffs. Solving these problems now before adjusting the 0.5% will mitigate the possibility of subsequent changes to the surcharge in 1989 and will mitigate the inherent customer confusion which results when the surcharge is changed.

The "Receipts" shown in Exhibit 1 (page 1) also include \$330,379 for "Toll Revenues". These toll revenues represent the amount of revenues generated by calls through the California Relay Service where message toll charges apply to the route between the calling and called parties. The Deaf Trust indicates that this amount is based on the 1988 actual/estimated amount grown by 20% for 1989 to reflect the expected growth in calls through the California Relay Service. As will be discussed below in the analysis of the budget for the SB 244 program, the estimated increase in calls through the California Relay Service is approximately 15%. CACD believes that the adopted amount for "Toll Revenues" should reflect a level of growth which is consistent with the assumed level of growth upon which the estimated expenses are based. CACD therefore recommends that the Commission reflect an amount of "Toll Revenues" which is based on a 15% growth in revenues for 1989 in the determination of the billing surcharge level.

The "Receipts" shown in Exhibit 1 (page 1) include consideration of "Interest" on the average balance (the average of the "Unencumbered Funds - Beginning" plus "Unencumbered Funds - Ending" rounded) at 7% interest for the year. CACD believes that the Deaf Trust's method of determining the amount of interest is appropriate. However, since CACD is recommending no change in the surcharge at this time and that the surcharge be revised early next year, the "Ending" balance which is used in the determination of the amount of interest cannot be determined. Therefore, CACD recommends that the Commission adopt this method for determining the amount of interest and that the Commission reflect the amount of interest so determined as a part of the development of the revised surcharge.

### III - ADMINISTRATIVE EXPENSES

The "Administrative Expenses" shown in Exhibit 1 (page 1) have been provided by the Deaf Trust. The CACD analysis, discussion and recommendations on the appropriateness of these estimated expenses are set forth below in this section of this Analysis. The CACD review is based on the 1989 budget as filed by the Deaf Trust on November 14, 1988, workpapers provided by the Deaf Trust and Deaf Trust responses to CACD data requests.

#### Trustee Expenses

The Bank of America acts as the trustee for the Deaf Fund. The Deaf Trust indicates that the Bank of America charges on a sliding scale varying with the fund balance. The fee corresponding to an average fund balance of \$5 million is \$22,000. As discussed under II - Revenues, above, CACD recommends that the present 0.5% surcharge be reduced early in 1989. Since CACD believes that the

average fund balance will be equal to or less than \$5 million, CACD recommends that the Commission adopt the expense of \$22,000 for the 1989 budget.

#### Legal Expenses

The Deaf Trust estimates that 1989 legal expenses will be \$24,000. This estimate is based on the actual/estimated 1988 expenses plus 10% due to anticipated increased activity as a result of the I. 87-11-031 proceeding. CACD believes that the estimate of \$24,000 is appropriate and recommends that the Commission adopt this expense level for the 1989 budget.

#### Audit and Insurance Expenses

The Deaf Trust estimates that 1989 Audit and Insurance expenses will be \$20,000 and \$75,000 respectively. These estimated expense levels are the same as the actual 1988 expense levels. CACD believes that these expense levels are appropriate and recommends that the Commission adopt these expense levels for the 1989 budget.

#### DTAC Expenses

The Deaf Trust estimates that the administrative expenses associated with the Deaf Trust Administrative Committee (DTAC) will be \$200,000 for 1989. The Deaf Trust indicates that this level of expenses is based on the expectation that the Commission will adopt the settlement reached among the parties to the I. 87- 11-031 proceeding. This settlement has been filed by the Commission's Division of Ratepayer Advocates and is before the Commission for consideration. The settlement proposes that the present structure of the DTAC be revised such that the DTAC has its own employees. Under the present structure of the DTAC the support staff for the DTAC is drawn from the utilities. The \$200,000 estimated expense for 1989 reflects the costs associated with two full time employees including salaries and benefits as well as the costs to operate an office including rent, furniture, office equipment, postage, telephone, printing and stationary. An amount of \$16,000 is also included in the \$200,000 to cover the costs of the public members of the DTAC.

Because the DTAC is being restructured under the settlement, there is little recorded data which can be used to support a budget of \$200,000 for the DTAC. Based on a review of the information provided to CACD by the Deaf Trust, CACD believes that the \$184,000 estimated as the cost of the two new employees and the associated office expenses is appropriate and recommends that the Commission adopt this amount for the 1989 budget.

In response to a CACD data request, the Deaf Trust indicated that the \$16,000 included in the total DTAC expense is based on a doubling of the approximately \$8,000 of expense which is the expected expense level for public member participation for 1988 for the Equipment Program Advisory Committee (EPAC). (See EPAC discussion below in this section of this Analysis.) This doubling of the 1988 EPAC expense level to obtain the estimated expenses for the public member participation for the DTAC appears to be appropriate based on the expectation that the settlement will be adopted by the Commission. The settlement, if adopted, will result in increased activity by the DTAC in order to implement the provisions of the settlement. CACD therefore believes that the estimate of \$16,000 as the cost of public member participation for DTAC is appropriate and recommends that the Commission adopt this amount for the 1989 budget.

#### EPAC Expenses

The Deaf Trust estimates that the administrative expenses associated with the EPAC will be \$16,000 for 1989. The Deaf Trust indicates that the \$16,000 estimate is associated with the expenses for participation of public members on EPAC and is based on a doubling of the 1988 expected expenses for EPAC. The Deaf Trust further indicates that this doubling of expenses is appropriate due to the increased responsibilities for the EPAC under the terms of the settlement. Among the expanded activities included for EPAC in the settlement is the development of proposals to centralize the purchasing and distribution of equipment for the deaf and disabled and putting such a purchasing and distribution system out for competitive bid. CACD believes that the estimate of \$16,000 for the EPAC expenses is appropriate and recommends that the Commission adopt this amount for the 1989 budget.

#### RAC Expenses

The Deaf Trust estimates that the administrative expenses associated with the Relay Advisory Committee (RAC) will be \$16,000 for 1989. The RAC will be created if the Commission adopts the settlement. The RAC does not presently exist and therefore there is no recorded data for the administrative expenses associated with this committee. The Deaf Trust indicates that the RAC is expected to have activities which are similar to those of EPAC and bases its estimate of \$16,000 in expenses on this expectation. CACD believes that the estimate of \$16,000 for the RAC expenses is appropriate and recommends that the Commission adopt this amount for the 1989 budget.

## Contingencies

The Deaf Trust has included \$20,000 in the proposed budget under the heading of "Contingencies". This amount did not appear on the proposed budget sent to parties on October 14, 1988 which was the budget discussed at the November 7, 1988 workshop. The addition of an amount for contingencies by the Deaf Trust resulted from discussion in the workshop concerning the uncertainty of the estimates for administrative expenses especially for the committee activities such as DTAC and RAC where no recorded data on expenses exists. The amount of \$20,000 which is requested represents approximately 5% of the total of approximately \$400,000 in Administrative Expenses. Due to the uncertainty of the expense estimates for the operation of the DTAC, EPAC and RAC, CACD supports the request for an amount of \$20,000 for Contingencies and recommends that the Commission adopt this amount for the 1989 budget.

## IV - ANALYSIS OF THE BUDGET FOR THE SB 597 PROGRAM

The SB 597 program provides for the distribution of TDDs to the deaf and severely-hearing impaired. Exhibit 1 (page 2) contains the proposed budget for this program as submitted by the Deaf Trust. As indicated by the cover letter contained in Exhibit 1 from the Deaf Trust, the proposed budget for the SB 597 program is provided by the Deaf Trust and reflects information provided by the participating utilities and/or their representatives. The CACD analysis, discussion and recommendations on the appropriateness of these requested budget amounts are set forth below in this section of this Analysis. The CACD review is based on the 1989 budget as filed on November 14, 1988 by the Deaf Trust, workpapers provided by the participating utilities or their representatives and responses to CACD data requests.

The format of Exhibit 1 page 2 displays the proposed budget for the SB 597 program with proposed budget amounts stated for AT&T, Pacific and General. In addition, proposed budget amounts are shown for "CTA" and "INDEP". The California Telephone Association (CTA) amounts reflect the costs of TDD's provided by the 18 smaller telephone companies and the costs of an individual employed by CTA who provides consulting service for TDD related activities and provides other TDD related services under the terms of a contract between CTA and all of the local exchange companies except Pacific and General. Among the TDD related services provided by the CTA are such activities as training utility employees to handle TDD related customer inquiries and customer instruction on the care and use of TDDs. The amounts shown under "INDEP" are the proposed budget amounts associated with the SB 597 program for Roseville and Continental Telephone Company of California (Continental).

## Equipment Purchases

The proposed budget reflects \$930,610 for the purchase of additional TDDs. Both General and Pacific indicate that the proposed budget amounts represent a 20% increase over the 1988 actual amounts of new TDDs. Both Pacific and General utilized an estimated purchase price of approximately \$350 per unit in developing the proposed budget amounts. The amount shown for CTA reflects a purchase of 5 TDDs at a unit price of \$500 per unit. The amount shown for the Independents is based on the actual amounts for the first nine months of 1988 annualized and grown by an additional 20% for 1989. CACD believes that the estimated 20% increase in demand for 1989 over 1988 is appropriate. (See discussion of the basis for 20% increase in demand in I - Summary, above. CACD recommends that the Commission adopt the proposed budget amount of \$930,610 for the 1989 budget.

The proposed budget reflects \$45,930 for signalling devices provided to the deaf and disabled to indicate an incoming call on the TDD. The amount shown for Pacific reflects the estimated volume for 1989 of 1690 devices at a purchase price of \$21.00 per unit. The amount shown for General reflects a volume for 1989 of 720 units at a purchase price of \$14.50 per month. While CACD believes that the significant difference in purchase price for these devices should be questioned by the Deaf Trust and the Commission as a part of the process of reimbursement of claims and future budgets, CACD has no basis to recommend at this time that this budget item be reduced for the 1989 budget. Therefore, CACD recommends that the Commission adopt the proposed budget amount of \$45,930 for the 1989 budget.

## Assistance Centers

The budget amounts which appear under the subject of Assistance Centers reflect the costs associated with the operation and staffing of the Assistance Centers as well as costs of the field representatives who provide direct in home assistance to the deaf and disabled customers who use services provided under the deaf and disabled programs. The Assistance Centers and the associated field operations are elements of the operations of the local exchange companies. The costs associated with the provision of the operator services for the deaf and disabled (OSD) are also included under the subject of Assistance Centers by the Deaf Trust. AT&T provides the OSD services.

The Assistance Centers including the field representatives provide services to customers under both the SB 597 program and the SB 60 program. Therefore the proposed budget amounts shown for Assistance Centers under the SB 597 program are a proration of the total costs of the Assistance Centers including field representatives between the SB 597 program and the SB 60 program. The proposed budget for Pacific and CTA reflects a proration of 40% of these costs to the SB 597 program and 60% of these costs to the SB 60 program. The proposed budget for General reflects a proration of 35% of these costs to the SB 597 program and 65% of these costs to the SB 60 program.

The proposed budget for the SB 597 portion of the operation of the Assistance Centers is a total of \$2,010,558. The proposed budget shows the two categories which make up this total budget amount as Direct Labor and Expense and Associated Staff Expense.

The \$913,362 shown for Direct Labor and Expense of Pacific reflects the prorated expenses associated with the approximately 33 employees of Pacific associated with the Assistance Centers. This estimated expense includes the overhead loadings for these employees along with an expense associated with the Team Award paid by Pacific to its employees for meeting or exceeding levels of corporate performance. Because of a change in the format of Pacific's actual 1988 data versus the format of the proposed 1989 budget, it is not possible to compare this 1989 proposed budget amount to actual 1988 data.

The \$476,805 shown for Associated Staff Expenses of Pacific reflects the prorated expenses which include telephone bills, office supplies, office equipment, rental for office space, motor vehicles, travel, meals, lodging and other similar expenses as well as a prorated expense of approximately \$214,000 for "Agency Expense" which reflects the costs of approximately 12 "Agency" employees who are associated with the Assistance Centers. Because of a change in the format of Pacific's actual 1988 data, a comparison of 1988 actual expenses to 1989 proposed expenses also cannot be made for this proposed budget amount.

The \$564,330 shown for Direct Labor and Expense of General reflects the prorated expenses associated with the approximately 13 personnel (7 employees of General and 6 "Contract Labor") associated with the Assistance Centers. This amount also includes the prorated expenses for items which Pacific included under Associated Staff Expenses. The \$564,330 proposed budget amount represents an increase of approximately 90% over the 1988 actual/estimated amount. General indicates that this significant increase is due to the following two factors: (1) the filling of vacant utility employee positions and the addition of 2 new utility



positions; and (2) the addition in the budget for 1989 of an amount of \$120,000 which General plans to claim from the Deaf Fund for the cost of telephone equipment and service for "additional staff" that "have not been recovered since 1986" (quotations are from General's workpapers). General indicates that the 2 additional utility positions have been added to the proposed 1989 budget to handle an outreach program for 1989. CACD believes that the increased expenses associated with the filling of vacant utility positions and the addition of 2 utility positions is appropriate. CACD is concerned however with the collecting for additional telephone expenses for the past two years. While CACD has no basis for recommending that the Commission remove this \$120,000 from the adopted budget, CACD does recommend that the Commission require the Deaf Trust to retain and provide to the CACD within 5 days of a request by CACD to provide all data and records provided by General in support of its claims for these past telephone expenses including minutes of Deaf Trust meetings in which the Deaf Trust determines that such claims should be paid by the Deaf Fund. CACD recommends that the Commission adopt the proposed budget amount of \$564,330 for the 1989 budget and require the Deaf Trust to retain and provide the information concerning General's claims for recovery of past telephone expenses as discussed above.

The \$12,255 shown for Associated Staff Expense for General reflects an allocation of the costs of a manager and travel expenses for the manager. General indicates that this amount is a 2% increase over the 1988 actual/estimated amount. CACD believes that this amount is appropriate and recommends that the Commission adopt this amount for the 1989 budget.

The proposed budget includes a total of \$31,162 for the Direct Labor and Expense and the Associated Staff Expense for CTA. These estimated expenses reflect a proration of costs of the CTA employee who provides TDD-related services for the 18 smaller local exchange companies and TDD-related consulting services to all of the local exchange companies except Pacific and General. In addition these estimated expenses reflect a proration of the costs of staffing a Centralized Distribution Center and supervision for the CTA employee (consultant) and the staff of the Centralized Distribution Center. Due to a change in the format of the 1988 actual/estimated, a comparison between the 1988 data and the proposed 1989 budget cannot be made.

The proposed budget includes a total of \$12,644 for the Direct Labor and Expense and the Associated Staff Expense for Roseville and Continental. These estimated expense levels reflect the 1988 actual/estimated expenses increased by 20%. CACD believes that these expense levels are appropriate and recommends that the Commission adopt the \$12,644 in the 1989 budget.

The proposed budget includes \$554,500 for the costs of providing OSD services. OSD services are provided by AT&T and include such services as access to directory assistance for TDD users and operator services such as credit card, collect and third number billing for TDD users. AT&T provides the intrastate OSD services from facilities located in Oakland, California. Because the Oakland OSD provides services for other states as well as for requests for interstate operator services from California customers, AT&T allocates the costs of the Oakland OSD between California intrastate and other operations on the basis of the amount of California intrastate usage of OSD. The present allocation of costs to California intrastate service is 60%. The 1988 actual/estimated level of OSD expenses is approximately \$556,000. The proposed budget amount for 1989 is approximately equal to the 1988 actual/estimated amount. AT&T estimates that the 1989 OSD call volumes will be approximately 6% greater than the 1988 actual/estimated OSD call volumes. It appears AT&T may have underestimated the 1989 proposed budget for OSD. The proposed budget amount was provided by the Deaf Trust after review by the Deaf Trust. CACD, however, recommends that the Commission adopt the proposed budget amount for the 1989 budget.

#### Handling Charges

The proposed budget for 1989 contains an amount of \$669,609 as the total of the Handling Charges associated with the SB 597 program. There are two categories of expenses included under Handling Charges. Warehousing and Distribution expenses are estimated as \$276,706 and Repair expenses are estimated as \$392,903 for 1989.

The proposed budget includes \$37,041 for Warehousing and Distribution costs for 1989 for Pacific. CACD requested Pacific to provide the 1988 actual amounts for Warehousing and Distribution costs for the SB 597 program and the percent change for 1989 compared to 1988. Pacific responded that these costs were combined with the Direct Labor and Expense costs for Assistance Centers during 1988 and are not separately stated. CACD has no basis for comparison of this amount with actual data. CACD has no specific comments or recommendations on this proposed budget amount. CACD, however, will require the Deaf Trust to scrutinize closely any approval of expenditures for this activity.

The proposed budget includes \$235,905 for Warehousing and Distribution costs for 1989 for General. CACD requested General to provide the 1988 actual amounts for Warehousing and Distribution costs for the SB 597 program and the percent change for 1989 compared to 1988. General responded with 1988 actual data which

includes 1987 costs. A comparison between General's actual 1988 data and the 1989 estimated costs is thus inappropriate. CACD therefore has no basis for specific comparison of the estimated 1989 proposed budget amount with actual data. General did provide sufficient data for CACD to offer comments on General's estimated 1989 costs. A review of the information provided by General indicates that General's Warehousing and Distribution costs for the SB 597 equipment are significantly greater than such costs as estimated by Pacific. General's 1989 estimate includes approximately \$72,000 for "Vendor Administration". Pacific's estimates include no such cost. Taking into consideration the relative size of the serving area and number of customers served by Pacific compared to General, CACD believes that General's Warehousing and Distribution costs should be more in line with Pacific's. While CACD does not believe that General's estimated costs are inappropriate, CACD does believe that the Deaf Trust should encourage General to bring its Warehousing and Distribution costs for the SB 597 program more in line with Pacific's costs, and closely scrutinize all claims for reimbursement. Based on the information provided by General, CACD believes that the estimate of \$235,905 is appropriate for 1989 and recommends that the Commission adopt this amount for the 1989 budget.

The proposed budget reflects an estimates of \$1,990 for CTA and \$1,770 for Roseville and Continental as estimates for Warehousing and Distribution costs for 1989. The CTA proposed budget amount is based on the allocation of floor space to the warehousing of SB 597 equipment. The \$1,770 for Roseville and Continental reflect 1988 actual/estimated expenses increased by 20%. CACD believes that these two proposed budget amounts are appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

Included in the proposed budget for 1989 is an amount of \$318,159 for Pacific for TDD repairs. This amount includes the cost of repair, refurbishment and/or retrofit of 2726 TDDs for 1989. Pacific indicates that the average cost for repair, refurbishment and/or retrofit is estimated to be \$115 per TDD. As discussed above when CACD requested Pacific to provide the 1988 actual amounts for Repair costs for the SB 597 program equipment and the percent change for 1989 compared to 1988, Pacific responded that these costs were combined with the Direct Labor and Expense costs for Assistance Centers during 1988 and are not separately stated. CACD has no basis for comparison of proposed budget amount of \$318,159 with actual data. CACD has no specific comments or recommendations on this proposed budget amount for Pacific.

Included in the proposed budget for 1989 is an amount of \$62,736 for General for TDD repairs. This amount includes such costs associated with an estimated 720 TDD which will be repaired during 1989. General estimate for Repairs is based on an average cost per TDDs repaired of \$80. General indicates that the proposed budget amount is an increase of approximately 18.5% over the 1988 actual/estimated cost for Repairs. Since this estimated percentage increase is consistent with the assumed increase in demand and cost for the SB 597 program, CACD believes that the proposed budget amount of \$62,736 for General for 1989 is appropriate and CACD recommends that the Commission adopt this amount for the 1989 budget.

The proposed budget reflects an estimates of \$2,400 for CTA and \$9,608 for Roseville and Continental as estimates for TDD Repair costs for 1989. The CTA proposed budget amount is based on a estimate of 4 TDDs for "minor overhaul" at a cost of \$150 per TDD and 8 TDDs for "minor overhaul plus retrofit at a cost of \$225 per TDD. The \$9,608 for Roseville and Continental reflects 1988 actual/estimated expenses increased by 20%. CACD believes that these two proposed budget amounts are appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

As noted above in this Analysis, the estimated cost to repair, refurbish and/or retrofit TDDs varies among the estimates of the providers of the SB 597 program. CACD encourages the Deaf Trust to attempt to achieve consistency for these costs in the future in order for the costs to the Deaf Fund to be minimized.

#### Administrative Costs

The proposed budget contains a total of \$261,313 for Accounting costs which are not related to customer records. Included in this total proposed budget amount is an amount of \$203,000 which is Pacific's estimate of such expenses. The \$203,000 reflects 6 months of actual data for 1988 which has been annualized. These expenses include the salary and associated overhead loadings for the Pacific Bell employees who conduct the daily administration activities of the Deaf Trust. Pacific's workpapers for the costs of the SB 597 program contain a footnote which refers to the \$203,000 estimated amount and states, "This amount could be reduced or almost entirely eliminated if the D.E.A.F. Trust Administration is reorganized as proposed by the settlement agreement filed in OII 97-11-031." CACD notes that this footnote does not appear in the proposed budget set forth in Exhibit 1 of this Analysis. Clearly this proposed budget amount is a reflection of certain of the same costs covered by the expenses discussed above in section III - Administrative Expenses for the DTAC. The proposed settlement agreement is pending before the Commission. It is therefore not clear which of Pacific's

expenses associated with the administration of the Deaf Trust will be placed in the hands of the DTAC and its staff. CACD recommends that the Commission adopt the proposed budget amount of \$203,000 for the 1989 budget and require the Deaf Trust to provide CACD with a revised estimate of this proposed budget item within 90 days of the implementation of DTAC. This revised estimate will be for information purposes only and shall not be deemed a request by the Deaf Trust for a revision in the adopted budget.

The proposed budget includes \$25,490 for 1989 for General for Accounting costs. General indicates that this proposed budget amount reflects the costs including salary, overhead loadings and travel expenses associated with General's representative to the Deaf Trust. This amount also includes the costs of an accountant. General indicates that this proposed budget amount is a decrease of approximately 12% compared to the 1988 actual/estimated amount. CACD believes that this proposed budget amount is appropriate and recommends that the Commission adopt the proposed amount for the 1989 budget.

The proposed budget reflects an estimates of \$12,785 for CTA and \$20,038 for Roseville and Continental as estimates for Accounting costs for 1989. The CTA proposed budget amount reflects a proration of the costs of preparing monthly reports for the SB 597 program as well as a proration of the costs associated with the DTAC activities including travel expenses. The \$20,038 for Roseville and Continental reflect 1988 actual/estimated expenses increased by 20%. CACD believes that these two proposed budget amounts are appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

The proposed budget includes a total of \$60,409 for the estimated 1989 costs associated with Customer Records. Included in this total amount is an amount of \$30,000 for Pacific. Pacific indicates that this expense reflects the costs of changing or adding to customer records related to the SB 597 program. Pacific's estimated cost is based on a cost per service order for such activities of \$5.00. The amount of \$22,750 for General is related to the same activities. General also based its estimate on a cost of \$5.00 per service order. CACD believes that these proposed budget amounts appear to be appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

The proposed budget reflects an estimate of \$600 for CTA and \$7,059 for Roseville and Continental as estimates for Customer Record costs for 1989. The CTA proposed budget amount is based on the proration of the costs associated with the development of a program to computerize customer records and inventory controls. The \$7,059 for Roseville and Continental reflect 1988 actual/estimated

expenses increased by 20%. CACD believes that these two proposed budget amounts are appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

The proposed budget contains a total of \$35,111 for Other Administrative Costs for 1989 which is made up of \$15,260 for General and \$19,851 for Roseville and Continental. General's estimate of Other Administrative Costs includes such items as stationery, postage and office supplies. General indicates that the proposed budget amount represents a decrease of approximately 50% over the 1988 actual/estimated amount. The \$19,851 for Roseville and Continental reflect 1988 actual/estimated expenses increased by 20%. CACD believes that these two proposed budget amounts are appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

An amount of \$59,000 appears in the proposed budget for "Contingencies". This amount is included by General. This amount is not reflected in the total proposed budget for the SB 597 program. CACD is uncertain as to the intent of the Deaf Trust with regard to this amount. Since the amount does not appear in the total of the proposed budget, CACD will assume that the amount should be disregarded. CACD recommends that the Commission disregard this amount in adopting the 1989 budget.

#### V - ANALYSIS OF THE BUDGET FOR THE SB 244 PROGRAM

The SB 244 program provides for the operation of the California Relay Service Center (CRS) to provide the deaf and severely hearing-impaired with direct access to California's public-switched telephone network through the use of a dual party relay connecting the TDD subscriber with hearing telephone users by means of an operator. Exhibit 1 (page 3) contains the proposed budget for this program as submitted by the Deaf Trust. As indicated by the cover letter contained in Exhibit 1 from the Deaf Trust, the proposed budget for the SB 244 program is provided by the Deaf Trust and reflects information provided by the participating utilities and/or their representatives. The CACD analysis, discussion and recommendations on the appropriateness of these requested budget amounts are set forth below in this section of this Analysis. The CACD review is based on the 1989 budget as filed on November 14, 1988 by the Deaf Trust, workpapers provided by the participating utilities or their representatives and responses to CACD data requests.

#### California Relay Service

AT&T is the provider of CRS service. Therefore all of the estimated costs shown under this item are based on information provided by AT&T.

**Building** - The proposed budget contains \$498,284 for leasing the Woodland Hills CRS location as well as the costs associated with building repairs and maintenance. This amount reflects an increase of approximately 14% over the 1988 actual/estimated amount with approximately 8% of the total 14% increase resulting from an increase of \$36,000 per year for building repairs and maintenance. CACD believes that the proposed budget amount is appropriate and recommends that the Commission adopt this amount for the 1989 budget.

**Network Usage** - The proposed budget contains \$4,663,012 to cover the costs of the 800 Service lines, WATS lines and local exchange lines utilized by the CRS. AT&T indicates that this budget amount includes approximately \$180,000 in increased costs based on the assumption that increases in call volumes will occur in 1989 over 1988. (See the discussion below under Relay Operator Services concerning the amount of estimated increase in call volumes.) However, when requested to compare the proposed budget amount to the 1988 actual/estimated amount, AT&T indicated that the proposed budget amount was actually a small decrease (0.5%) over the 1988 actual/estimated amount. It appears that AT&T may have understated the proposed budget amount. The proposed budget amount was provided by the Deaf Trust after review by the Deaf Trust. CACD, however, recommends that the Commission adopt the proposed budget amount for the 1989 budget.

**Network Equipment** - The proposed budget contains \$511,736 for network equipment. Two elements make up this budget item. One budget element consists of an estimate of \$191,736 to cover the costs of the "System 85", TDDs and modems utilized by the CRS. The \$191,736 represents approximately a 5% increase over the 1988 actual/estimated amount. CACD believes that the amount of \$191,736 is appropriate and recommends that the Commission adopt this amount for the 1989 budget. The other budget element consists of \$320,000 which is AT&T's estimate of the cost of developing and implementing the Computerized Operator Position Information System (COMPIS). AT&T indicates that COMPIS is a mechanized billing system which will replace the manual billing method currently in use at CRS. The present billing method requires the completion of manually-prepared billing tickets which are forwarded to Pacific Bell for processing. CACD believes that the development of a COMPIS-type system should be undertaken because this type of a system could result in operational cost savings. It is unclear however what the magnitude of these operational savings might be. CACD notes that AT&T did not provide any estimates of such operational savings. On the contrary, AT&T informed CACD that AT&T believes that AT&T will experience no

operational cost savings if COMPIS is developed and implemented. No information on operational cost savings to Pacific is available at this time. Since the \$320,000 amount is included in the proposed budget filed by the Deaf Trust, it appears that the Deaf Trust believes that the expenditure for COMPIS is appropriate. Due to the lack of any analysis of the possible operational cost savings, CACD recommends that the Commission include the \$320,000 amount in the 1989 budget and require the following process to be followed prior to AT&T or any other utility requesting reimbursement from the Deaf Fund of any costs for developing and implementing a COMPIS-type system:

1. The Deaf Trust file by letter requesting the Commission to authorize the recovery from the Deaf Fund of the estimated costs associated with the development and implementation of a COMPIS-type system. The letter of request should be served on parties to the I. 87-11-031 proceeding and should include the following:
  - A. A description of the COMPIS-type system which is proposed.
  - B. The total estimated cost of developing and implementing the the proposed COMPIS-type system.
  - C. The total estimated operational cost savings estimated to result from the implementation of the proposed COMPIS-type system.
  - D. An analysis by the Deaf Trust of the estimated costs and operational cost savings which provides support for the recommendation to the Commission that the Commission authorize the development and implementation of the proposed COMPIS-type system.
2. Workpapers which provide the basis for the estimated cost and operational cost savings should be provided to CACD on the same date as the letter of request discussed in Item 1, above is filed.
3. A period of 30 days should be allowed for parties to file comments on the letter of request.
4. The letter of request from the Deaf Trust should be placed before the Commission by CACD for approval by resolution action.



Relay Operator Services - The proposed budget contains \$7,171,579 for relay operator services associated with CRS. Included in this proposed budget item are the labor expenses including pensions and benefits for the CRS operators. AT&T indicates that this proposed budget amount is an increase of approximately 24% over the 1988 actual/estimated amount. AT&T further indicates that this estimated increase in expenses is principally due to the following three factors: (1) an estimated increase in call volumes to be handled by CRS; (2) a 3% forecasted wage and salary increase per the 1989 Communications Workers of America labor contract; and (3) an increase in overhead expenses associated with the forecasted increase in wages and salaries.

This proposed budget for relay operator services is the largest single budget item contained in the proposed budget set forth in Exhibit 1 attached to this Analysis. This proposed budget item also is the most questionable of all of the proposed budget items because the proposed budget amount reflects an estimated increase in call volumes which does not appear to be supported by recent actual data and there are certain inconsistencies in AT&T's estimates. AT&T's position that its workpapers and other data provided to CACD in support of the proposed budget amount are proprietary makes it difficult for CACD to provide a detailed discussion of the issues involving actual and estimated call volumes as well as the inconsistencies in AT&T's estimates in this Analysis. It is the position of CACD that the proposed budget amount was provided by the Deaf Trust after review by the Deaf Trust. CACD does not believe that it is appropriate for CACD to recommend that the Commission decrease this proposed budget amount. As will be discussed in section VII - Recommendations of this Analysis, CACD does believe that the Deaf Trust should be required to provide quarterly reports to the Commission which reflect the claims made by the utilities and paid by the Deaf Trust for 1989 for the SB 244 program. Such a reporting requirement will provide the Commission with the ability to monitor the ongoing activities associated with the provision of service under this program. For the reasons stated above, the discussion of the proposed budget amount for the Relay Operator Services which follows will reflect aggregated rather than specific data.

AT&T has provided the actual call volumes for the first 10 months of 1988. The actual call volumes for the period of January through April of 1988 show little change month-to-month based on a comparison of the average calls per day for each month. From May through August of 1988 the average calls per day increase by approximately 24%. A portion of this increase in call volumes is due to the lifting by the Commission of the constraints imposed on claims from the Deaf Fund. The average calls per day for August

compared to September show a decrease and the average calls per day for October show a decrease compared to September. The average calls per day for October shows an increase of approximately 13% over the average calls per day for April. It should be noted that seasonal variations can account for a portion of these changes in average calls per day. AT&T estimates that the November call volume will increase by approximately 5% over October and that December call volumes will decrease by approximately 1% from November compared to December. CACD does not believe that this pattern of increases and decreases in call volumes indicated by AT&T's estimates compared to actual data are realistic. CACD believes that the call volumes for November and December will be approximately equal to the October call volumes. CACD therefore concludes that AT&T's estimates of call volumes for the 3 remaining months of 1988 are likely overstated.

For the first 9 months of 1988 AT&T has claimed approximately \$4.1 million in expenses for Relay Operator Services from the Deaf Fund. When requested by CACD to estimate the expenses for this item for the remainder of 1988, AT&T responded with an estimate that an additional \$1.7 million would be required for the remaining 3 months of 1988. Based on the recorded call volumes provided by AT&T for the first 9 months of 1988 and the estimated call volumes provided by AT&T for the remaining 3 months of 1988, CACD determined the average cost per call reflected by the \$4.1 million in expense and the estimated \$1.7 million in expense. The results indicated an increase in the cost per call of approximately 15%. Since this 15% increase in cost per call is not explained and since CACD's position is that the 1988 estimated call volumes provided by AT&T are overstated, CACD believes that the estimate of \$1.7 million for the expenses for the remaining 3 months of 1988 are also overstated.

To build its 1989 budget amount of \$7,171,579, AT&T first develops a baseline budget which reflects the 1988 wage and salary levels which is then adjusted to reflect the estimated 3% increase in wages and salaries as well as a 3% increase in pension and benefit expenses for 1989. This adjusted amount which is reflected in the 1989 budget amount is approximately \$5.85 million. To this amount AT&T adds an adjustment of approximately \$1.35 million to reflect the Relay Operator Services expenses associated with AT&T's estimated increase in call volume for CRS of approximately 14.7% for 1989. The 14.7% increase in call volumes is intended to reflect the impact on the CRS call volume of the growth in the number of TDDs in service and the impact of an expanded outreach program. CACD believes that an increase in call volumes of approximately 15% is appropriate. However, while CACD supports the estimated increase in call volume for CRS by approximately 15%, as discussed above CACD believes that the 1988 actual/estimated call volume to which

AT&T has applied this estimated increase in demand is overstated. The result therefore is that the proposed budget amount of \$7,171,579 is likely overstated.

The additional \$1.35 million which is the AT&T adjustment for the estimated growth in call volume for 1989 over 1988 was developed by AT&T by applying a cost per call for Relay Operator Services to the total estimated call volume for 1989. AT&T developed this cost per call for Relay Operator Services for 1989 by developing an actual cost per call based on the actual costs for the first 8 months of 1988 and increasing this actual cost per call by 6%. This 6% increase in expense is made up of the estimated 3% increase in wages and salaries and an increase of 3% which is unexplained. CACD notes that the method used by AT&T appears to be accounting twice for a portion of the estimated increase of 3% in wages and salaries. The baseline estimated amount of \$5.85 million was adjusted for the estimated 3% increase in wages and salaries and the additional \$1.35 million also reflects an adjustment for the estimated 3% increase in wages and salaries for the total estimated 1989 call volume. CACD concludes therefore that the proposed budget amount of \$7,171,579 is also likely overstated by the unexplained 3% increase in expense applied by AT&T as well as the apparent duplication of costs associated with the estimated 3% increase in wages and salaries.

**Associated Staff Expense** - The proposed budget contains \$1,610,382 for Associated Staff Expense for CRS. Included in this expense category are the costs of management and designated support staff at CRS. AT&T indicates that this amount is an increase of approximately 36% over the 1988 actual/estimated amount. The ratio of the actual Associated Staff Expense for the first 9 months of 1988 to the actual Relay Operator Services expense for the same period is approximately 0.23. The ratio of the estimated 1989 Associated Staff Expense to the estimated 1989 Relay Operator Services expense is approximately 0.22 which CACD believes suggests that the estimated Associated Staff Expense for 1989 is in proper proportion to the Relay Operator Services expense for 1989. However, since CACD believes that the estimated 1989 Relay Operator Services expense is likely overstated, CACD also believes that the estimated 1989 Associated Staff Expense is also likely overstated for the same reasons. It is the position of CACD that the proposed budget amount was provided by the Deaf Trust after review by the Deaf Trust. (See section VII - Recommendations of this Analysis for discussion of the CACD proposed reporting requirement and the CACD recommendations on the amount which should be adopted for the 1989 budget.)

Furniture and Office Equipment - The proposed budget contains \$46,144 for furniture and office equipment associated with the CRS. AT&T indicates that this amount is an increase of approximately 42% over the 1988 actual/estimated amount. A review of AT&T claims to the Deaf Trust for the first nine months of 1988 indicates that a single claim of approximately \$16,000 was made. This \$16,000 item is described by AT&T as a quarterly amount for "lounge furniture". If the \$16,000 amount is a quarterly expense, the annual amount for 1988 would be approximately \$64,000 which is greater than the proposed budget amount. AT&T also indicates that this expense category can be expected to grow by 3% for 1989 over 1988. CACD believes that the proposed budget amount of \$46,144 is appropriate and recommends that the this amount be adopted by the Commission for the 1989 budget.

#### Administrative Costs

Accounting (Not Customer Records) - The proposed budget reflects \$163,789 for 1989 for Accounting expenses which are not associated with customer records. These accounting expenses include an estimated \$163,200 for Pacific associated with the processing of the message billing tickets for CRS calls and an estimated \$589 for General associated with the preparation of a monthly statement to the Deaf Trust covering billings under the SB 244 program.

Pacific's estimated expense of \$163,200 is based on recorded data for the first 6 months of 1988 which has been annualized and increased by 20% to reflect an estimated increase in CRS call volume and other expenses for 1989. CACD believes that Pacific's method of estimating the 1989 expense is appropriate. However, Pacific's estimate of a 20% increase in expenses may be overstated when compared to the approximately 15% increase in CRS call volume estimated by AT&T. It is the position of CACD that the proposed budget amount was provided by the Deaf Trust after review by the Deaf Trust. CACD does not believe that it is appropriate for CACD to recommend that the Commission decrease this proposed budget amount. (See section VII - Recommendations of this Analysis for discussion of the CACD proposed reporting requirement and the CACD recommendations on the amount which should be adopted for the 1989 budget.)

Other Costs - The proposed budget contains \$2,559,877 for other costs. Included in this proposed budget amount are \$2,549,267 for AT&T estimated expenses and \$10,610 for CTA estimated expenses.

The estimated \$2,549,267 for Other Costs for AT&T reflects the allocation of common corporate type costs such as for expenses for executive management, treasury services and legal counsel. AT&T developed this estimate by establishing a baseline estimate for Other Costs for 1989 and increased this baseline estimate to reflect the estimated increase in wages and salaries of 3% as well as AT&T's estimated growth in CRS call volume. As discussed above, CACD believes that AT&T's estimate of 1989 CRS call volume is likely overstated. Since approximately 20% of AT&T's estimate of \$2,549,267 for Other Costs is based on AT&T's estimated increase in CRS call volume, CACD believes that this estimate for Other Costs for 1989 is also likely overstated. It is the position of CACD that the proposed budget amount was provided by the Deaf Trust after review by the Deaf Trust. CACD does not believe that it is appropriate for CACD to recommend that the Commission decrease this proposed budget amount. (See section VII - Recommendations of this Analysis for discussion of the CACD proposed reporting requirement and the CACD recommendations on the amount which should be adopted for the 1989 budget.)

The \$10,610 proposed budget amount for Other Costs for CTA reflects the estimated costs of a CTA representative participating on the proposed RAC. This proposed budget amount includes the cost of a representative as well as the associated travel and lodging expenses. Since the proposed budget reflects the creation of the RAC, CACD believes that this proposed budget amount is appropriate and recommends that the Commission adopt this amount for the 1989 budget,

#### VI - ANALYSIS OF THE BUDGET FOR THE SB 60 PROGRAM

The SB 60 program provides for specialized or supplemental telephone communications equipment at no charge to subscribers who are certified disabled. Exhibit 1 (page 4) contains the proposed budget for this program as submitted by the Deaf Trust. As indicated by the cover letter contained in Exhibit 1 from the Deaf Trust, the proposed budget for the SB 60 program is provided by the Deaf Trust and reflects information provided by the participating utilities and/or their representatives. The CACD analysis, discussion and recommendations on the appropriateness of these requested budget amounts are set forth below in this section of this Analysis. The CACD review is based on the 1989 budget as filed on November 14, 1988 by the Deaf Trust, workpapers provided by the participating utilities or their representatives and responses to CACD data requests.

The format of Exhibit 1 page 4 displays the proposed budget for the SB 60 program with proposed budget amounts stated for Pacific, General, CTA and INDEP (Roseville and Continental). The CTA amounts reflect the costs of equipment provided by the 18 smaller telephone companies and the costs of the CTA employee who provides consulting service for equipment related services under the terms of a contract between CTA and all of the local exchange companies except Pacific and General. Among the equipment activities provided by the CTA are such activities as training utility employees to handle requests from the disabled customers for specialized and supplemental equipment and customer instruction on the care and use of such equipment.

#### Equipment Purchases

The proposed budget reflects a total of \$2,197,006 for the purchase of additional equipment under the SB 60 program. Pacific's portion of this amount is \$1,401,199. Pacific's proposed budget amount is based on 8 months of actual data for 1988 which was annualized for the full year and grown by 20% for 1989 to reflect the increase in demand due to an outreach program. In the development of the proposed budget amount for 1989, Pacific also reflected a 10% increase in the purchase prices of the equipment over the 1988 purchase prices of the equipment. General's portion of the total is \$697,238. This proposed budget amount represents an increase of approximately 10% over the 1988 actual/estimated amount. CACD believes that the proposed budget amounts for Equipment Purchases for Pacific and General are appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

The CTA portion of the total proposed budget amount for SB 60 Equipment Purchases is \$50,580. This estimate is based on a specific estimate of purchases for various pieces of equipment. The CTA estimates of purchases appear to be appropriate and CACD recommends that the Commission adopt the proposed budget amount for the 1989 budget.

The proposed budget for 1989 contains \$47,989 for Roseville and Continental for Equipment Purchases. This proposed budget amount reflects the 1988 actual/estimated level of equipment purchases increased by 20% to reflect an outreach program. CACD believes that this proposed budget amount is appropriate and recommends that the Commission adopt the proposed budget amount for the 1989 budget.

## Services

The proposed budget includes a total of \$381,291 for the provision of Touch Tone and Speed Calling which are two features provided by the local exchange companies through the use of equipment located in central offices of the local exchange companies. These two features are provided to the disabled under the SB 60 program.

The proposed budget reflects \$141,576 for Touch Tone service and \$227,347 for Speed Calling service for 1989 for Pacific. Pacific indicates that these amounts are based on the actual "average monthly billings" to date for 1988 grown by 20% for 1989. CACD notes that it appears that these estimates are based on the monthly rates presently in effect under Pacific's tariffs for these services. CACD also notes that the costs of providing these services are less than the tariffed rates for these services. CACD concludes that the proposed budget amounts for Pacific are likely overstated because the proposed budget amounts are based on tariffed rates for these services rather than the cost of providing such services. The proposed budget amounts were provided by the Deaf Trust after review by the Deaf Trust. CACD does believe that the Deaf Trust should be required to specifically address the issue of cost recovery versus tariff rate recovery from the Deaf Fund for these services. Therefore, CACD recommends that the Commission adopt the proposed budget amounts for Pacific for the 1989 budget and require the Deaf Trust to provide revised estimates to CACD for these proposed budget items based on the cost of providing Touch Tone service and Speed Calling service by March 31, 1989. These revised estimates will be for information purposes only and should not be deemed a request by the Deaf Trust for a revision to the adopted budget. These revised estimates for 1989 should also include any amounts previously paid by the Deaf Trust for claims in which the claim was based on the tariff rates rather than the cost of providing these services.

The proposed budget contains \$6,000 for Touch Calling service and \$3,000 for Speed Dialing service for General for 1989. General indicates that these amounts for 1989 reflect current levels of service for 1988. In response to a CACD data request requesting the actual amounts which General has charged to the Deaf Fund for these two services for 1988, General states, "No billings have been charged to the Trust as of yet. This Accounting Procedure has now been worked out and will be charged to the Trust for reimbursement by the end of 1988." Based on the information provided by General,

it appears that General intends to recover from the Deaf Fund for the provision of Touch Calling service and Speed Calling service based on the presently tariffed rates for these services rather than for the cost of providing such services. General's position with regard to recovery from the Deaf Fund for amounts based on tariffed rates for these services rather than for the cost of providing these services to the disabled is the same position which Pacific has taken. CACD therefore believes that the same recommendations discussed above for Pacific should also apply to General. CACD recommends that the Commission adopt the proposed budget amounts for General for 1989 and require the Deaf Trust to provide revised estimates to CACD for these proposed budget items based on the cost of providing Touch Calling service and Speed Calling services by March 31, 1989 for General consistent with the CACD recommendations stated above for proposed budget amounts for Pacific.

The proposed budget includes \$1,347 for Touch Tone service and \$2,021 for Speed Calling service provided by Roseville and Continental. These amounts are based on the actual 1988 levels which have been annualized and increased by 20% for 1989 to reflect the outreach program. CACD believes these proposed budget amounts are appropriate and recommends that the Commission adopt these amounts for the 1989 budget subject to the same CACD recommendations proposed above for the proposed amounts for Pacific and General for the same services if Roseville and Continental are or intend to charge the Deaf Fund based on tariffed rates rather than for the costs of providing Touch Tone and/or Speed Calling services.

#### Assistance Centers

The Assistance Centers including the field representatives provide services to customers under both the SB 597 program and the SB 60 program. Therefore the proposed budget amounts shown for Assistance Centers under the SB 60 program are a proration of the total costs of the Assistance Centers including field representatives between the SB 597 program and the SB 60 program. The proposed budget for Pacific and CTA reflects a proration of 40% of these costs to the SB 597 program and 60% of these costs to the SB 60 program. The proposed budget for General reflects a proration of 35% of these costs to the SB 597 program and 65% of these costs to the SB 60 program. The proposed budget for Roseville and Continental reflects actual 1988 costs which have been annualized and increased by 20% for 1989. This increase of 20% is based on an outreach program for 1989. Since the proposed budget amounts of Pacific, General and CTA for Assistance Centers under the SB 60 program are based on prorations between the SB 597 program and the SB 60 program, CACD does not believe that it is necessary for the purposes of this Analysis to provide further discussion of the



proposed budget amounts for the Assistance Centers under the SB 60 program. Therefore, the discussion and CACD recommendations set forth in section IV - Analysis of the Budget for the SB 597 Program of this Analysis apply to the proposed budget amounts set forth in Exhibit 1 for the SB 60 program.

#### Handling Charges

The proposed budget for 1989 contains an amount of \$423,748 as the total of the Handling Charges associated with the SB 60 program. There are two categories of expenses included under Handling Charges. Warehousing and Distribution expenses are estimated as \$376,640 and Repair expenses are estimated as \$47,108 for 1989.

The proposed budget includes \$86,482 for Warehousing and Distribution costs for 1989 for Pacific. CACD requested Pacific to provide the 1988 actual amounts for Warehousing and Distribution costs for the SB 60 program and the percent change for 1989 compared to 1988. Pacific responded that these costs were combined with the Direct Labor and Expense costs for Assistance Centers during 1988 and are not separately stated. CACD has no basis for comparison of this amount with actual data. Pacific has provided workpapers which show the development of proposed budget amount for 1989. Pacific's workpapers indicate that the vendor which provides the distribution and warehousing for the equipment provided by Pacific under the SB 60 program does not charge Pacific for warehousing. The charge to Pacific from Pacific's vendor for distribution of equipment is less than \$2.00 per item of equipment. Approximately \$50,000 of the \$86,482 estimated cost is for shipping. CACD believes that the proposed budget amount of \$86,482 is appropriate and recommends that the Commission adopt this amount for the 1989 budget.

The proposed budget includes \$284,604 for Warehousing and Distribution costs for 1989 for General. CACD requested General to provide the 1988 actual amounts for Warehousing and Distribution costs for the SB 60 program and the percent change for 1989 compared to 1988. General responded with 1988 actual data which includes 1987 costs. A comparison between General's actual 1988 data and the 1989 estimated costs is thus inappropriate. CACD therefore has no basis for specific comparison of the estimated 1989 proposed budget amount with actual data. General did provide sufficient data for CACD to offer comments on General's estimated 1989 costs. A review of the information provided by General indicates that General's Warehousing and Distribution costs for the SB 597 equipment are significantly greater than such costs as estimated by Pacific. Taking into consideration the relative size of the serving area and number of customers served by Pacific compared to General, CACD

believes that General's Warehousing and Distribution costs should be more in line with Pacific's. While CACD does not believe that General's estimated costs are inappropriate, CACD does believe that the Deaf Trust should encourage General to bring its Warehousing and Distribution costs for the SB 60 program more in line with Pacific's costs, and closely scrutinize all claims for reimbursement. Based on the information provided by General, CACD believes that the estimate of \$284,604 is appropriate for 1989 and recommends that the Commission adopt this amount for the 1989 budget.

The proposed budget reflects estimates of \$3,784 for CTA and \$1,770 for Roseville and Continental as estimates for Warehousing and Distribution costs for 1989. The CTA proposed budget amount is based on the allocation of floor space to the warehousing of SB 60 equipment. The \$1,770 for Roseville and Continental reflect 1988 actual/estimated expenses increased by 20%. CACD believes that these two proposed budget amounts are appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

Included in the proposed budget for the SB 60 program is a total of \$47,108 for Repairs. The proposed budget amounts for Repairs for Pacific, General and CTA are \$15,000, \$20,000 and \$2,500 respectively. No 1988 actual/estimated amounts were provided by Pacific, General and CTA. CACD has no basis for comparison of these amounts with actual data. CACD has no specific comments or recommendations on these proposed budget amounts.

The proposed budget reflects an estimate of \$9,608 Roseville and Continental as an estimate for Repair costs for 1989. This proposed budget amount reflects 1988 actual/estimated expenses increased by 20%. CACD believes that this proposed budget amount is appropriate and recommends that the Commission adopt this amount for the 1989 budget.

#### Administrative Costs

The proposed budget for Administrative Costs associated with the SB 60 program attached to this Analysis as Exhibit 1 appears to be in error. The Administrative Costs for CTA are not correctly stated when compared to the workpapers provided by CTA. The errors appear to be with regard to the amounts shown for Customer Records and Other Costs. The correct display of proposed budget amounts for CTA should be \$19,180 for Accounting (Not Customer Records) and \$900 for Customer Records. The Totals for these Administrative Costs are also incorrectly stated. The Total Cost for the SB 60 program remains as shown in Exhibit 1. The discussion and recommendations which follow for Administrative Costs assume that the amounts shown in Exhibit 1 are shown correctly.

The proposed budget for 1989 includes a total of \$43,774 for Accounting costs which are not related to customer records. This total reflects \$4,556 in Accounting cost for General, \$19,180 in Accounting cost for CTA and \$20,038 in Accounting costs for Roseville and Continental. General's Accounting costs are based on the allocation of the work time of an accountant to the SB 60 program for 1 day per month. The CTA proposed budget amount reflects a proration of the costs of preparing monthly reports for the SB 60 program as well as a proration of the costs associated with the DTAC activities including travel expenses. The Accounting costs for Roseville and Continental are based on the 1988 actual/estimated expenses increased by 20%. CACD believes that these proposed budget amounts are appropriate and recommends that the Commission adopt these proposed budget amounts for the 1989 budget.

The proposed budget for 1989 includes a total of \$162,209 for Customer Record costs for 1989. Included in this total amount is an amount of \$112,000 for Pacific. Pacific indicates that this expense reflects the costs of changing or adding to customer records related to the SB 60 program. Pacific's estimated cost is based on a cost per service order for such activities of \$5.00. The amount of \$42,250 for General is related to the same activities. General also based its estimate on a cost of \$5.00 per service order. CACD believes that these proposed budget amounts appear to be appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

The proposed budget reflects an estimates of \$900 for CTA and \$7,059 for Roseville and Continental as estimates for Customer Record costs for 1989. The CTA proposed budget amount is based on the proration of the costs associated with the development of a program to computerize customer records and inventory controls. The \$7,059 for Roseville and Continental reflect 1988 actual/estimated expenses increased by 20%. CACD believes that these two proposed budget amounts are appropriate and recommends that the Commission adopt these amounts for the 1989 budget.

The proposed budget contains an amount of \$19,851 for Other Administrative Costs for 1989 for Roseville and Continental. This proposed amount reflects 1988 actual/estimated expenses increased by 20%. CACD believes that this proposed amount is appropriate and recommends that the Commission adopt this proposed amount for the 1989 budget.

## VII - RECOMMENDATIONS

The preceding sections of this Analysis contain the specific CACD comments and recommendations on revenues for funding the programs for the deaf and disabled; administrative expenses associated with the oversight of these programs by the Deaf Trust; and the proposed budgets for 1989 for the SB 597, SB 244 and SB 60 programs. The following is a brief summary of the CACD recommendations discussed in each of the previous sections of this Analysis:

### Revenues - (See section II of this Analysis) CACD Recommends:

1. That the inconsistencies in the present tariffs which cover the application of the present 0.5% billing surcharge be corrected
2. That the present billing surcharge of 0.5% should be revised in mid-March based on the adopted budget level for 1989 and a properly estimated 1989 surcharge billing base.
3. That the adopted billing surcharge reflect toll revenues based on a growth in CRS call volumes of 15% over the 1988 estimated call volumes.
4. That the adopted surcharge level should reflect interest on the Deaf Fund balance computed as proposed by the Deaf Trust at an interest rate of 7%.

### Administrative Expenses - (See section III of this Analysis) CACD Recommends:

1. That a budget level of Administrative Expenses associated with the oversight of these programs of \$383,000 should be adopted for 1989.

### SB 597 Program - (See section IV of this Analysis) CACD Recommends:

1. That a budget level of \$4,568,040 as proposed by the Deaf Trust should be adopted.
2. That the Deaf Trust should be required to retain and provide to CACD upon request all information discussed in this Analysis concerning General's claims for prior years' telephone expenses.

3. That the Deaf Trust be required to provide a revised estimate as discussed in this Analysis of the proposed budget items for administrative expenses for Pacific which are eliminated or reduced if the settlement agreement is adopted and implemented.

**SB 244 Program - (See section V of this Analysis)  
CACD Recommends:**

1. That a budget level of \$17,224,803 as proposed by the Deaf Trust should be adopted.
2. That the Deaf Trust should be required to seek Commission approval following the procedure as discussed in this Analysis for the implementation of a COMPIS-type system prior to authorizing payment of any claims from the providers associated with such a system.
3. That the Deaf Trust should be required to provide quarterly reports of the amounts claimed by providers and the amounts paid to providers under the SB 244 program.

**SB 60 Program - (See section VI of this Analysis)  
CACD Recommends:**

1. That a budget level of \$5,814,586 as proposed by the Deaf Trust should be adopted.
2. That the Deaf Trust be required to provide a revised estimate as discussed in this Analysis of the proposed budget items for Touch Tone service and Speed Dialing service based on the costs of providing these services rather than the tariffed rates for these services.

As indicated in the summary of recommendations shown above, CACD recommends that the Commission adopt the proposed budgets for the programs for the deaf and disabled as filed by the Deaf Trust. The perspective which CACD has used in its review of the proposed budgets filed by the Deaf Trust is that the Deaf Trust is responsible for the administration of these programs. The Deaf Trust has requested budget levels for these programs which the Deaf Trust believes are appropriate. These proposed budget levels are necessarily based on estimates and assumptions. While CACD believes that some budget items may be either overstated or understated, on balance, the overall budget provides sufficient funding to maintain the fiscal integrity of the Trust. CACD believes that the critical element in the Commission oversight of the provision of these programs should be that the Deaf Trust properly evaluates proposed expenditures as well as properly evaluates the basis for the claims

for payment by the service providers for such expenditures and not the establishment of budget levels.

CACD believes that the subject of an outreach program for 1989 provides an example of the problem which the Commission faces in determining whether or not to revise the proposed budget. The budget proposed by the Deaf Trust reflects the assumption that there will be an expanded outreach program in 1989. CACD is not aware of any specifics of the expanded outreach program which is reflected in the proposed budget filed by the Deaf Trust. On the one hand many of the proposed budget items reflect an estimated increase in cost based on the assumption that an expanded outreach program will be undertaken for 1989. On the other hand it appears that no specific expanded outreach program has been developed by the Deaf Trust which supports the estimated increases in proposed budget levels. If the Commission adopts the budget levels proposed by the Deaf Trust and there is no expanded outreach program, the result may be that the general body of ratepayers will be asked to support a funding level which is too high. If the Commission decreases the proposed budget levels to remove the estimated increases in costs associated with an expanded outreach program because there is no specific outreach program proposed and the Commission later determines that an outreach program is appropriate, any adjustment in the customer billing surcharge will result in increased costs to the Deaf Fund to implement and will likely cause increased customer confusion for the general body of ratepayers.

As a solution to this problem of no specific outreach program and proposed budgets which reflect an outreach program, CACD recommends that the Commission require the Deaf Trust to indicate by letter to the Commission on or before February 10, 1989 whether or not the Deaf Trust will develop an expanded outreach program for 1989. CACD further recommends that if the Deaf Trust indicates that no expanded outreach program will be developed for 1989, the Commission should require the Deaf Trust to provide a revised budget reflecting no expanded outreach program. Such a revised budget should be for information purposes and should not be deemed a request to revise the adopted budget. CACD also recommends that if the Deaf Trust indicates that an expanded outreach program will be developed and implemented for 1989, the Commission should require the Deaf Trust to provide the specifics of the expanded outreach program to the Commission on or before March 31, 1989. The specifics of the expanded outreach program should include (1) the type of outreach program (i.e. television advertisements, radio

advertisements, newspaper advertisements, community meetings, utility bill inserts, etc.); (2) the estimated cost of the the expanded outreach program; (3) the time frame during which the expanded outreach program will be undertaken; and (3) the estimated impact on demand for the deaf and disabled services which is expected to result from the expanded outreach program.

While CACD believes that certain of the proposed budget items set forth in Exhibit 1 are questionable, CACD is recommending that the Commission adopt the proposed budgets as filed by the Deaf Trust. CACD believes that the proposed budget for the SB 244 program is especially questionable due to the estimates and assumptions which are reflected in the proposed budget for this program. However, rather than recommend that the Commission adopt a budget which is different than the budget proposed by the Deaf Trust for the SB 244 program, CACD recommends that the Commission establish a reporting requirement for this program. Such a reporting requirement will provide the Commission with the ability to monitor the expenditures associated with the SB 244 program.

The format of the claims by AT&T for payment from the Deaf Fund are in the same format as the proposed budget items listed for the SB 244 program in Exhibit 1 attached to this Analysis. AT&T files a claim form with the Deaf Trust for each month. CACD believes that these claim forms should be the basis for a quarterly report which CACD recommends that the Commission require the Deaf Trust to file for the SB 244 program. This quarterly report should be provided for each 3 month period of 1989 and should be filed within 30 days after the end of the quarter covered by the quarterly report. In addition to the information contained in the monthly claim forms, the quarterly reports should also indicate the average cost per call for CRS for each month. This average cost per call is to be developed by dividing AT&T's "Total Costs" for the month (based on the format of page 3 of Exhibit 1) by the actual monthly call volume for CRS for the same month. This average cost per call for each period in 1989 is to be compared to the actual average cost per call determined by the same method for all of 1988. Each quarterly report should contain a comparison between the average cost per call for CRS for 1988 with the average cost per call for the quarter of 1989 covered by the quarterly report. In each instance where the 1989 cost per call exceeds the 1988 average cost per call by more than 10.0%, CACD recommends that the Commission require the Deaf Trust to provide a detailed explanation, as a part of the quarterly report, which indicates the basis for the increase in the cost per call of more than 10.0%.

CACD recommends that the Commission adopt a total budget for the deaf and disabled programs of \$28,000,500 which is the amount requested by the Deaf Trust. CACD also recommends that this total budget amount be the amount which is authorized by the Commission for recovery from the general body of ratepayers through the billing surcharge mechanism for funding the programs for the deaf and disabled. CACD believes that this funding level will provide an appropriate funding level for these programs. Exhibit 1 as filed by the Deaf Trust indicates that the Deaf Trust estimates that the balance for the Deaf Fund carried over from 1988 to 1989 will be \$2,797,164. CACD does not recommend that this carry over amount be included in the development of the billing surcharge for 1989. Because of the uncertainties of the estimates upon which the 1989 proposed budget is based, CACD recommends that the Commission require the Deaf Trust to retain this approximately \$2.8 million as a contingency fund which can be used to fund these programs during 1989 based on a specific request by the Deaf Trust for additional funds in excess of the adopted budgeted amount and a determination by the Commission that such additional funds are necessary.



EXHIBIT 1



DEAF TRUST ADMINISTRATIVE COMMITTEE

November 14, 1988

Interested Parties to OII 87-11-031:

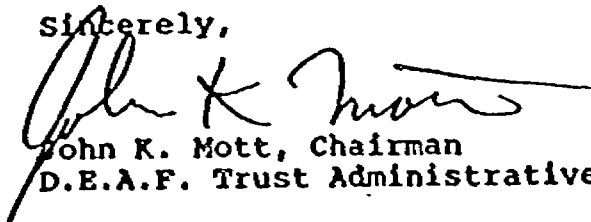
Attached is the revised 1989 program budget for providing telecommunications equipment and services to the deaf and disabled. Revisions made were as a result of information gained from the November 9, 1988 budget workshop sponsored by CPUC staff.

In accordance with CPUC Resolution T-13023, the D.E.A.F. Trust Administrative Committee prepared this summary budget using cost estimates supplied by the participating telephone companies, except where indicated.

The total program budget depicts three surcharge scenarios, from .3% to the present .5%. The revenue stream produced at these surcharge levels can only be estimated by CACD at this time. If the estimates prove accurate, a surcharge rate of .3% should be adequate to fund the Trust's 1989 program budget. In this case, the Administrative Committee will most likely recommend lowering the surcharge rate early in 1989.

Should you have any questions on this matter please call Mr. Richard Fish of the Commission Staff on (415) 557-2401, or me on (415) 542-7066.

Sincerely,

  
John K. Mott, Chairman  
D.E.A.F. Trust Administrative Committee

Attachments

1989

14-Nov-88

DEAF AND DISABLED TELECOMMUNICATIONS PROGRAM  
REVISED TOTAL PROGRAM BUDGET

	SURCHARGE ASSUMPTION		
	.3% SURCHARGE	.4% SURCHARGE	.5% SURCHARGE
UNENCUMBERED FUNDS - BEGINING	\$2,797,164	\$2,797,164	\$2,797,164
ADD: RECEIPTS			
* SURCHARGES	\$30,458,993	\$40,611,991	\$50,764,989
TOLL REVENUES	\$330,379	\$330,379	\$330,379
INTEREST	\$350,000	\$700,000	\$1,050,000
TOTAL RECEIPTS	\$31,139,372	\$41,642,370	\$52,145,368
TOTAL FUNDS AVAILABLE	\$33,936,536	\$44,439,534	\$54,942,532
LESS: DISBURSEMENTS			
SB 597	\$4,568,040	\$4,568,040	\$4,568,040
SB 244	\$17,224,803	\$17,224,803	\$17,224,803
SB 60	\$5,814,586	\$5,814,586	\$5,814,586
TOTAL TELCO EXPENSE	\$27,607,429	\$27,607,429	\$27,607,429
ADMINISTRATIVE EXPENSE			
TRUSTEE	\$22,000	\$32,000	\$37,000
LEGAL	\$24,000	\$24,000	\$24,000
AUDIT	\$20,000	\$20,000	\$20,000
INSUR	\$75,000	\$75,000	\$75,000
DTAC	\$200,000	\$200,000	\$200,000
EPAC	\$16,000	\$16,000	\$16,000
RAC	\$16,000	\$16,000	\$16,000
CONTINGENCIES	\$20,000	\$20,000	\$20,000
TOTAL ADMIN EXPENSE	\$393,000	\$403,000	\$408,000
TOTAL DISBURSEMENTS	\$28,000,429	\$28,010,429	\$28,015,429
UNENCUMBERED FUNDS - ENDING	\$5,936,107	\$16,429,105	\$26,927,103

Surcharge estimate provided by CACD

1989

14-Nov-88

**DEAF AND DISABLED TELECOMMUNICATIONS PROGRAM  
REVISED SB 597 PROGRAM BUDGET DETAIL**

	AT&T	*PACIFIC	**GTE	CTA	***INDEP	TOTAL
<b>EQUIPMENT PURCHASES:</b>						
TDD'S		\$593,988	\$300,600	\$2,500	\$33,522	\$930,610
SIGNALING DEVICES		\$35,490	\$10,440			\$45,930
<b>ASSISTANCE CENTERS:</b>						
DIRECT LABOR AND EXPENSE		\$913,362	\$564,330	\$26,000	\$10,550	\$1,514,242
ASSOCIATED STAFF EXPENSE		\$476,805	\$12,255	\$5,162	\$2,094	\$496,316
OPER SERV FOR DEAF (AT&T)	\$554,500					\$554,500
<b>TRAINING CHARGES:</b>						
WAREHOUSING AND DIST.		\$37,041	\$235,905	\$1,990	\$1,770	\$276,706
REPAIRS		\$318,159	\$52,736	\$2,400	\$9,608	\$392,903
<b>ADMINISTRATIVE COSTS:</b>						
ACCT. (NOT CUSTOMER RECORDS)		\$203,000	\$25,490	\$12,785	\$20,038	\$261,313
CUSTOMER RECORDS		\$30,000	\$22,750	\$500	\$7,059	\$60,409
OTHER			\$15,250		\$19,851	\$35,111
CONTINGENCIES			\$59,000			\$59,000
<b>TOTAL COSTS:</b>	\$554,500	\$2,607,845	\$1,308,766	\$51,437	\$104,492	\$4,568,040

\*Based on forecast distribution of 1700 TDDs.

\*\*Based on forecast distribution of 900 TDDs.

\*\*\* Total small independent company expenses estimated by Trust staff based on annualized 1988 expenses.

1989

14-Nov-88

**DEAF AND DISABLED TELECOMMUNICATIONS PROGRAM  
REVISED SB 244 PROGRAM BUDGET DETAIL**

	*176T	PACIFIC	GTE	CTA	DDEP	TOTAL
<b>CALIFORNIA RELAY SERVICE:</b>						
BUILDING	\$498,284					\$498,284
NETWORK USAGE	\$4,663,012					\$4,663,012
NETWORK EQUIPMENT	\$511,736					\$511,736
RELAY OPERATOR SERVICES	\$7,171,579					\$7,171,579
ASSOCIATED STAFF EXPENSE	\$1,610,382					\$1,610,382
FURNITURE AND OFFICE EQUIP	\$46,144					\$46,144
REPAIRS AND MAINTENANCE						
MISCELLANEOUS						
<b>ADMINISTRATIVE COSTS:</b>						
ACCT.(NOT CUSTOMER RECORDS)		\$163,200	\$589			\$163,789
CUSTOMER RECORDS						
OTHER COSTS	\$2,549,267			\$10,610		\$2,559,877
<b>TOTAL COSTS:</b>	<b>\$17,050,404</b>	<b>\$163,200</b>	<b>\$589</b>	<b>\$10,610</b>	<b>\$0</b>	<b>\$17,224,803</b>

\* Based on estimated average call volume of 263,000 calls per month.

1989

14-Nov-88

**DEAF AND DISABLED TELECOMMUNICATIONS PROGRAM  
REVISED SB 60 PROGRAM BUDGET DETAIL**

	AT&T	*PACIFIC	**GTE	CTA	***INDEP	TOTAL
<b>EQUIPMENT PURCHASES:</b>						
EQUIPMENT		\$1,401,199	\$697,238	\$50,580	\$47,889	\$2,197,006
<b>SERVICES:</b>						
TOUCH-TONE		\$141,576	\$6,000		\$1,347	\$148,923
SPEED CALLING		\$227,347	\$3,000		\$2,021	\$232,368
<b>ASSISTANCE CENTERS:</b>						
DIRECT LABOR AND EXPENSE		\$1,370,040	\$430,059	\$39,000	\$10,550	\$1,849,649
ASSOCIATED STAFF EXPENSE		\$715,207	\$14,595	\$5,162	\$2,094	\$737,058
<b>HANDLING CHARGES:</b>						
WAREHOUSING AND DIST.		\$86,452	\$284,604	\$3,784	\$1,770	\$376,640
REPAIRS		\$15,000	\$20,000	\$2,500	\$9,608	\$47,108
<b>ADMINISTRATIVE COSTS:</b>						
ACCT. (NOT CUSTOMER RECORDS)			\$4,556		\$20,038	\$24,594
CUSTOMER RECORDS		\$112,000	\$42,250	\$19,180	\$7,059	\$180,489
OTHER COSTS				\$900	\$19,851	\$20,751
<b>TOTAL COSTS:</b>	\$0	\$4,068,851	\$1,502,302	\$121,106	\$122,327	\$5,814,586

\*Based on forecast distribution of 27420 items of SB 60 equipment.

\*\*Based on forecast distribution of 12000 items of SB 60 equipment.

\*\*\* Total small independent company expenses estimated by Trust staff based on annualized 1988 expenses.

## ATTACHMENT 2

### COMMENTS OF THE CALIFORNIA ASSOCIATION OF THE DEAF

By letter dated November 29, 1988, the Bay Area Center for Law and the Deaf, on behalf of the California Association of the Deaf (CAD), provided comments on the proposed program budget distributed by the Deaf Trust on November 14, 1988. CACD's comments are summarized below.

#### SB 597 Program (TDD Distribution)

##### 1. OUTREACH

- CAD recommends that increased and effective outreach efforts be undertaken. CAD notes that GTE's customers appear to be more aware of the program than Pacific's customers and recommends that Pacific in particular undertake a more vigorous outreach program.
- CAD believes that there should be an amount specifically budgeted for outreach.
- CAD notes that although Pacific budgets for brochures, GTE does not.
- CAD recommends bill inserts be used for outreach and proposes that an amount be put into the budget for bill inserts.

##### 2. FORECAST OF TDDS TO BE DISTRIBUTED IN 1989

- CAD is concerned that if their proposal for increased outreach is adopted, the number of TDDs distributed in 1989 will be higher than what has been forecasted.
- CAD recommends that in case their proposal for increased outreach is adopted sometime in 1989, either the forecast for TDDs to be distributed in 1989 be increased and the budget set accordingly or, a contingency amount be put into the budget to allow for underestimated demand.

##### 3. TDD REPAIR COSTS

- CAD points out that the ratio of Pacific's TDD repair costs is high compared to the ratio of General's TDD repair costs.
- CAD says that Pacific's high repair costs suggest that Pacific's costs could be reduced if Pacific distributed the same equipment and/or had similar repair procedures as GTE.

#### 4. PACIFIC'S ACCOUNTING COSTS

- CAD states that Pacific indicates that their \$203,000 in accounting costs "could be reduced or almost entirely eliminated", if the Trust Administration is reorganized. CAD says it is unclear whether this cost would simply be shifted to an administrative budget or actually reduced or eliminated.
- CAD notes that the budget includes administrative expenditures clearly based on the proposed reorganization and says that it is not clear whether some of the accounting expenses included in Pacific's accounting costs are being double budgeted in the Administrative Expense items.
- CAD recommends that the budget be either based on the proposed reorganization or be presented in the alternative.

#### 5. COMMENTS ON GTE'S BUDGET

- CAD states that GTE's \$72,000 per year in furniture rental seems high and proposes that purchase might be an option.
- CAD questions why GTE budgets for additional costs and contingencies for the SB 597 program and not for the SB 60 program.
- CAD points out that GTE's budget for warehousing and distribution appears quite large in comparison to Pacific's budget.
- CAD says it is unclear whether GTE's customers receive better service.

#### 6. PACIFIC'S CORPORATE OVERHEAD LOADING RATIO

- CAD points out that Pacific's corporate overhead loading ratio is higher than GTE's.
- CAD poses the question of whether Pacific's ratio would be as high if Pacific were not a monopoly.

#### SB 60 Program (Supplemental Equipment for the Disabled)

##### 1. COMMENTS ON GTE'S BUDGET

- CAD points out that GTE's budget for warehousing and distribution appears quite large compared to Pacific's budget.

##### 2. PACIFIC'S ACCOUNTING COSTS



- CAD expressed the same concerns and made the same recommendations in regard to Pacific's accounting costs as expressed in # 4., above.

### 3. INCREASE IN EQUIPMENT COSTS

- CAD notes that the increase in equipment costs forecasted for 1989 is higher than inflation.

### 4. DIFFERENCES IN NUMBERS AND TYPES OF SB 60 DEVICES DISTRIBUTED BY THE TELCOS

- CAD is concerned about the large discrepancies that exist between Pacific and GTE in the numbers and types of the various SB 60 devices distributed by each company.
- CAD believes that these discrepancies indicate inconsistent program implementation that should not exist.

### SB 244 Program (California Relay Service)

#### 1. EXPENSE OF 800 CALLS

- CAD recommends that consideration be given to having AT&T and Pacific provide 800 calls at cost. CAD suggests that in exchange the telephone companies could retain the toll revenues currently returned to the Deaf Trust.
- CAD notes that during busy periods many calls made to the CRS are answered by a recording that asks callers to call back later. CAD understands that the CRS must pay an 800 line usage charge for each call answered this way and recommends that callers get a busy signal instead so that no charge is incurred.

### Overall Program

- CAD recommends that a periodic (quarterly) newsletter be mailed to all deaf and disabled program beneficiaries. CAD recommends that the newsletter come from the new DTAC rather than the individual telephone companies. CAD recommends that the expense for this should be part of the DTAC's budget.