

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-14043
TELECOMMUNICATIONS BRANCH January 9, 1990

R E S O L U T I O N

RESOLUTION T-14043. REQUEST BY PACIFIC BELL TO OFFER
ENHANCED 911 SERVICES UNDER TARIFF.

BY ADVICE LETTER NO. 15643, FILED ON NOVEMBER 22, 1989.

SUMMARY

This resolution authorizes Pacific Bell's (Pacific) request to offer Enhanced 911 (E-911) services under tariff on a provisional basis for 24 months. E-911 services include Selective Routing, Automatic Number Identification and Automatic Location Identification. This authorization provides the means of transitioning E-911 services from contract to tariff, which was requested by the state Department of General Services (state 911 program management) to meet its need for rate stability. Additionally, E-911 service is increasingly becoming the norm rather than the exception to Basic 911 service, which is currently tarified. Pacific's rates for E-911 will be reduced about 18%, or an estimated \$4.5 million annually.

During the 24-month provisional period, Pacific will track costs, revenues and other data on a monthly basis and report this data quarterly to the Commission Advisory and Compliance Division (CACD), Telecommunications Branch Chief within 45 days of the quarter-end. Within nine months of the effective date of this resolution, Pacific will provide the CACD with an update of the October 1987 E-911 cost study containing all actual development, equipment and other costs associated with implementing the tarified E-911 service. The rates filed under Advice Letter No. 15643 on November 22, 1989, are provisional and subject to adjustment to reflect the adjustments made to the E-911 cost study.

BACKGROUND

The "Emergency Telephone Surcharge" was enacted by the Legislature in 1976 to pay for statewide implementation of 911, and first began appearing on telephone bills in August 1977. Originally set at 0.5% (one half of one percent) of certain intrastate charges, the Board of Equalization at the Department of General Services' recommendation recently increased the rate to 0.69%. The statutory limit is 0.75%.

In 1976, after trials dating back to 1972, 911 service was first "tariffed" as a public offering of Pacific. This original 911 service was what is now known as "Basic" 911 -- a direct "hard-wired" hookup between the local exchange company's (LEC's) telephone switch (central office) and the 911 attendant (or "Public Safety Answering Point, PSAP"). While meeting the basic requirements of the 911 emergency concept, "Basic" 911 service is technologically limited in flexibility and functions due to the direct hookup and older electromechanical telephone switches. "Enhanced" 911 was developed in response to these limitations, and was first introduced in 1976 under contract with a local public safety agency. In this context, "enhanced" is not used to connote "enhanced services" as defined by the Federal Communications Commission (FCC).

Enhanced 911 (E-911) allows 911 calls to be routed to the appropriate PSAP by the LEC's telephone switch, as well as being able to display the originating phone number and location of the caller to the PSAP. The latter is obviously critical to timely and effective emergency response. The former is important, since the LEC's central office boundaries usually do not match political boundaries, and the direct "hard-wired" hookup of Basic 911 often results in calls being manually transferred by the 911 attendant and taking up precious time. In 1987, the Legislature recognized the need for E-911 and directed a plan for statewide implementation to be prepared. The resulting plan targets completion by 1992, and pivots on the completion of LECs' equipment modernization (digital switches) and cooperation among local agencies and LECs. To date, 25 of California's 58 counties are served by E-911, which is why including the E-911 Service in Pacific's tariff as a public offering is being requested. According to the Department of General Services (the agency that assists with contract negotiations and administers 911 service throughout the state) there are approximately 212 separate contracts between local agencies and Pacific for E-911 service.

PROTESTS

The CACD has received no protests to this advice letter.

DISCUSSION

Initially, Pacific's cost methodology for determining the tariffed prices for this service was based on a fully distributed cost study. Subsequent to a review of Pacific's October 1987 rate proposal by the state Department of General Services and its consultant, Economics and Technology Incorporated (ETI), adjustments were made by Pacific, making the cost study submitted to the CACD in Fall 1989 a direct embedded study. The Department of General Services' interest in the E-911 tariff is very serious, due to its statutory responsibility for administering the statewide 911 program and disbursing the funds generated by the Emergency Telephone Surcharge. In reviewing Pacific's proposal, ETI identified several areas in which it believed Pacific overestimated the costs associated with E-911. For instance, ETI suggested that Pacific overstated

investment costs by relying completely on the Switching Cost Information System (SCIS) model, and not considering existing facilities already in place for E-911.

ETI also expressed concern about the assignment of overheads. In keeping with the fully distributed costing method, Pacific assigned portions of all overhead costs to E-911. ETI argued that some of these costs were inappropriately assigned or overstated. One reason for higher cost estimates was the shorter average depreciation life attributed to E-911 equipment. ETI didn't argue with this short depreciation life, but rather, found fault with Pacific not identifying any cost savings -- costs that are below average cost associated with the service. For instance, there may be cost savings due to efficient utilization of capacity. Because Pacific knows the demand for E-911, there is no need for additional spare capacity. But Pacific still assigns a portion of the \$1 billion in plant resources to serve new demand to E-911. In addition, the existing assets and facilities already in place and the guaranteed cost recovery through the surcharge mechanism, lends support to the argument that some cost savings do occur.

As adjusted, Pacific's E-911 cost study submitted to the CACD does not reflect interim cost information associated with E-911 system development. Pacific has advised the CACD that development and operation costs associated with the E-911 Data Management System (DMS) are estimated to have increased approximately 47% from the cost study. Pacific has not evaluated the effect of the DMS on E-911 labor costs, nor any other efficiencies which may result from the substantial system enhancement which DMS represents. Additionally, Pacific was unable to specifically allocate equipment costs associated with the Southern California E-911 system. The CACD recommends that during a provisional E-911 tariff period, Pacific provide the Commission with an E-911 cost study "true-up" to reflect additional cost data since the 1987 study and to address these questions.

E-911 is funded by a surcharge levied on ratepayers, is mandated by law (AB 320 requires statewide implementation of E-911 by 1992) and is a monopoly service in that no other provider offers the service nor is able to offer the service. Clearly, access to control office switching equipment and dedicated trunk lines can only be provided by the LECs. The establishment of PSAPs (Public Safety Answering Points), database management and software development could conceivably be competitive areas of this service. However, the LECs would need to provide the customer information for the databases used by E-911 services. Until the Commission addresses the issue of competitive access to LEC customer information, database management is essentially precluded as a competitive service offering as well. Further, under MFJ waiver LECs are able to supply PSAPs with Customer Premises Equipment. More importantly, there is no existing or historical evidence of competitive bidding done for any aspect of 911 or E-911 service.

Since E-911 is a monopoly service paid for through a surcharge mechanism, this Commission should establish rates for this service that are as close to cost as possible. For rate design of monopoly services, the Commission's goal has been to have basic exchange rates approach the most efficient cost of service (D.88-07-022). It should not be the Commission's intent to have 911 services subsidized by other revenues, but rather, to keep the charges as low as possible while ensuring that all costs associated with the service are recovered. The tariffed rates proposed produce a revenue/cost ratio of 1.0; that is, they are compensatory and are consistent with the "revenue true-up" ordered to initiate the new regulatory framework on January 1, 1990 (D.89-12-048).

In order to monitor the costs and revenues associated with E-911, Pacific should track costs, revenues and other data as determined in consultation with CACD on a monthly basis; and report this data quarterly to the Commission Advisory and Compliance Division (CACD), Telecommunications Branch Chief within 45 days of the quarter-end. Further, to resolve questions regarding the actual cost of E-911 system development, Pacific should provide CACD with an update of the E-911 cost study containing all actual development, equipment and other costs associated with implementing the tariffed E-911 service within nine months of the effective date of this resolution. The rates filed under Advice Letter No. 15643 on November 22, 1989, should be provisional and subject to adjustment to reflect this cost study adjustment.

FINDINGS

1. In 1987, the Legislature directed that a plan for statewide implementation of Enhanced 911 be prepared. There are approximately 212 separate contracts between local agencies and Pacific for E-911 service.
2. In this context, "enhanced" is not used to connote "enhanced services" as defined by the Federal Communications Commission (FCC).
3. As adjusted, Pacific's E-911 cost study submitted to the CACD does not reflect interim cost information associated with E-911 system development.
4. The CACD recommends that during a provisional E-911 tariff period, Pacific provide the Commission with the adjustments which should be made to the E-911 cost study to reflect additional cost data since the 1987 study and to address questions regarding actual development costs.
5. The rates filed under Advice Letter No. 15643 on November 22, 1989, should be provisional and subject to adjustment to reflect the adjustments made to the E-911 cost study.
6. E-911 is funded by a surcharge levied on ratepayers, is mandated by law and is a monopoly service in that no other provider offers the service nor is able to offer the service.

7. For rate design of monopoly services, the Commission's goal has been to have basic exchange rates approach the most efficient cost of service (D.88-07-022). It should not be the Commission's intent to have 911 services subsidized by other revenues, but rather, to keep the charges as low as possible while ensuring that all costs associated with the service are recovered.

8. Starting the tariffed E-911 rates at a revenue/cost ratio of 1.0 is consistent with the "revenue true-up" ordered to initiate the new regulatory framework on January 1, 1990 (D.89-12-048).

9. In order to monitor the costs and revenues associated with E-911, Pacific should track costs, revenues and other data as determined in consultation with CACD on a monthly basis; and report this data quarterly to the Commission Advisory and Compliance Division (CACD), Telecommunications Branch Chief within 45 days of the quarter-end.

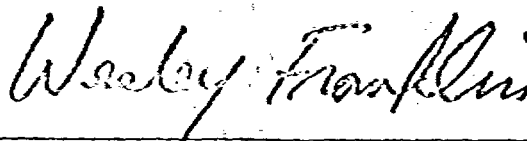
THEREFORE, IT IS ORDERED that:

1. Pacific Bell's request in Advice Letter No. 15643 to tariff Enhanced 911 Service is authorized on a provisional basis. The provisional period shall be from January 9, 1990 to January 8, 1992.
2. Within nine months of the effective date of this resolution, Pacific shall provide the CACD with the adjustments which should be made to the E-911 cost study, containing all actual development, equipment (including the Southern California system) and other costs associated with implementing the tariffed E-911 service. The rates filed under Advice Letter No. 15643 are provisional and subject to adjustment to reflect the adjustments made to the E-911 cost study.
3. By April 30, 1990, Pacific shall reach agreement with the CACD on the methodology it will use to present the E-911 cost study adjustments, and what cost elements will be adjusted.
4. Pacific shall track costs, revenues and other data as determined in consultation with CACD on a monthly basis; and report this data quarterly to the Commission Advisory and Compliance Division (CACD), Telecommunications Branch Chief within 45 days of the quarter-end.
5. Advice Letter No. 15643 and the accompanying tariff sheets shall be marked to show this resolution's number and effective date.

6. The effective date of this resolution is today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 9, 1990. The following Commissioners approved it:

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



WESLEY FRANKLIN
Acting Executive Director

Commissioner Stanley W. Hulett,
being necessarily absent, did
not participate.