

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION RESOLUTION NO. T-14159
Telecommunications Branch September 25, 1990

R E S O L U T I O N

T-14159. PACIFIC BELL. REQUEST TO EXCEED COMMISSION LEVELS PREVIOUSLY AUTHORIZED FOR THE PROVISIONAL SALES AGENCY PROGRAM.

BY ADVICE LETTER NOS. 15790 AND 15791, FILED ON AUGUST 14, 1990 AND AUGUST 16, 1990, RESPECTIVELY.

SUMMARY

This resolution authorizes Pacific Bell (Pacific) to offer commissions greater than 8 to 16% of the first year's recurring revenue for several new services in its Sales Agency Program. These commission levels are authorized because 1) they do not exceed the cost of Pacific Bell sales staff to sell the product(s), 2) they are less than the recurring revenues for the minimum period of service that qualifies for payment of commission, and 3) they are reasonable.

No protests were filed.

BACKGROUND

On October 31, 1988, Pacific filed Advice Letter No. 15472, requesting authorization to introduce the Sales Agency Program and Network Marketing Agreement. Resolution T-13032 authorized the program provisionally for two years, including commission levels of 8 to 16% of annual recurring revenues for the initial offering of Centrex lines and Commstar features.

The Sales Agency Program allows Customer Premises Equipment (CPE) vendors to become authorized sales representatives for Pacific's Network and Exchange Services. These authorized representatives market specified services on a commission basis, at the rates and charges and within the regulations as set forth in Pacific's tariffs. Although the authorized sales agents sell the network services, Pacific retains complete responsibility for installing, maintaining, and billing the tariffed network services.

Resolution T-13032 directed that inclusion of additional products and services in the sales agency program, renewal of the sales agency program, and changes in pricing terms or conditions for sales commissions are subject to Commission approval through the Advice Letter procedure set forth in General Order 96-A. (Advice

letters filed by local exchange companies are generally effective no sooner than the 40th calendar day after the filed date unless authorization by the Commission is obtained first.) Resolution T-13032 provided that changes that are minor in nature, such as changes in the geographical areas in which sales agents may operate, changes within the approved range of commission payments, or a change in contract duration, may be made without formal Commission review. Pacific, however, must inform the Commission in writing 10 days in advance of such changes; Pacific has accomplished this by filing "Memorandum Notifications" with the Commission Advisory and Compliance Division (CACD).

Advice Letter No. 15790 proposes to add Digital Data Service, Advanced Digital Network, and High Capacity Service (HiCap) to the list of products that may be sold by Sales Agents. Advice Letter No. 15791 adds Custom 800 Service. The authorized sales agents will be allowed to sell these services at the tariffed rates and charges and will be paid a commission for the sale of these services. The commission would be \$1300 for each two-point HiCap circuit, \$700 for each two-point Digital Data Service, \$500 for each two-point Advanced Digital network Circuit and \$350 for each Custom 800 line, with \$50 for the optional Call Handling and Destination feature. The commission will be paid within 30 days after the installation. The service must remain in place a minimum of 6 months or 100% of the commission earned from the sale will be debited from future commissions. The rates, as a percentage of annual recurring revenues are:

Digital Data Service 39%
Advanced Digital network 42%
Custom 800 Service 28%
Hi-Cap Service 33%

In Resolution T-13032, commission rates were authorized at 8 to 16% of annual recurring revenues.

PROTESTS

Pacific served copies of Advice Letters 15790 and 15791 on all competing and adjacent utilities and/or other utilities and interested parties. In addition copies were mailed to parties on the service list for A.85-01-034, A.87-01-002, I.87-11-033.

No protests were filed.

DISCUSSION

At the inception of the Sales Agency Program, this Commission was concerned that Pacific Bell would be able to sell the products included in the program more cheaply than the sales agents. In Resolution T-13032, Pacific was required to track commission payments and demonstrate that its commission costs were not higher than its selling costs. In late January 1990, Pacific provided "the results of its study (using accepted work measurement methods) of its own costs to sell Centrex and

Commstar II systems" required by Ordering Paragraph 5 of Resolution T-13032. After reviewing Pacific's results in detail and the comparative commission costs of the Centrex and Commstar II sales agency programs (reported by Pacific on a quarterly basis), the CACD staff concluded that Pacific had demonstrated that the sales commission levels authorized in Resolution T-13032 are reasonable.

The CACD performed a comparable review of Pacific's instant request and concluded that Pacific has demonstrated that the proposed commission rates are less than Pacific Bell's cost of selling these products. The proposed rates are also less than the expected recurring revenues from the minimum service period. Therefore, the proposed commissions for these services being added to the Sales Agency Program appear to be reasonable.

FINDINGS

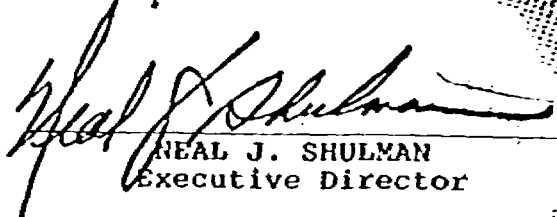
1. Pacific filed Advice Letters 15790 and 15791 on August 14, 1990 and August 16, 1990, respectively, requesting authorization for higher commission rates for new products in the Sales Agency Program [Digital Data Service, Advanced Digital Network, High Capacity Service (HiCap) and Custom 800 Service].
2. For these new Sales Agency Program products, sales agents (sales representatives) will receive commission payments that are 29-42% of the recurring first year revenues (depending on the service sold), greater than the 8-16% range previously approved by the Commission in Resolution T-13032.
3. Inclusion of additional products and services in the Sales Agency Program, renewal of the program, and changes in pricing terms or conditions for sales commissions are subject to CPUC approval through the advice letter process.
4. The proposed Sales Agency commissions for these products are below Pacific's costs of selling the products. The commission costs will be less than the recurring revenues that accrue during the six month minimum in-service period required to earn a commission.

IT IS ORDERED that:

1. The Sales Agency commission rates proposed for Digital Data Services, Advanced Digital Network, High Capacity Service, and Custom 800 Service are reasonable.
2. Advice Letters 15790 and 15791 are approved.

3. The accompanying tariff sheets in Schedule Cal. P.U.C. No. A2, Network and Exchange Services; B2, Private Line Services; and 175-T, Access Service, shall be marked to show that such sheets were authorized by Resolution T-14159 and the effective date.
4. The effective date of this Resolution is today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 25, 1990. The following Commissioners approved it:


NEAL J. SHULMAN
Executive Director

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
PATRICIA M. ECKERT
Commissioners

Commissioner John B. Ohanian,
being necessarily absent, did
not participate.