

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Telecommunications Branch

RESOLUTION T-14688
December 18, 1991

R E S O L U T I O N

RESOLUTION T-14688. PACIFIC BELL. REQUEST TO INCREASE RATES FOR RESIDENTIAL INSIDE WIRE REPAIR PLAN, TO MODIFY RULES GOVERNING THE REPAIR OF RESIDENTIAL AND SIMPLE BUSINESS INSIDE WIRE SERVICES SO THAT CHARGES FOR ISOLATING TROUBLE TO CUSTOMER-PROVIDED EQUIPMENT ARE ELIMINATED, AND TO CHANGE THE CHARGE FOR PREMISES REPAIR VISITS FROM A FLAT FEE TO A TIME-SENSITIVE SCHEDULE.

BY ADVICE LETTER 16019A, FILED AUGUST 7, 1991.

SUMMARY

Pacific Bell (Pacific), by supplemental Advice Letter (AL) 16019A filed August 7, 1991 (originally filed as AL 16019 on July 18, 1991) requests authority to modify its current tariff for repair of simple inside wire services. These modifications would (1) eliminate the present charges for isolating trouble caused by customer-provided equipment (CPE), (2) incorporate that function--at no additional charge--in the proposed rates for repairing residential and simple business inside wire services, (3) increase the rate for the recurring residential inside wire repair plan, and (4) change the structure of charges for visits made to customers' premises to repair residential and simple business inside wire from a flat-rate to a time-sensitive charge. Pacific requests that this filing become effective on March 1, 1992.

Utility Consumers' Action Network (UCAN) protested ALs 16019 and 16019A.

The Commission Advisory and Compliance Division (CACD) received several hundred letters from Pacific customers commenting on Pacific's proposed restructuring and repricing.

NOTICE/PROTESTS

Pacific has provided notice of this advice letter, per G.O. 96-A, to all competing utilities, adjacent utilities, and all other utilities and interested parties having requested such notification, and mailed a bill insert notice to all of its residential and simple business customers. Notification of Pacific's AL 16019A appeared in the Commission's Daily Calendar on August 9, 1991.

A protest to AL 16019 and to AL 16019A was filed by the Utility Consumers' Action Network.

The Telecommunications Branch of the Commission Advisory and Compliance Division has received 338 letters from Pacific customers commenting about the proposed restructuring of inside wire maintenance (IWM) rates and charges. Over three-fourths of the letters complained about the price increases for Pacific's per month and per visit IWM services.

BACKGROUND AND DISCUSSION

Inside wire is the telephone wire that connects CPE to the telephone network at a demarcation point, such as the protector on the outside of a single-family residence. In its 1983 Report and Order in CC Docket No. 82-681 and in the 1986 Second Report and Order in CC Docket No. 79-105, the Federal Communications Commission (FCC) ordered the detariffing of installation and maintenance of both simple and complex inside wire. The California Public Utilities Commission (Commission) first determined that detariffing the maintenance and installation of inside wire would be in the public interest in Decision (D.) 86-07-049, and in D.86-12-099, ordered the local exchange companies to detariff (remove from direct rate regulation) inside wire. The purpose of these actions by the Commission and the FCC was to promote competition for inside wire maintenance services, first, by enabling entry into the market and, second, by pricing services so that costs were placed on customers causing the costs. (D.86-12-099, p.3)

The Commission had concerns with the FCC's deregulation decision, however, noting that the utilities would have a natural competitive advantage over other firms in providing IWM services. In D.86-12-099 the Commission ordered the utilities to treat revenues and expenses from IWM above-the-line, that is, as a part of the regulated revenue requirement. The Commission also petitioned the FCC and the U.S. Court of Appeals to reconsider full deregulation of inside wire. The FCC denied the Commission's petition, but recognized California's jurisdictional right to treat IWM costs and revenues above-the-line. Subsequently, in Senate Bill 155 (1989), the California Legislature confirmed the Commission's above-the-line treatment of IWM revenues and expenses, and on July 7, 1989, the U.S. Court of Appeals found in favor of the Commission (880 F. 2d 422), before the U.S. Court of Appeals.

D.90-06-069 ordered Pacific to submit simple IWM cost and pricing information to all parties of record and required CACD to comment as to whether or not Pacific's IWM prices were reasonable. CACD submitted its comments on Pacific's IWM, saying:

There appears to be an inequity between Pacific's residential IWM Monthly Plan rate and Pacific's business IWM Monthly Plan rate and its residential and business Per Visit IWM charge . . . CACD recommends that unless there is an agreement, including tariff language changes, . . . these proceedings should be reopened.

CACD also expressed concern that Pacific was misapplying its maintenance of service charge (MSC) to its residential and simple business customers who do not have a standard network interface (SNI). (An SNI is a device that provides a modular jack at or near the network demarcation point, and allows customers to isolate problems to their inside wire, telephone set or cord.) Since an MSC is currently applied when a residential or simple business customer reports a service interruption that results in a visit to the customer's premises and the trouble is found to be in CPE, an SNI enables customers to avoid utility charges if they choose. The Division of Ratepayer Advocates (DRA) also submitted comments on Pacific's IWM cost study, stating that some of Pacific's IWM "rates are not reasonable."

On January 30, 1991, Pacific responded to both CACD and DRA's comments and submitted revised IWM cost information.

On March 1, 1991, the assigned Administrative Law Judge issued a ruling ordering a prehearing conference for March 19, 1991, to address, among other things, the subject of Pacific's IWM pricing policies. On March 21, 1991, a further ruling was issued, stating:

Pacific and CACD agreed that a settlement on the issue [simple IWM pricing policies] would not be required; pursuant to its agreement with CACD, Pacific would propose tariff changes by way of advice letter filing. . . . CACD stated a concern that customers are confused about utility charges for diagnostic visits and distinctions between inside wire and telephone equipment. CACD stated that it would work toward alleviating this confusion.

Subsequently, CACD held numerous informal meetings with Pacific, DRA, TURN (Toward Utility Rate Normalization) and UCAN regarding Pacific's revised IWM cost study, charges for diagnostic visits, and customer education material. On July 18, 1991, Pacific filed AL 16019 and, on August 7, 1991, filed AL 16019A supplementing AL 16019. In AL 16019A Pacific requested authority to change its current tariff description of simple inside wire repair in such a way that the charge for isolating trouble caused by CPE would be included in the charge for repair of residential and simple business services. To offset this change Pacific requested authority to increase the price of its residential monthly inside wire repair plan. Pacific also proposed changing the basis of

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its per visit inside wire repair of residential and simple business services from a flat fee to a time-sensitive schedule. Specifically, Pacific proposed increasing its monthly repair plan for residence service from 50 cents to 60 cents, leaving the rate for the simple business plan at \$1.00 per month, and revising the premises visit fees as follows:

- o For residential customers the fee would change from the current \$65 flat charge to \$45 for the first 15-minute increment and \$16 for each subsequent 15-minute increment.
- o For simple business customers the fee would change from the current \$65 charge for the first hour with a maximum of \$90 to \$55 for the first 15-minute increment and \$16 for each subsequent 15-minute increment.

The \$35 maintenance of service charge (for isolating trouble to CPE) would be eliminated for both residence and simple business services.

A protest to Pacific's AL 16019 was filed by UCAN on July 31, 1991. UCAN's main concerns were (1) the disposition of the increased revenues from proposed changes in IWM rates/charges and MSC changes, (2) how to improve customer education about inside wire repair options and policies, and (3) the lack of accurate information regarding the competitiveness of the inside wire repair marketplace. UCAN believes that any revenues in excess of increased IWM costs should be credited to residential customers. In a response filed August 7, 1991, DRA gave its support to Pacific's original filing by stating, "DRA fully supports the Commission authorization of the increase in rates and charges as well as restructuring of Maintenance of Service Charge as set forth in AL 16019." Based on analyses of Pacific's revised IWM cost study, DRA retracted its earlier statement that Pacific's IWM rates were not reasonable.

In its supplemental advice letter and its response dated August 12, 1991, Pacific answered UCAN's protest by agreeing with UCAN's concern related to the disposition of increased revenues from proposed changes in its IWM services and recommended that, "any increase in revenue due to changes in rates be treated as a 2-factor adjustment [to Pacific's rates as adjusted annually under the terms of the new regulatory framework established by D.89-10-031]."

UCAN responded to Pacific's supplemental advice letter on August 22, 1991, stating that it was pleased with Pacific's proposal to include increased revenues as a 2-factor adjustment in its price cap filing for 1992. UCAN expressed its continuing concerns, however, for improving customer education on inside wire repair options and policies and for the impact Pacific's proposed changes will have on the inside wire marketplace.

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In its October 1, 1991 price cap filing Pacific did include a 2-factor adjustment refunding increased revenues resulting from the repricing of inside wire maintenance rates and charges in AL 16019A. On October 21, 1991, DRA protested Pacific's 1992 price cap filing. Among other things, DRA recommended that "the Commission require Pacific to include both 1992 and 1993 IWM revenue requirement reductions in the amount of \$7,370,000, i.e., a one time adjustment of \$3,350,000 plus an ongoing adjustment of \$4,020,000, in its 1993 Price Cap filing effective January 1, 1993. Consequently, starting with the 1994 Price Cap filing, Pacific should be required to reduce its revenue requirement by \$4,020,000 to reflect the ongoing annual IWM revenue requirement impact."

Pacific responded to the price cap filing protest of DRA on October 29, 1991. Disagreeing with DRA's calculations, Pacific instead agreed to make annual price cap adjustments of \$3,874,000, plus "a one-time adjustment (in the 1993 price cap filing) to reflect the portion of 1992 during which the new IWM rates were effective." Pacific also noted that "DRA now agrees with Pacific's position"

We will accept Pacific's revised position as concurred in by DRA. The revenue requirement adjustments needed should be made in Pacific's 1993 price cap filing.

In accordance with customer notification requirements ordered in G.O. 96-A, Pacific mailed notification to its residential and simple business customers announcing the changes to its inside wire services. Pacific's bill insert solicited consumer comments on its proposed changes and asked subscribers to mail their comments to the Chief, CACD Telecommunications Branch. CACD has received 338 comment letters, the contents of which are summarized below. CACD will place them in the correspondence file of Application 85-01-034, Resolution T-14688.

Fully 82% of the letters complained about Pacific's proposed price increase for its per month and per visit IWM services; 6% communicated that they were confused about the insert and felt they were originally misled regarding their IWM responsibilities; 5% commented that the increase is reasonable; 3% stated that they would like to be dropped from the IWM monthly charge plan; and 2% of the comment letters contained comments from customers that they would like an SNI so they could diagnose their inside wire problems themselves.

Even though no response to these letters is required, Pacific wrote to CACD on November 12, 1991 stating, "We believe that the negotiations with CACD, DRA, TURN and UCAN produced the best solution for IWM. We do not believe that the IWM proposal is controversial. Pacific notified over 9 million customers of the price increase, and approximately 340 consumers responded. . . . Pacific believes these letters do not represent a significant protest."

As noted above, 2% of the comment letters received by CACD indicated customers do not know how to determine if their phone service interruption is their's or the utility's responsibility. One solution to the diagnosis problem is to install an SNI device that can physically separate inside wire from the utility's network. As long as a customer's service is modularized, these devices can assist homeowners in isolating phone service trouble because they provide a modular jack at or near the network demarcation point.

While the Commission has previously recognized that SNI devices are helpful when troubleshooting phone service interruptions, particularly for single-phone families, it concluded in D.90-06-069 that the cost of retrofitting all residences with an SNI outweighs the benefits which could be expected. Accordingly, the Commission left it to the discretion of the utility to undertake placement of these devices where it would make economic sense to do so.

Nevertheless, we agree with UCAN that customer education regarding inside wire repair, including the availability of SNIs, should be strengthened. We note, in this regard, that the legislature has recently added Section 788 to the Public Utilities Code, requiring California utilities to notify customers annually of the basic facts about their inside wire responsibilities. We support UCAN's request for up-to-date information regarding subscribers' knowledge of their inside wire responsibilities, and we will address the subject of more accurate information regarding the competitiveness of the inside wire repair marketplace in OII 84.

We believe that in addition to this mandated customer notification Pacific should augment the white pages of its directories to clarify the customer instructions for isolating telephone troubles to the telephone set and inside wire, and to add additional information about SNIs. We also believe that Pacific should take this opportunity to upgrade its notices (door hangers) left on the customer's premises when the customer is not present, expanding on the customer's options for inside wire services. Along with SNI information, Pacific should state that it can charge to repair or replace a protector damaged by the act of installing an SNI by other than utility personnel.

All customer notifications, directory changes, and door hanger changes should first be reviewed by the Public Advisor's Office and CACD.

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FINDINGS

1. Pacific Bell's AL 16019A contains necessary language conditioning approval upon Commission authorization. The advice letter and related tariffs are public documents.
2. D.90-06-069 ordered Pacific to submit simple IWM cost and pricing information to all parties of record in the Commission's investigation of IWM, and ordered CACD and DRA to comment on the study and as to whether simple IWM prices are reasonable.
3. CACD believes pricing inequities exist in Pacific's existing inside wire maintenance services, and recommended informal meetings to resolve outstanding issues. DRA commented that some of Pacific's IWM rates are not reasonable.
4. Pacific responded to both CACD and DRA's comments and submitted revised IWM cost information.
5. CACD held numerous informal meetings regarding Pacific's IWM pricing practices concluding with Pacific's filing AL 16019 and AL 16019A.
6. Pacific's AL 16019A requests authority to change its current tariff description of simple inside wire repair to include the isolation of CPE trouble in the monthly rate for inside wire repair, to increase the price of its per month inside wire repair plan for residential customers, and to change its per visit inside wire repair service rates from a flat fee to a time-sensitive schedule. Pacific requests authorization for its filing to become effective March 1, 1992.
7. UCAN expressed concerns with the disposition of increased revenues from Pacific's proposed changes to its IWM services, with improving customer education about inside wire repair options and policies, and with the lack of accurate information regarding the competitiveness of the inside wire repair marketplace.
8. Pacific agreed with UCAN's concern related to the disposition of increased revenues from proposed changes in its IWM services and stated that it would address the increase in revenues as a Z-factor adjustment in its October 1, 1992 price cap filing.
9. DRA protested Pacific's IWM Z-factor adjustment proposal, recommending that the Commission require Pacific to include both a one-time adjustment for 1992 and an ongoing adjustment for 1993 in its 1993 price cap filing effective January 1, 1993.

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10. \$3,874,000 is reasonable as an estimate of the ongoing annual revenue requirement impact for the changes Pacific proposes in AL 16019A. Pacific should make a price cap adjustment of that amount, plus a one-time adjustment to reflect the portion of 1992 during which the new IWM rates were effective, in its 1993 price cap filing.
11. Pacific mailed over nine million bill inserts to residential and simple business customers announcing its proposed IWM changes and directing any consumer comments to CACD.
12. CACD has received 338 comment letters, with over 80% complaining about Pacific's proposed IWM price increases.
13. A small portion of the comment letters received by CACD indicated customers do not know how to determine whether their phone service interruption is their's or the utility's responsibility.
14. The Commission has previously recognized that SNI devices are helpful when troubleshooting phone service interruptions, particularly for single-phone families.
15. D.90-06-069 left it up to the discretion of the utility to undertake placement of SNI devices where it would make economic sense to do so.
16. Additional customer education regarding SNI policies is appropriate.
17. The Legislature recently passed Senate Bill 841 (1991) adding Section 788 to the Public Utilities Code, requiring California telephone utilities to notify customers annually of the basic facts about their inside wire responsibilities.
18. Pacific should add to its legally-required message additional information about SNI devices. The notice should state that customers may install SNIs themselves, hire someone else to do it, or hire Pacific to install them at Pacific's tariffed rate.
19. In requiring this additional notice, we by no means authorize access to the utility's protector by non-utility personnel. The notice should also state clearly that SNI devices installed by the consumer or an independent vendor must be located at least 12 inches on the customer's side of the protector.

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20. Pacific can charge to repair or replace a protector damaged by the act of installing an SNI by other than utility personnel.
21. Pacific should augment the white pages of its directories to clarify the customer instructions for isolating telephone troubles to the telephone set and inside wire, and add additional information about SNI devices.
22. Pacific should upgrade its notices (door hangers) left on the customer's premises when the customer is not present, expanding on the customer's options for inside wire services.
23. All customer notifications, directory changes, and door hanger changes should first be reviewed by the Public Advisor's Office and CACD.
24. Inside wire prices have not changed in the five years since IWM service was introduced. Competitive, or potentially competitive utility services should be priced at or above embedded cost and we believe that the price increases proposed by Pacific in AL 16019A accomplish that.
25. The increases and changed conditions Pacific proposes in AL 16019A are justified, and the resulting rates and conditions are reasonable.
26. Pacific's AL 16019A meets the requirements set forth in previously mentioned Commission orders and G.O. 96-A, and should be approved.

THEREFORE, IT IS ORDERED that:


1. Authorization is granted to make the inside wire service tariff changes in Pacific Bell's Advice Letter 16019A effective on March 1, 1992.
2. Pacific Bell shall make a price cap adjustment of \$3,874,000 in its 1993 price cap filing to reflect the ongoing revenue requirement effects of the new inside wire maintenance (IWM) rates proposed in AL 16019A, plus a one-time adjustment to reflect the portion of 1992 during which the new IWM rates are effective.

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3. Pacific Bell shall include with the customer notification required by Public Utilities Code Section 788 additional information about standard network interface (SNI) devices. The notice shall state that customers may install an SNI device themselves, hire someone else to install it, or hire Pacific Bell to install an SNI at its tariffed rate. The notice shall also state clearly that SNI devices installed by the consumer or by an independent vendor must be located at least 12 inches on the customer's side of the protector and that Pacific Bell can charge to repair or replace a protector damaged by the act of installing an SNI by other than utility personnel.
4. Pacific Bell shall revise its door hanger notices which are left at customers' premises when customers are not present, to add additional information regarding options for inside wire services as discussed in this Resolution.
5. Pacific Bell shall augment the white pages of its directories to clarify the customer instructions for isolating telephone troubles to the telephone set and inside wire, including the information about SNI devices required in Ordering Paragraph 3.
6. All customer notifications and directory changes ordered in this Resolution shall be reviewed by the Public Advisor's Office and CACD.
7. Pacific Bell shall also add to its white pages the same notification information as ordered in Ordering Paragraph 3.
8. All tariff sheets filed under Advice Letter 16019A shall be marked to show that they were authorized by Resolution T-14688 of the Public Utilities Commission of the State of California.

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 December 18, 1991. The following Commissioners approved it:


NEAL J. SHULMAN
Executive Director

PATRICIA M. ECKERT
President
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners