

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Commission Advisory and Compliance Division
Telecommunications BranchRESOLUTION T-15682
January 24, 1994

R E S O L U T I O N

RESOLUTION T-15682. TO ESTABLISH THE DEAF AND DISABLED TELECOMMUNICATIONS EQUIPMENT AND SERVICE PROGRAMS (PUBLIC UTILITIES CODE SECTION 2881, ET SEQ.) 1995 ANNUAL BUDGET PURSUANT TO DECISION NO. 89-05-060.

BY COMPLIANCE FILING MADE BY THE DEAF AND DISABLED TELECOMMUNICATIONS PROGRAM ADMINISTRATIVE COMMITTEE ON OCTOBER 3, 1994.

SUMMARY

This Resolution adopts a 1995 annual budget of \$42,403,906 for the Deaf and Disabled Telecommunications Equipment and Service Programs, pursuant to Public Utilities Code Section 2881, et seq. This budget is \$255,038 or approximately 1% less than that proposed by the Deaf and Disabled Telecommunications Program Administrative Committee.

The 1995 annual budget is designed to reimburse (1) each participating utility for expenses it incurs in the Deaf and Disabled Telecommunications Programs required by Senate Bills 597, 244 and 60, and (2) the Deaf and Disabled Telecommunications Program Administrative Committee for its administrative expenses.

BACKGROUND

In compliance with state legislation, the Commission implemented three telecommunications programs for California residents who are deaf, hearing impaired, and disabled:

- o Telecommunications Devices for the Deaf (TDDs) distribution, per Senate Bill (SB) 597 (Chapter 1142, 1979);
- o Dual Party Relay System, using a third-party intervention, to connect persons who are deaf, severely hearing impaired, or speech impaired with persons of normal hearing, per SB 244 (Chapter 741, 1983);
- o Supplemental Telecommunications Equipment for persons who are disabled, per SB 60 (Chapter 585, 1985).

These programs are all funded by the Deaf and Disabled Telecommunications Program Consolidated Budget (Program Budget).

Decision (D.) 89-05-060 (I.87-11-030) established that the annual Program Budget be submitted to the Executive Director and approved by a Commission resolution in accordance with the procedure discussed in the Decision.

On October 3, 1994, the Deaf and Disabled Telecommunications Program Administrative Committee (DDTPAC) filed the 1995 Program Budget which totaled \$42,658,944. A copy of DDTPAC's proposed budget is attached as Appendix A to this Resolution.

NOTICE/COMMENTS

On October 3, 1994, DDTPAC sent copies of the proposed 1995 Program Budget to all parties of record to I.87-11-030. The Division of Ratepayer Advocates (DRA) filed comments on DDTPAC's Proposed Budget on October 17, 1994. DDTPAC replied to DRA's comments on November 1, 1994.

DRA's Comments

DRA recommends reducing DDTPAC's proposed expenses for the SB 244 components: California Relay Service (CRS) and the Operator Services for the Deaf (OSD), with Sprint and AT&T Communications of California, Inc. (AT&T), respectively, as the current providers.

DRA recommends a \$20,000 reduction to Sprint's proposed CRS budget of \$20,961,926¹. The amount of \$20,000 represents expenses for training of Sprint's employees. DRA believes that the current CRS provider should already have the necessary skills to perform its work. If Sprint's employees need additional training, DRA adds, then it should provide that training with its own resources.

DRA states that AT&T performed its analysis and forecast of the OSD budget in July, and at that time had only 1994 recorded data through the month of May. DRA explains that it requested the most up-to-date recorded data available from AT&T. In response,

1 The amount of \$20,961,926 represents only a part of the total \$21,514,922 proposed CRS budget (\$20,961,926 for CRS calls and \$552,996 for Desirable Costs). The Desirable Costs include: Community Outreach, Consumer Input, and Operator Training. DRA's proposed \$20,000 reduction is part of the Desirable Costs; DRA inadvertently deducted this amount from CRS call expenditures.

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AT&T provided recorded data for the months of June, July and August. The actual call volumes for these months, DRA adds, were much less than AT&T's estimates. By using additional recorded data for the months of June, July and August, DRA states that it calculated a lower 1994 OSD expense estimates than AT&T. Using a lower 1994 estimate for OSD, DRA's 1995 OSD budget estimate was \$585,000. This amount is lower than AT&T's estimate by \$48,958.

DRA claims that Pacific Bell (PacBell) and GTE California, Inc. (GTEC) made last minute changes in their respective proposed budgets during the Budget Subcommittee² workshops. DRA states that a great deal of time was consumed on the last minute changes made by PacBell and GTEC. DRA recommends that the Commission reprimand PacBell and GTEC for intentionally or otherwise cluttering the workshops with these unneeded corrections.

DDTPAC's Reply to DRA's Comments

After the original proposed budgets were submitted to the Budget Subcommittee members, DDTPAC states that the members had a substantial number of questions for PacBell and GTEC. According to DDTPAC, these utilities were instructed to bring the answers with them to the Budget Subcommittee meetings. During the process of researching and answering the questions of the Subcommittee members, DDTPAC explains that the utilities discovered some errors in their original budget submittals. PacBell and GTEC corrected the errors accordingly and brought the revised budgets, together with the answers to the DDTPAC's questions, to the scheduled budget meetings. DDTPAC believes that PacBell and GTEC followed the procedure that was prescribed.

DDTPAC explains that the original budget submittals by the utilities are proposed budgets to be worked on and modified during the Budget Subcommittee workshops. DDTPAC adds that the original budget submittals could undergo several changes.

DDTPAC agrees with DRA that the Budget Subcommittee meetings would probably be more productive if the changes in the budgets were submitted before the scheduled meetings. DDTPAC states that it will ask the utilities, DDTP committees, and DDTP staff

² The Budget Subcommittee reviews all the original budgets submitted by the utilities, the DDTP office, and the three DDTP committees. After its review, it submits its proposal to the DDTPAC.

to inform the Budget Subcommittee members of any corrections to the original budget submittals before the scheduled meetings.

DISCUSSION

DDTPAC proposes a total of \$42,658,944 for its 1995 Program Budget. This amount represents a consolidated budget for the participating utilities' expenses for each program and DDTPAC's administrative expenses. DDTPAC proposes a 1995 budget which is a 16.3% increase from the 1994 budget and a 30.74% increase from the 12-month recorded expenditures from June 1, 1993 to May 31, 1994. DRA recommends a 1995 budget of \$42,589,986, a .16% decrease from DDTPAC's. A comparison of DDTPAC's and DRA's 1995 Program Budget is shown in the following table.

1995 Proposed DDTP Budget

	DDTPAC	DRA	DDTPAC exceeds DRA
SB244	\$22,148,880	\$22,079,922	\$ 68,958
SB60	14,006,207	14,006,207	
SB597	5,268,797	5,268,797	
Admin	1,235,060*	1,235,060	
TOTAL	\$42,658,944	\$42,589,986	\$ 68,958

* Includes \$530,000 for a Special Project to implement a centralized warehouse and database.

o SB 244, California Relay Service (CRS)

CRS and OSD are the components of the SB 244 budget. For CRS expenses, Sprint's estimate was \$21,514,922. DRA, however, believes that Sprint should pay for training its own employees and recommends a reduction of \$20,000 from Sprint's CRS budget. We agree with DRA and adopt a CRS budget of \$21,494,922.

In its review of AT&T's OSD budget, DRA requested additional months of recorded data from AT&T. By using these additional data, DRA recommends a \$48,958 reduction from AT&T's \$633,958 OSD budget. We agree with DRA and adopt an OSD budget of \$585,000. For the SB 244 budget, we approve a total of \$22,079,922.

o SB 60, Specialized Equipment for the Disabled

As part of its proposed SB 60 budget, GTEC requests \$131,988 for furniture rental. The Commission Advisory and Compliance Division (CACD) asked GTEC to list the rental cost for each

piece of furniture. In its response, GTEC explained that the furniture rental item should be labeled as "computer rental" and submitted its current rental costs as the basis for its proposed 1995 computer rental. Some of GTEC's 1994 rental expenses are:

<u>Quantity</u>	<u>Description</u>	<u>Monthly Unit Cost</u>	<u>Annual Total Cost*</u>
2	286 Personal Computer	\$ 250.00	\$ 6,000.00
6	Laser Printer	181.00	13,032.00
1	Computer & Software Network System to include:		
	1 Ea. Server		
	11 Ea. Stations	4,187.50	50,250.00
2	9600 BAUD Modems	37.50	900.00
2	2400 Modems	30.00	720.00

* The annual total cost represents the monthly unit rental cost multiplied by 12.

In examining these costs, CACD points out a number of seeming contradictions that bear further investigation. For example, CACD questions the need for six laser printers considering that GTEC has less than 25 employees in its distribution center; the \$2,172 annual rental cost per laser printer is well in excess of the new cost of most such printers; 286 personal computers are obsolete and their \$3,000 stated annual rental costs are somewhat higher than what one might expect to pay for far more powerful Pentium successors; and 9600 and 2400 baud modems can be purchased new for a small fraction of one year's stated rental cost. Likewise, the cost of the server and stations appears high; are they intended to replace some existing equipment not noted? What efficiencies will they produce, and where are the corresponding cost reductions?

It may well be that DDTPAC and GTEC will provide additional information that makes it clear why these costs are appropriate. However, considering that GTEC has only one distribution center (as opposed to PacBell's five distribution centers) and has less than 25 employees, we think it would be prudent to withhold judgement on this portion of the budget until we have more information. Therefore, we are deducting \$131,988 from GTEC's SB 60 budget.

Since DDTPAC has scheduled an audit of GTEC's DDTP related expenses in 1995, we will require DDTPAC to have its auditor examine the cost effectiveness of GTEC's rental expenditures, (including furniture, computer/software, and other office equipment) based on GTEC's 1994 expenses, and particularly the prudence of GTEC's reliance on renting in place of purchasing. Depending on the auditor's findings, DDTPAC may request that the Commission's Executive Director augment its budget to restore

the funds, or a different level of additional funds for equipment purchase rather than lease, or DDTPAC may decide that it can operate within its contingency authority and no additional funds are required. If the auditor's findings indicate imprudence, the DDTPAC should act accordingly. In any case, we expect DDTPAC to submit the results to the Commission's Executive Director.

PacBell proposes the following rental expenses in its SB 60 budget: \$35,582 for office equipment, including computers, and \$697 for furniture. Even though these amounts are appropriated for five of PacBell's distribution centers, for the sake of consistency in the participating utilities' DDTP expenditures, we require that the DDTPAC also require the auditor to analyze PacBell's renting expenditures based on its 1994 expenses. Consistent with our discussion above, the auditor should also analyze the feasibility of PacBell's purchasing office equipment, etc., versus renting. The discussion above regarding the results of the auditor's findings also applies to PacBell.

GTEC also included \$22,780 for premise visit charges in its SB 60 budget. This charge represents the cost of converting hard-wired jack to a modular jack for the telecommunications equipment distributed through the DDTP. Premise visit charges are tariffed charges that should be paid by the telephone customers and should not be included in the SB 60 budget. GTEC's tariffs should be revised accordingly to reflect that premise visit charges not be included in the DDTP expenditures. We are, therefore, deducting an additional \$22,780 from GTEC's proposed SB 60 budget. For GTEC, we are approving a \$3,251,592 SB 60 budget [\$3,406,360 (GTE's total SB 60 budget) - \$154,768].

o SB 597, Supplemental Equipment for the Disabled

As part of their SB 597 budget, GTEC proposes \$23,292 for computer rental; while PacBell proposes \$15,250 for office equipment rental, including computers, and \$299 for furniture rental. Since the same pieces of furniture and office equipment are used by the utilities in the performance of their DDTP activities and the utilities make the necessary allocations between SB 60 and SB 597 programs, DRA should include in its analysis GTEC's and PacBell's rental expenditures for SB 597. Consistent with our discussion above, we are deducting \$23,292 from GTEC's SB 597 budget. All the circumstances discussed above also apply to GTEC's and PacBell's rental expenditures for SB 597.

In its SB 597 budget, GTEC also includes \$4,020 for premise visit charges. Consistent with the discussion above, we are further reducing GTEC's SB 597 budget to \$983,997 (\$1,011,309 (GTE's total SB 597 budget) - \$27,312).

o Labor Expenses for SB 60 and SB 597

We noted the following proposed equipment and labor expenses for SB 60 and SB 597:

1995 SB 60 Budget			
	<u>PacBell</u>		<u>GTEC</u>
Equipment Purchases	\$ 3,971,961 (38.52%)		\$1,214,550 (35.66%)
Labor Expense	3,828,819 (37.13%)		1,060,220 (31.12%)
Total SB 60 Budget	10,312,684		3,406,360

1995 SB 597 Budget			
	<u>PacBell</u>		<u>GTEC</u>
Equipment Purchases	\$1,615,272 (39.04%)	\$	449,084 (44.41%)
Labor Expense	1,640,924 (39.66%)		269,160 (26.62%)
Total SB 597 Budget	4,137,332		1,011,309

It can be calculated from the above tables that PacBell's equipment expense for SB 60 is just \$143,142, or 3.6%, more than the labor expense; while its SB 597 equipment purchases are \$25,652, or 1.6%, less than the labor expense. On the other hand, GTEC's SB 60 labor expenses are fast catching up with its equipment purchases.

We understand that PacBell's requested additional service representatives are part of its effort to improve service quality level on incoming calls from 23% to 80% (80% of all calls to be answered within 20 seconds); and we realize that customers deserve better service. However, the primary purpose of SB 60 and SB 597 programs is to provide telecommunications equipment, not labor services to support telephone service to customers who are deaf and disabled. Consequently, the participating utilities should seek funding from alternative sources, such as their in-house budgets, to provide the labor necessary to improve service quality. At this time we will not reduce the proposed labor expenses, but we expect the utilities and DDTPAC to work together to improve efficiencies to ameliorate the need for increased labor expenses. This effort could be worked on simultaneously with the Special Project for centralization of activities, including consistent distribution practices and procedures, that may lead to cost reductions, including labor costs. Also, in its review of equipment to be distributed to the program, DDTPAC should consider distribution of equipment that is user friendly and would require fewer service representative visits. In its next budget submittal, DDTPAC should include discussion on the steps being undertaken by the utilities to improve efficiencies leading to labor cost reductions.

o Administrative Expenses

DDTPAC proposes \$1,235,060 for its administrative expenses which includes \$530,000 for centralization of program activities.

We commend DDTPAC for its effort to achieve a centralized warehousing and database that may result in cost savings and benefits to the program. Therefore, we adopt a budget of \$530,000 for centralization subject to certain conditions. DDTPAC should inform the Commission's Executive Director of each centralization activity. No activity should be initiated until it is approved, through a letter, by the Executive Director. DDTPAC's submitted budget proposal should include all supporting documents detailing the activities involved, reasons for the activity, and cost per activity to centralize the warehouse and data.

DDTPAC also recommends that three committee members attend the TDI Convention in Boston (a total of \$4,085). That recommendation is reasonable. A \$4,085 budget item is granted for the TDI Convention.

This year DDTPAC proposes \$4,000 for Tuition Reimbursement fund of DDTP staff members. Training (i.e., computer training, sign language) is always a part of the administrative expenses. Specialized training is necessary for the DDTP staff. However, coursework that is not specifically related to DDTP job performance (i.e., if a member of the staff wishes to develop his/her career opportunities by earning an M.B.A. degree), is not an appropriate DDTP expense because the surcharges collected from ratepayers are specifically for the distribution of equipment, and relay/administrative services. The request for a \$4,000 Tuition Reimbursement fund is denied.

Miscellaneous Items

DRA claims that PacBell and GTEC made changes to their proposed budgets during the Budget Subcommittee workshops. DDTPAC agrees with DRA that changes should be submitted before the scheduled meetings. For future budget meetings, DDTPAC states that it will require the utilities, DDTP committees, and DDTP staff to inform the Budget Subcommittee members of the changes to the original budget submittals before the scheduled meetings. Since the review of proposed budgets requires concentration, we share DRA's concern and support DDTPAC's recommendation that changes be submitted prior to scheduled meetings.

In its budget submittal, DDTPAC mentions that at the 1995 expense rate the maximum allowable six month reserve for 1995 will equal to approximately \$21 million. However, DDTPAC explains that the projected reserve balance at the end of 1995

will be approximately \$10.4 million. This projected reserve amount, DDTPAC believes, will be well below the allowed six months reserve level and will be dangerously low in terms of cash flow. In 1995, DDTPAC states that it will be requesting an increase in the surcharge from the Commission. We put DDTPAC on notice to submit detailed supporting workpapers when it files its request for a surcharge rate change in 1995.

Based on the above discussion, we will adopt a total budget of \$42,401,183 for 1995 Program Budget. This budget is a spending cap and not an invitation to spend at that level. A comparison of the Commission's approved budget and DDTPAC's proposed budget is shown on the table below:

1995 DDTP Budget			
	DDTPAC Proposed	Commission Approved	Difference
SB 244	\$22,148,880	\$22,079,922	(\$ 68,958)
SB 60	14,006,207	13,851,439	(154,768)
SB 597	5,268,797	5,241,485	(27,312)
Admin	1,235,060	1,231,060	(4,000)
TOTAL	\$42,658,944	\$42,403,906	(\$255,038)

FINDINGS

1. DDTPAC proposes a total of \$42,658,944 for the 1995 Program Budget.
2. DRA proposes a reduction of \$68,958 or a total of \$42,589,986 in the 1995 Program Budget.
3. The \$21,494,922 budget for CRS should be approved.
4. The \$585,000 budget for OSD should be approved.
5. DDTPAC's proposed expenses for GTEC computer/software rentals require further scrutiny. DDTPAC should have its auditor analyze the cost effectiveness of GTEC's rental expenditures and include in its analysis the prudence of purchasing versus renting.
6. For consistency in the participating utilities' expenditures, DDTPAC's auditor should also analyze PacBell's rental expenditures, and its analysis should include the feasibility of purchasing versus renting.
7. The \$3,251,592 and \$983,997 budgets for GTEC's SB 60 and SB 597 programs, respectively, should be approved.

8. DDTPAC and the utilities should improve efforts to lower labor costs for SB 60 and SB 597 programs.
9. The \$530,000 budget for centralization should be approved subject to the condition that each stage of centralization be approved by the Executive Director.
10. The \$4,000 budget for Tuition Reimbursement Fund for DDTP staff should be denied.
11. It is appropriate for three DDTP members to attend the TDI Convention in Boston.

THEREFORE, IT IS ORDERED that:

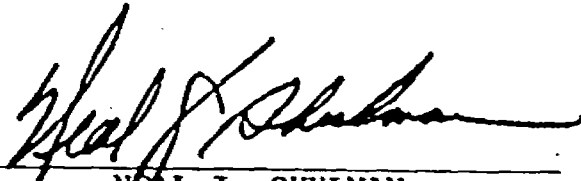
1. The 1995 approved annual budget for the Deaf and Disabled Telecommunications Program shall be \$42,403,906.
2. A total of \$22,079,922 for Senate Bill 244 is adopted.
3. A total of \$13,851,439 and \$5,241,485 for Senate Bill 60 and Senate Bill 597 program budgets, respectively, are adopted.
4. The amount of \$530,000 for centralization of warehousing and databases is included in the budget subject to the condition that each stage of centralization shall be approved by the Executive Director. No centralization activity shall be initiated without a letter of approval by the Executive Director. The Deaf and Disabled Telecommunications Administrative Committee's submittal shall include all supporting documents detailing the activity, reasons for the activity, expected benefit/cost savings, and cost involved.
5. The amount of \$4,000 for a Tuition Reimbursement Fund of the Deaf and Disabled Telecommunications Program staff is denied.
6. The Deaf and Disabled Telecommunications Program Administrative Committee shall submit to the Executive Director an audit of the cost effectiveness of GTE California, Inc.'s and Pacific Bell's equipment rental expenditures, and its analysis shall include the feasibility of purchasing versus renting.

Resolution T-15682
Deaf and Disabled Telecom. Program
1995 Annual Budget/nyg

January 24, 1995

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 24, 1995. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
Commissioners

President Daniel Wm. Fessler,
being necessarily absent, did
not participate.