

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch**

**RESOLUTION NO. T-16090
December 16, 1997**

RESOLUTION

RESOLUTION NO. T-16090. TO ESTABLISH THE DEAF AND DISABLED TELECOMMUNICATIONS EQUIPMENT AND SERVICE PROGRAMS (PUBLIC UTILITIES CODE SECTION 2881, ET SEQ.) 1998 ANNUAL BUDGET PURSUANT TO DECISION NO. 89-05-060 ON AN INTERIM BASIS.

BY COMPLIANCE FILING MADE BY THE DEAF AND DISABLED TELECOMMUNICATIONS PROGRAM ADMINISTRATIVE COMMITTEE ON OCTOBER 1, 1997.

SUMMARY

This Resolution adopts an interim 1998 annual budget of \$ 48,720,453 for the Deaf and Disabled Telecommunications Equipment and Service Programs (DDTP), pursuant to Public Utilities (PU) Code Section 2881, et seq.. The Interim adopted budget is \$2,097,672 or approximately 4.13% less than that proposed by the Deaf and Disabled Telecommunications Program Administrative Committee (DDTPAC). The interim 1998 annual budget is designed to reimburse the DDTPAC for its expenses as well as each participating utility, as required by PU Code Section 2881 (d).

Additionally this Resolution acknowledges the fact that the DDTP is undergoing structural changes in how it discharges its obligations to provide service and equipment to members of the deaf and disabled communities. Several projects were authorized in Resolution No. T-16017, issued on April 9, 1997, (which adopted the 1997 DDTP budget) to centralize the DDTP equipment distribution programs in order to reflect the competitive telecommunications market in California. This Resolution provides a status of these projects. Other changes are under consideration by the Commission pursuant to the recommendations of the management audit completed in 1997. Due to the inability to predict a completion date for some of these actions, this budget is adopted on an interim basis, to recognize that the Commission may need to make additional decisions to implement the restructured program.

In 1998, the DDTP plans to hire consultants to assist it on various projects to continue the effort to centralize the equipment distribution under the DDTP. We believe that it would be more efficient for the DDTP to hire a consultant firm to oversee the entire centralization effort instead of hiring consultants for each phase of the projects. Besides the centralization effort, the DDTP will hire a consultant to do the research and analysis necessary to develop a better understanding of the overall size and extent of the communities in need of DDTP services. The consultant should also quantify the size and requirements of each of the specific segments that make up this whole. This information will assist the marketing manager (to be hired in 1998) in the development of a marketing plan for the DDTP.

We adopt the DDTP's request to conduct a trial of three augmentative communication devices (ACD). ACDs help consumers who have speech and/or motion disabilities who are unable to use TTYs and need assistance to use speaker phones. We also adopt the DDTP's request to conduct a voucher trial for TTY modems as well as standard equipment now offered by the program. We do not adopt the DDTP's request to hire a consultant to develop a request for a proposal (RFP) to determine the costs of conducting a video relay service (VRS) trial and advise the DDTP instead to investigate trials and other research being done on VRS in other states to determine if the DDTP should collaborate with the other research and trials for VRS.

We do not believe that there will be the need for the number of meetings and related captioners and interpreters which the DDTP anticipates and we are reducing the budget for these categories by twenty-five percent. We authorize the DDTP to file for an augmentation of its budget should these expenses become necessary.

BACKGROUND

In compliance with state legislation (PU Code Section 2881 et seq., of the PU Code) the Commission implemented three telecommunications programs for California residents who are deaf, hearing impaired and disabled. These programs are commonly identified by the number of the enabling legislation: Senate Bill (SB) 597 authorizes the provision of TTYs to deaf and hard-of-hearing consumers as well as speech impaired individuals. SB 60 authorizes provision of specialized telecommunications equipment to consumers with hearing, vision, mobility, speech and cognitive disabilities. This equipment includes amplifiers, speakerphones, cordless phones, etc. The third program, established by SB 244, is the California Relay Service which uses third-party intervention to connect individuals who are deaf or hearing impaired and offices of organizations representing the deaf or hearing impaired. These programs are all funded by the DDTP 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 adopted by a Commission resolution. On October 1, 1997, the DDTPAC submitted the proposed 1998 Program Budget which totaled \$50,819,084.

Several actions impacted the DDTP's operation in 1996 and 1997. First, in approving the annual budget for 1996 (Resolution No. T-15828, February 23, 1996) the Commission reiterated its view that the DDTPAC and the Commission "must take greater care to ensure that ratepayer funds are used in the most efficient way to provide quality services to the deaf, hard of hearing and disabled Californians." (Page 11) The Commission required the DDTPAC to commission an independent management audit of the DDTP's structure, practices, and operations. The goals of the audit were to: 1) determine if adequate procedures are in place to allow the Commission and the DDTPAC to fulfill their oversight responsibilities in verifying that charges to the DEAF Trust comply with Commission orders, 2) ascertain if services are being provided in the most efficient manner and, 3) review the program's operating structure e.g. committee composition,

and operational processes. The Commission directed the audit contractor to provide a report to the Commission that addresses any necessary modifications to procedures, safeguards and the organizational structure.

The DDTP Management Audit

The chosen consultant, AUC Management Consultants (AUC), conducted its audit in 1996 and submitted its final report on April 30, 1997. The twenty-two recommendations in the report are based on and support two major strategic changes to the program: (1) to move from a committee-administered program to a DDTP staff-administered program and 2) to move from a telephone-company equipment-distribution program to a DDTP-directed equipment-distribution program. AUC believes that its recommended significant changes in the administration and operation of the DDTP would "enable the program to expand and reach an even wider group of people as well as add value for its current user community, and better position the DDTP for today's environment of emerging local competition, rapidly changing technology, and innovative legislative and regulatory change". (AUC Report, p. 6.) The report makes recommendations in three areas: 1) governance and organization, 2) planning, marketing and outreach, and 3) operations and processes.

Due to its belief that it is inappropriate for a \$37 million dollar program to be administered by a committee, AUC recommends that a board of directors be formed to administer the program. At least four of the board members would have management experience in specified areas. An advisory committee would be established with representatives from the DDTP-served communities; the chair would sit on the board. Neither the utilities nor Commission staff would sit on either of these bodies; clear roles of the Commission acting in its liaison function to the board would be established. Although the utilities would no longer be operating the DDTP programs or be members on the board or the advisory committee, they could be involved by being advisors or contractors in the program.

As required by the Commission in Resolution No. T-15828, the Telecommunications Division (TD) held a two-day workshop in May of 1997 to solicit comments and recommendations on implementing the AUC Report's 22 recommendations. A draft workshop report was sent to workshop participants as well as to those submitting comments who did not attend the workshop. A final workshop report along with TD's recommendations was distributed to the Commissioners, the Executive Director of the Commission and workshop participants on October 6, 1997. Commission action on the audit report recommendations for restructuring the DDTP program will be adopted in a separate order.

Changes in the DDTP Operation Adopted in Resolution No. T-16017

Many of the AUC Report recommendations, however, have already been identified by the DDTP as needed actions to respond to the development of a competitive telecommunications utility market in California. Their implementation will allow the DDTP to move from the current utility dominated equipment-distribution program to a centralized DDTP administered program. In the 1997 DDTP annual budget resolution (Resolution No. T-16017 issued on April 9, 1997) twelve consultant projects were authorized for the DDTP, five of which concerned centralization of the equipment distribution. They are: 1) the preparation of an equipment purchasing and forecasting plan; 2) development of a database of all DDTP past and present program consumers as well as DDTP equipment provided through the programs; 3) development of a DDTP-centralized warehouse for storage and maintenance of DDTP equipment; 4) undertaking an equipment voucher trial for some types of equipment which are readily available in the retail market; and 5) performing a study of the cost effectiveness of developing a DDTP-administered, centralized Call-Center for customer contacts to the program. Seven other consultant projects were adopted in Resolution No.T-16017.

One of these seven projects concerns the DDTP Outreach Program. The DDTPAC was authorized to hire a consultant to develop performance standards for its Program Specialists.

Resolution No. T-16017 required the DDTPAC to submit the DDTPAC-adopted program standards for Program Outreach by June 1, 1997. The lack of filing or the lack of Commission approval of these standards by July 30, 1997, would result in the DDTPAC not being able to continue its outreach program until further Commission action was taken. The DDTPAC filed its performance standards on June 2, 1997. In Resolution No. T-16073, the Commission informed the DDTPAC of deficiencies in its submittal, clarified its requirements, authorized the DDTPAC to resubmit its filing and also authorized the DDTP's outreach program to continue operating as approved in Resolution No. 16017.

In Resolution No. T-16017 the Commission also directed the DDTP to file, within 30 days from the effective date of the Resolution, a work plan for the 12 projects. This plan was to include the basis for the DDTPAC's estimated time frame to complete each consultant project. The DDTPAC was also directed by the Commission to file a progress report on these projects every six months from the effective date of the resolution. The DDTPAC submitted the work plan on May 9, 1997, and the six-month progress report on September 22, 1997. The status of the consultant projects is discussed in the following section of this Resolution.

In regard to the relay service, the Commission authorized the DDTP (in its 1996 Annual Budget Resolution) to have more than one relay service provider. MCI Communications Inc. (MCI) was awarded the contract as the primary provider in 1996. Resolution No. T-16031, adopted on May 21, 1997, augmented the DDTP budget in order to provide incentives to attract other California Relay Service (CRS) providers. In Resolution No. T-16084 the Commission authorized the entry of Sprint Communications Company (Sprint) as a secondary relay service provider. Sprint began offering relay service on September 11, 1997. The adopted 1998 budget reflects the existence of two CRS providers.

The DDTP's Budget for 1998

The DDTPAC submitted its recommended budget for 1998 on October 1, 1997. This budget reflects an increase of \$14 million over the 1997 budget. The increase consists of \$2 million for SB 60 and SB 597 (specialized equipment distribution), \$9 million for SB 244 (the relay service) and \$3 million for administrative expenses. The major bases for the increases are as follows:

1) Specialized Equipment Distribution. Steady growth is anticipated from the aging population in California who are the major program recipients. Additionally, the DDTP is requesting to add to its equipment a vibrating device, which is considered superior to the flashing or auditory device now being distributed to alert the deaf or hard of hearing that a phone call is being received. The vibrating device is more expensive than the other two devices so that the DDTP estimates an increase of \$377,085 for this device.

2) CRS. This budget category item shows the largest increase in the DDTP budget. This is due to MCI's projected 9% growth rate as well as the proposed increase in the CRS reimbursement rate. In Resolution No. T-16031 the Commission adopted the increase from \$.699 per conversation minute to \$.89 per conversation minute. The budget request is based on the \$.89 rate for all conversation minutes.

3) Trust Administration. Most of these budget items reflect increases resulting in a proposed budget which is 171.49% higher, or \$3,208,241 more than the 1997 approved budget for administrative activities.

Interpreters. The budget shows a large increase for sign language interpreters and real time captioners for monthly committee meetings plus subcommittee meetings. This is due both to the projected increase in meetings caused by the restructuring and centralization projects as well as the increase in hourly rates stated by these providers. The projected increase for captioners and interpreters is 186.95% or \$161,640.

Legal. Forecasted 1998 legal expenses are substantially higher due to the legal advice the DDTP will require for development of Request for Proposals (RFPs) and for all of the product procurement, competitive bidding procedures and contracts management performed now by the

utilities which will be assumed by the DDTP. The DDTP also assumes that there will be additional legal assistance required for contract management over the CRS, personnel issues caused by expansion of DDTP staff and patent and trademark issues as the DDTP assumes total program responsibility. The projected increase for legal expense is 439.51% or \$133,520.

Consultants. Certain of the proposed 1998 funding relates to projects authorized in 1997 for centralization of services. Funding also is included for consultant help to manage database and warehouse development as well as the transition of these two functions from utility control to the DDTP. The DDTPAC also requests a consultant to develop a video relay trial RFP. Unable to obtain cost estimates for performing a video-relay-trial, the CRS Advisory Committee believes that the best way to proceed is to issue an RFP for the trial and to request competitive bids. Once the costs are known, the DDTPAC will submit the request to the Commission as a budget augmentation request. Additionally the DDTP requests funding to conduct a trial of augmentative communication devices. The resultant budget increase for the consultant category is \$140,150, or 59.44% higher than the 1997 budget. The amount estimated for the Trustee's fee is projected to be 116.53% higher, or \$58,675 reflecting the higher receipts as well as the large unencumbered fund balance upon which this fee is based.

Outreach. Most of the substantial increase of \$2 million results from the movement of this expense from the CRS budget to the Trust Administration category. Previously outreach was done only for the relay service. Now outreach is performed for all DDTP products and services so the expenses are now included in the Trustee Administration category. Second, the DDTPAC is requesting an increase of three specialists, for a total of 10 program specialists, plus two speech-to-speech specialists which were hired in 1997 for a total outreach budget of 12 specialists. The budget is increased to reflect the planned media program and direct mailing not only for existing traditional communities but also a focus on reaching ethnic populations. Materials, such as a generic DDTP brochure and a separate CRS brochure, will be designed for the effort, both in English as well as in other languages (Spanish, Mandarin and Russian).

DDTP Office Expense. This shows an increase in 1998 of 74%, or \$580,532. The projected increase relates to adding four new employees, primarily related to the centralization of functions with the DDTP which have been the responsibility of the utilities, such as product management and procurement, warehouse management and call-center management. The new positions include an accounting assistant, equipment-program assistant, a telecommunications manager and a marketing/communications manager. Besides their salaries, related expenses will include overhead such as office furniture and supplies, travel funds and training and education. Moreover, the DDTP will have to locate additional space in 1998 to accommodate the new employees.

Committee Expenses. Total increased committee expenses are anticipated to be \$107,611. The DDTP anticipates that all three committees will be holding more than their regular committee meetings due to the restructuring activities; also, the budget increase reflects the desire to send more committee members to more conferences.

NOTICE/PROTESTS

On October 1, 1997, the DDTP submitted its 1998 Program Budget request to the Commission and sent a copy of the DDTP 1998 Program Budget Request to all parties of record to I. 87-11-030. On October 16, 1997 the Office of Ratepayer Advocates (ORA) submitted comments on the DDTP proposed budget and also sent a copy of the comments to all parties of record to I. 87-11-030. No other parties filed protests or comments.

In its comments ORA recognizes that the outreach programs have been incorporated from the CRS and the local exchange companies. ORA also realizes that the outreach effort must be expanded to reach broader segments of the deaf and disabled customers in ethnic and minority communities as well as the potential customers that have been missed by agencies and non-profit groups. ORA believes the outreach program projects proposed by the DDTPAC are overly optimistic for the 1998 budget. ORA believes that trying to expand outreach while undergoing a massive reorganization of the DDTP is premature. ORA suggests that once programs are

incorporated and systems are in place, a comprehensive outreach program can be expanded. ORA believes the 1998 outreach should be maintained at the 1997 budget levels. This would result in a reduction of \$1,219,195 to the proposed 1998 outreach budget.

ORA also objects to the increase in committee expenses in order for committee members to attend various conferences. ORA believes that the budget should not be increased over the 1997 level due to the fact that outlook figures of the proposed budget indicate that none of the committees will be spending at the 1997 level. Additionally, ORA questions the proposal that all three committees suggested sending representatives to different conferences. ORA believes that because of the demands before the DDTPAC, its focus should be on the business of restructuring. This reduction would result in a budget reduction of \$5,618.

ORA is concerned also about the fact that after an extensive DDTP management audit, no specific area of cost savings has been identified in the 1998 equipment budgets. Moreover, a consolidation of the SB 597 and SB 60 expenditures show an increase in \$2,448,260, or a 15.4% increase over the 1997 actual expenditures. This is of particular concern to ORA as the Audit Report highlighted this as an area where numerous efficiency gains would yield cost savings. Although ORA recognizes that many of the recommended restructuring actions will not be completed until 1998 or beyond, no cost savings are shown. ORA does not consider the transfer of \$545,496 in Outreach (SB 244) to administration cost categories as savings. While ORA doesn't object to the additional costs for vibrating signal devices of \$377,000, this does not account for the \$3,023,299 in unexplained equipment purchase increases in the 1998 budget. ORA recommends an increase of 3% and 7% respectively, representing a total increase of \$321,822 for 1998.

Regarding the DDTPAC request for funds to establish a Video Relay Trial, ORA continues to object to it for many reasons. For one thing, consideration of a new program when the DDTP is undergoing a significant structural change is unwise. ORA questions the DDTPAC's need for an

outside consultant to put together the data needed for an RFP. ORA believes that Sprint's Video Relay Trial demonstrates cost information. Finally, ORA is concerned that migration of TTY users to Video Relay service would cause significantly higher costs of providing relay service, which would not increase the number of CRS users and might result in fewer deaf individuals having access to basic relay service. ORA believes the CRS should concentrate on improving the quality of core services rather than paying a consultant to analyze a new, costly system.

The DDTPAC responded specifically to each concern raised by ORA. Regarding outreach, DDTPAC believes that the increase is necessary to fulfill the goal endorsed by TD, to focus more outreach efforts on the ethnic and minority communities and on underserved groups within the known deaf and disabled communities. The DDTPAC cites the costs of this expanded outreach effort in terms of translating materials and hiring bilingual staff. The DDTPAC states that a 50% budget reduction would mean that none of these new activities could take place.

The DDTPAC responds to ORA's objection to the requested committee expenditures by stating that the 1997 outlook expenses cover only January through May of 1997 and are therefore not valid because not having an adopted 1997 budget until April of 1997 meant that no conference attendance expenses occurred during the reporting period. Actual expenses through September of 1997 are 76% of the adopted budget amount. The DDTPAC believes that it is valuable for more than one committee to send representatives to a conference as one person simply cannot adequately collect all of the relevant information. At the California State University at Northridge (CSUN) conference, for example, the committee members will each focus on the issues and information most relevant to their committees. DDTPAC states that at one conference, the California Self Help for the Hard of Hearing (SHHH) Convention, it will provide a panel of DDTP representatives in order to provide overall information about the various services offered by the DDTP and the specific activities and responsibilities of each committee. One person probably could not adequately address the activities of all of the committees.

The DDTPAC agrees with ORA that the restructuring activities will demand much time and attention of the committees; however, this should not be an excuse to reduce the public visibility of the program. The success of the restructuring will depend, in a large part, on how well the served communities respond to and accept the new structure and new service and equipment delivery models. It is important that the program maintain its communication with its constituent base during this transitional period.

In regard to SB 597 and SB 60 expenditures and whether there should be savings identified due to the AUC report recommendations, DDTPAC points out that there has been no Commission action implementing these recommendations. Second, the projected cost savings discussed in the audit report are due primarily to the centralization of the database, warehouse, call-center and distribution functions, which will not be complete in 1998. The DDTPAC also believes that the enhanced outreach planned for 1998 should result in increased demand for equipment. The DDTPAC believes that ORA's 15.4% projected increase is incorrect because it relies on outdated figures; DDTPAC states that the projected increase is 8.8%. The DDTPAC also distinguishes the trend for the two programs. The SB 597 program is showing a 16% decrease compared to the 1997 Outlook expenses, while the SB 60 shows a 16% increase and the latter is still growing. This is due to the fact that the senior community is the largest single consumer group for the SB 60 equipment. As the program and its consumers have never been held to growth rate limits in the past, DDTPAC suggests that such a practice should not be instituted now.

Finally, DDTPAC objects to ORA's comments about the proposed Video Relay Trial. First, DDTPAC questions how a consultant could address the policy, potential conflict of interest, ethical, logistic, and hardware software problems raised by the Commission in the past. DDTPAC states that these "problems" have not been identified and, therefore, cannot address them. The DDTPAC also questions ORA's assumption that the experience realized from the Sprint trial is sufficient for the DDTPAC to use in preparing cost estimates as the DDTPAC

believes it is not detailed enough. The DDTPAC believes that conducting a trial can provide the required data.

The DDTPAC also questions ORA's belief that one result of the trial would be for current relay users to migrate to personal computers for video relay use. DDTPAC does not believe this is a feature of the proposed trial because the trial would establish a number of public sites equipped with video equipment that can be used to make video relay calls. Consumers would need to visit these public sites to use the service.

Last, the DDTPAC challenges ORA's statement that consideration of a completely new program is unwise and unwarranted given the transition of the DDTP to a new structure. The DDTPAC considers this a poor reason to deny a technically feasible and desperately wanted new feature to deaf and disabled consumers. DDTP asserts that it would be irresponsible to make consumers wait years to receive the benefits of a new service feature just because the program is re-organizing internally. The proposed trial is a first step. DDTP further asserts that it is an investment that must be made now to ensure that in the very near future, consumers with disabilities are not stuck in a 1997 telecommunications environment when the rest of the state's consumers are years ahead. The DDTPAC recommends that the Commission not adopt any of the recommendations proposed by ORA.

DISCUSSION

Consultant Projects in Resolution No. T-16017

The following is a status report of the twelve consultant projects.

Group A: Outreach Projects

Group A projects consisted of two projects: (1) development of performance standards for Program Outreach and for Program Specialists and (2) development of generic non-branded outreach material for the program. These projects were to be completed by June 1, 1997.

1. Performance standards for Program Outreach and for Program Specialists

Since the Commission resolution issued in August, (as indicated above in the Background) the DDTP has submitted two draft descriptions of its outreach program including standards for program specialists. A final study was submitted on November 14, 1997.

2. Development of generic non-branded outreach material for the program

Funds for retaining a Marketing Analysis Consultant to develop non-branded generic material for the program were adopted in Resolution No. T-16017. The DDTP's outreach sub-committee developed those brochures which were submitted for Commission approval along with the Program Specialist and Program Outreach standards. This material was deemed inadequate and the DDTP was ordered to revise and re-submit its outreach materials¹. In the meantime, the DDTP may not print any new Program Outreach brochures unless they have been approved by the TD Director.

According to DDTP's 1997 work plan, the DDTP plans to hire a Marketing Manager to plan and coordinate DDTP's outreach program in 1998. The DDTP expects that "individual to work with

¹ Resolution No. T-16073, OP 1c.

the outreach sub-committee to hire a consultant or advertising agency to develop its outreach strategy. That strategy will be the basis of outreach activities during the last half of 1998 and will be the basis of the outreach budget for 1999". The DDTP expects the project to be completed by July 30, 1998 ².

The DDTP's outreach activities will be significantly impacted by the new outreach standards and plan. Those new standards have not been incorporated in the DDTP's current outreach budget. We expect that, after the new standards have been adopted, the DDTP will evaluate their impact on the budget and submit as necessary a request for a revised budget that will incorporate the adopted standards and outreach plan.

Group B: Financial and Management Projects

This group of projects included two consultant projects: (1) development of a policy and procedures manual and, (2) development of a DDTP business plan. In Resolution No. T-16017, we required the DDTP to treat these projects as high priority projects "so that the DDTPAC has a plan to start assuming DDTP responsibilities from the local exchange telephone companies as soon as possible" ³.

1. Development of Policy and Procedures Manual

The DDTP reported that the Policy and Procedures Manual was under preparation. Due to substantial revisions recommended by a DDTPAC sub-committee, the DDTP indicated that the document would be completed by October 15, 1997. In response to a verbal data request from TD, the DDTP Executive Director's written response on November 13, 1997 indicates that the project is completed and is awaiting DDTPAC approval.

2. Development of a business plan

² DDTP 1997 Work Plan Update, September 22, 1997, at p. 8.

³ Resolution No. T-16017 at p. 19.

The DDTP has reported that it planned to develop a 1998 Business Plan, covering implementation steps for the centralized database and warehouse and plans for the centralized call center. That plan was to serve as the foundation for the 1998 budget; however, DDTP did not develop the business plan because the sequence of activities for the implementation of the centralized database, warehouse, and call center was still undecided⁴.

The Commission believes that by hiring a consultant firm to oversee the entire centralization project the conflicts over the design phase may be resolved, enabling the entire project to go forward. Then the DDTP may be able to submit a Business Plan which describes all of the steps of the centralization project and a completion date which can be realized. The Commission is requiring that the DDTP meet with the TD thirty days after the effective date of this order to discuss implementation of these consultant projects.

Group C: Equipment Centralization Projects

Group C consists of five projects: (1) Preparation of Equipment Purchasing/Forecasting Plan, (2) Database Implementation, (3) Warehouse, (4) Equipment Voucher, and (5) Call Center. In Resolution No. T-16017, the Commission stated that it considered these five projects significant in the restructuring efforts of DDTP's equipment distribution. The DDTP reports that it is unable to proceed with Projects 2 (Database Implementation), 3 (Warehouse) and 5 (Call Center) without the direct participation of utilities. It has requested guidance in these areas from the Commission before proceeding with the projects. As discussed above, we are concerned that the DDTP has been unable to proceed with these projects. This delay may make it more difficult to accomplish them along with the new projects identified in this budget.

Moreover, we are concerned with the DDTP's plan to hire different consultants to manage different phases of the same project; for example, DDTP has requested funding to hire a transition manager for database and warehouse issues and for the call-center implementation as well as a different consultant for the implementation of the database. While we have no doubt

⁴ Project 2, DDTP 1997 Work Plan Update, *ib. id.* pp. 1 to 3.

that these are realistic phases of these projects, we are concerned about the time involved in developing and issuing RFPs for these consultants as well as hiring and managing them, along with the other challenges facing the DDTP. We believe that it would be more efficient for the DDTP to hire a consultant to oversee all aspects of the entire centralization project. A consultant firm should have the expertise to perform many of these tasks itself; if not, it should have the expertise to coordinate the hiring of the necessary experts with a result of expediting the completion of this effort. We will require the DDTP to hire a consultant to develop an RFP for this expertise and to assist the DDTP in hiring the firm. We have the following comments on the remaining two projects in this group:

1. Preparation of Equipment Purchasing/Forecasting Plan

The DDTP was required to develop an Equipment Purchasing/Forecasting Plan. To develop such a plan, the DDTP needs to gather data on its consumers and equipment. This is necessary for populating the centralized data base and also for forecasting the DDTP's needs. The DDTP has not submitted an equipment purchasing/forecasting plan. TD has been informed that this function will now be taken over by the new purchasing manager and the plan will be developed in-house⁵. In order to monitor the progress of this project, we will require the DDTP to submit a plan to develop a equipment purchasing/forecasting plan to the Director, TD, by April 30, 1998. That plan should include a time line on when key milestones will be met.

⁵ Letter from Shelley Bergum to Ravi Kumra dated November 13, 1997.

2. Equipment voucher trial

In Resolution No. T-16017, we ordered the DDTP to "conduct a voucher trial for some equipment types that are readily available in the retail market."⁶ The DDTP's estimated completion date for this project is June 1, 1998 (revised from March 30, 1998)⁷. Staff has been informed that one of the responsibilities of the purchasing manager that the DDTP intends to hire will be to design a voucher trial for the program⁸. In order to monitor the progress of this project, we will require the DDTP to submit a detailed plan for the voucher trial along with a time line to the Director, TD, by March 16, 1998.

The Work Plan filed with the Commission on May 9, 1997 described the DDTP's requested plan for the voucher trial. It includes existing DDTP equipment items, such as large button telephones, as well as the TTY modem which is being requested by the program TTY users. The TTY modem is not yet being offered by the DDTP program. The TTY modem, unlike other DDTP offered equipment, is not a stand-alone piece of equipment but rather would function as a part of a user's computer system. The DDTP is concerned that offering the TTY Modem directly by its staff might require that the DDTP field staff would need to be knowledgeable about computer equipment, which it does not believe would be an effective use of its resources. Therefore, the DDTP believes that the TTY modem might be an ideal candidate to be purchased only by a voucher. We agree with the DDTP and adopt the DDTP's request to conduct the trial as described in its Work Plan .

Group D: Service Quality Projects:

This group of projects included (1) development of service quality standards for DDTP equipment distribution, and (2) development of a customer survey instrument. We have the following comments on the DDTP's work plan on these two projects:

⁶ Resolution No. T-16017 at p. 19.

⁷ DDTP 1997 Work Plan Update, *ib.*, pp. 6 and 7.

⁸ Letter from Shelley Bergum to Ravi Kumra dated November 13, 1997.

1. Development of service quality standards for DDTP equipment distribution

The DDTP indicates that its service quality standards for CRS and Speech-to-Speech service were submitted along with its work plan on May 9, 1997. It anticipates completing similar standards for its administrative services by October 15, 1997⁹. It further states that it will defer the preparation of service quality standards for equipment distribution to the first quarter of 1998, in hopes of completing the standards by the second quarter of 1998. The reason given is that the DDTP believes that it would be best to develop those standards after the Commission and the DDTP decide the long term structure of the equipment distribution program, including which entities will be performing the equipment distribution and the related customer service activities¹⁰.

Quality of service standards are required in order to have a yardstick to measure acceptable quality of services to be offered by the program to its customers. The development of the standards is necessary prior to the centralization of equipment distribution functions. We will require the DDTP to immediately start the development of quality of service standards as ordered by Resolution No. T-16017.

2. Development of a customer survey instrument

The DDTP indicates that it has engaged a consultant to develop a survey and questionnaire to obtain comments and feedback from consumers about certain aspects of the current equipment distribution program and options for re-structuring the current program¹¹. The consultant report was expected to be completed by October 3, 1997.

A review of the draft consultant report indicates that it surveyed consumers for their preferences regarding equipment distribution channels. The report did not develop a customer survey instrument for gauging the quality of services offered by the program to its customers. While we recognize that the consultant study is important for planning future program services, it does not

⁹ Project 12, DDTP 1997 Work Plan Update, lb, at page 10.

¹⁰ Project 10, DDTP 1997 Work Plan update, lb. pp. 10 and 11.

provide an indication of the quality of services provided by the program. We will direct the DDTP to immediately work on the development of a Survey Instrument that can be used to measure the quality of services offered by the program. The DDTP shall have approval from the Director, TD, before utilizing this customer survey instrument.

Group B: DDTP Compensation survey

This project was established to guide the DDTP in setting appropriate salary and benefit levels for DDTP staff. The DDTP indicates that it hired a consultant to conduct that survey. The estimated completion date of this project was September 25, 1997¹². The written comments from the DDTP Executive Director in response to a TD verbal data request indicate that the project is complete and has been adopted by the DDTPAC. We will expect the DDTP to submit the final report to the Director, TD, for approval prior to implementation of its findings.

In regard to engaging consultants, on October 24, 1997, the DDTP was informed by letter that it is expected to conform with State Contracting rules for services that it obtains from vendors. An implication of this policy is that strict conflict of interest rules will need to be enforced in selection of contractors by the DDTP on a going forward basis. We encourage the DDTP to become familiar with these rules.

Trust Administration Budget Recommendations

This section summarizes the new consultant projects and staff additions which the DDTPAC is proposing for 1998. A marketing manager will be hired in early 1998, who will have the responsibility of developing a plan for all aspects of the DDTP outreach. One of the first requirements for the manager will be the hiring of a consultant to do the research and analysis necessary to determine what the overall size and breadth is of the market for DDTP services. This will include the characteristics of this market in terms of age, ethnicity, specific needs and requirements. There has been a concern that the DDTP is not adequately reaching the communities it is legislatively mandated to serve. This observation was cited by AUC as a

¹¹ Project 8, DDTP 1997 Work Plan update, *ib.*, at page 7.

needed area for improvement. Discussion at the workshop on the AUC recommendations indicates wide agreement for the need of a precise determination of this market; however, there was an equal agreement of the difficulty in doing this due to the isolation that often exists with the people in need of DDTP services. (Workshop Report on the DDTP Management Audit Recommendations, Page 62, 63.) We adopt the DDTP's plan to tackle this challenge before it develops a market plan. Funding for both the marketing manager and the consultant are adopted. We adopt funding for the three other staff positions requested, namely, the accounting assistant, equipment program assistant, and a telecommunications manager. These positions are all needed in order to respond to the centralization projects.

Augmentative Communication Devices

We also adopt the DDTP's requested plan to hire a consultant to develop and implement a trial of augmentative communication devices (ACD). The three devices and a phone interface which will be included in the trial provide speech output which can be used to hold a conversation over the phone for consumers with speech and motion disabilities. This includes people who have no funding source for a basic ACD and phone interface to use the phone as well as consumers who have the ACD but not the interface. ACDs provide the speech output needed to communicate over the phone. Additional equipment is often needed to activate, deactivate and dial the phone as well as provide features of a speakerphone. These consumers are not able to use a TTY. Acting as mini-computers, the ACDs can be programmed or prerecorded with vocabulary appropriate for phone use to talk to friends, make appointments and call for help. The cost for the trial is estimated to be \$27,000.

Video Relay Trial

The DDTP request includes \$80,000 to hire a consultant to develop an RFP for a video relay trial, review bids, select vendors and consolidate costs. Armed with this cost information, a trial would be designed and submitted to the Commission for approval. While we agree with the DDTP that the emerging technology offers potentially great benefits, we do not believe that the proposed project would be the best use of the DDTP's resources at this time. If the results of the

¹² Project 3, DDTP 1997 Work Plan Update, lb₂ at page 3.

RFP project indicated that the Video Relay Service (VRS) is prohibitively expensive, as is commonly believed, it is questionable if there would be any point in going forward with the trial.

Second, the proposed trial will consist of placing VRS terminals at public or community agencies serving the deaf and hard of hearing population. It is not clear if there will be use of the VRS in this manner, i.e., that consumers will come to these places to be able to access their friends, agencies, etc. as this requires placement of a terminal at the other end. Will ubiquitous VRS placement be required before the technology is really user friendly? Additionally, the prospectus indicates that one of the bases for the need for the technology is for the consumer whose common language prevents using the TTY. Again, the market analysis to be accomplished by the DDTP would be helpful in determining this need.

We believe that the DDTP should consider, as was recommended by AUC, focusing its efforts to become knowledgeable with trials and other research going on in other states to determine if collaboration is possible and desirable. It may be that a different direction would be preferable in advancing the learning curve about VRS and to what extent it can be made less expensive and therefore more readily available to the general public. With this approach, we would welcome a modified request from the DDTP in this area.

Consultants

We adopt funding for the other consultants requested by the DDTP. Although we adopt the funding for the transition managers, the development of equipment distribution service quality standards, the consultants for the database implementation and warehouse RFP consultant, as well as the systems technology plan consultant, we believe strongly and therefore will require that the DDTP should take the steps to hire a consultant to assist the DDTP for the entire centralization effort. The first step would be for the DDTP to engage a consultant to develop an RFP to find the consultant or consultants to perform these tasks and to integrate all of the steps

required to transfer these functions from the utilities to the DDTP. We adopt the funding request for oversight of the investment manager.

Trustee Administrative Expenses

We are adopting a budget for interpreters at a 25% decrease from what is proposed. We authorize \$159,690, or a reduction of 36 meetings or 25% of the meetings. While we agree that the restructuring and centralization projects will involve a great deal of administration, we are not convinced that having as many meetings as requested will not be counter productive.

Additionally, we are concerned about the increased cost for the captioners and interpreters and ask the DDTP to report back to us on whether it has been considered, and might be possible, for the DDTP to employ captioners and interpreters on a part time basis to cover this effort. Because this is an interim budget which we adopt for 1998, the DDTP may file for a budget augmentation if experience shows that it is not possible to moderate the costs in this area as adopted here.

Legal Expense

We will authorize a budget of \$138,600 for legal expenses. Using the same reasoning as above, we are not convinced that the DDTP will in fact require such an excessive increase in legal fees over what is currently being incurred. Our authorization represents a decrease from 660 hours to 495 hours, at the rate of \$280 per hour. We urge the DDTP to attempt to negotiate a better rate should this level of legal expertise be needed, or even to hire its own in house counsel. Again, we mention that should the DDTP need an increase in the budget for legal expenses, it is authorized to file a request for a budget augmentation.

DDTP Office Expense

For the DDTP Office Expense, we adopt a budget of \$1,218,750, which is \$ 75,404 lower than the DDTP request. The difference is based in part on part using a 2.7% rather than the requested 3% cost of living increase as a standard, and the resulting lower benefits and personnel taxes due to the reduction in the staff wage increase. We do not approve of the request to revise the

existing staff salary scales, as the program is in a state of transition and it would be better to defer this until the transition phase has been completed. We reduce also the following requests in the DDTP Office Expense budget because we do not believe the high increases in these expenses will occur: 1) a reduction of \$23,630 for furniture, 2) a reduction of computer maintenance from \$9000 to \$4000, 3) a reduction of the budget for telephone costs by \$5,324, 4) a decrease in the amount for meetings from \$7625 to \$3000, and 5) reducing the amount for training, education and advertising by \$19,600. Finally, we lower the travel budget by \$892 as we do not believe the proposed trip to GTB headquarters in Dallas will be necessary.

For the committee budgets, we reduce the requested budgets for all three committees by 25% to reflect a reduction in meetings, consistent with our action concerning the budget for interpreters. We adopt the budgeted increase for employee and committee member attendance at the stated conventions, disagreeing with ORA. We believe it is important for the DDTP program for its staff and committee members to be informed by attending these conventions. We understand these conferences are important sources of information on evolving equipment, and provide the opportunity for DDTP members to communicate directly with manufacturers and designers of new equipment for the served communities and learn from peers in other states on their approaches to DDTP issues.

Outreach

The last budget item to be discussed with the Trust Administration budget is the outreach category. We believe that there are more details which are in the final stages of determination by the DDTP which must be resolved before we can adopt a final budget for the outreach program. For example, it is not clear at this point whether the program specialists are going to be hired on an in-house basis or will be under contract at other agencies, as they are currently. Another issue is whether the program specialists will be housed throughout the state or will be centralized in parts of the state (i.e. in the North, South and Central areas). This determination should affect whether there is a need for the extensive costs to house these specialists. Additionally, the results

of the market analysis which is planned for 1998 may impact the direction of the outreach program. The DDTP plans to conduct outreach in all of its activities to the Hispanic, Chinese and Russian communities in 1998. We believe that the DDTP should begin to focus on the Hispanic and Chinese communities in 1998. The analysis of the market for the DDTP services should include an in depth determination of the specific foreign language needs for the DDTP outreach focus and the agencies and organizations working directly with these communities. It also should include the best way to prioritize and phase-in the outreach to these communities. We believe that these details will be determined early in 1998 and will allow the DDTP to file a budget augmentation for the final plan. At this time we are adopting a budget at \$1,096,910 for 1998. This is based on a funding level at the current revised outlook level of \$596,910 and \$500,000, which is 50% of the requested media budget.

ORA's Protests and Recommendations

In regard to ORA's other protests and recommendations, we do not agree that the DDTP should be showing cost savings at this time. We believe that the cost savings identified by AUC refer to the program after the equipment and service functions now provided by utilities are centralized with the DDTP. We do not expect the DDTP to show a cost savings during this time of transition. We agree with ORA's concern about conducting a VRS trial when the cost issues are not resolved. The discussion above of the VRS trial reflects our agreement.

Equipment Distribution Budget Recommendations

The utilities are not budgeting for any equipment purchases or equipment maintenance and repair expenses in 1998. That is because the DDTP office will be assuming the responsibility for equipment procurement and bill payment in 1998. The DDTP office will also pay all of the maintenance and repair invoices currently invoiced to utilities by equipment vendors.

The DDTPAC's consolidated proposed budget for 1998 indicates a decrease in total SB 597 expenses by 16% while SB 60 expenses are expected to increase by 16% over 1997 outlook expenses. The reason given for this disparity is because of the maturity levels and growth rates of the two programs. The DDTPAC claims that SB 597 will grow at 2 to 3% during 1998 because the program has reached a mature maintenance phase wherein two thirds of the expenditures are for repairs and replacement of existing equipment while the rest is for new consumers. For the SB 60 equipment, the DDTPAC expects an annual growth rate of 5 to 7 percent. Of this growth, the DDTPAC expects about a third to be for new equipment with the rest for new consumers of services. We will adopt these growth rates in this interim budget. If the DDTP notices that the growth rates have increased as a result of its outreach efforts, we encourage it to inform the Commission and request a budget augmentation as necessary.

Distribution of vibrating signaling alert device

The DDTP is requesting approval for providing severely hearing impaired consumers the choice of selecting either an auditory signaling device, a flashing signaling device, or a vibrating signaling device. The vibrating signaling alert device is currently provided only to deaf-blind consumers of the program. Based on customer surveys, a high percentage of severely hearing impaired consumers find the vibrating signal device a much more effective notice of an incoming phone call. The DDTP thus recommends that this equipment be made available to them. As the vibrating signaling device is more expensive than the other two devices, the cost increase to the equipment programs is estimated as \$377,085. We adopt this request.

Utility Outreach expenses

Currently, expenditures reported for outreach by the DDTP are understated while expenditures for utility staff are overstated. That is because utility labor expenses include the time spent on outreach. As a result, the program can not ascertain with any accuracy the proportion of utility labor expenses that are attributable to outreach efforts and how much is for other DDTP related tasks. We expect that, on a going forward basis, utility personnel will segregate the time that

they spend on outreach. If a field trip includes both outreach and other DDTP related activities, the representative should proportion the expenses between those two set of activities accordingly. In order to accurately reflect the costs of outreach and other DDTP related expenses, we will require the DDTP to ensure that the utilities comply with this requirement prior to approving payments to utilities. Spending for equipment purchases will be budgeted based on DDTPAC recommendations.

The DDTPAC is requesting a budget of \$3,506,774 for SB 597 and \$ 14,797,377 for SB 60 for 1998. The corresponding budgeted amounts for 1997 were \$3,897,543 and \$12,876,066 respectively. We will adopt a budgeted amount of \$3,450,078 for SB 597 and \$14,570,594 for SB 60. The disallowance for SB 597/SB 60 of \$56,696/ \$226,783 is due to \$ 15,080 / \$ 60,320 for various labor related expenses disallowed for Pacific Bell, \$ 34,136 / \$136,543 for disallowed incentive awards to utility personnel for non-DDTP related activities and \$7,480 / \$29,920 for a time and motion study disallowed for Pacific Bell. The disallowances are discussed below.

Pacific Bell's SB 60 and SB 597 Proposed 1998 Budgets

Program growth projections

Pacific Bell projects growth in the number of residential ratepayers at a 3.96% rate while program users will grow 6.61% over 1997. The growth rate of equipment in service is expected to be 5.3% for SB597 and 3.19% for SB60. These growth rate projections are contained in DDTP's equipment budget. Because both DDTP and Pacific Bell estimate growth of equipment for 1998 to increase by more than 3%, we will accept Pacific Bell's projection of a 3% increase in warehousing and repair expenses for this interim budget.

Use of affiliates for non-regulated services

Pacific Bell, in its budget submittal, identified its unregulated subsidiary, Pacific Bell Information Services (PBIS) to provide toll related services to DDTP customers. During budget related meetings, Pacific Bell informed TD staff that the decision to use PBIS for those services

was made at a corporate level. We expect that utilities will refrain from self-dealing and provide DDTP related services through the least cost provider. If Pacific Bell plans to use its affiliates for providing any services, we expect that it will provide justification that demonstrates that the services are being provided at the least cost to the program and that all Commission ordered affiliate transaction rules have been followed.

Funds for time and motion study

Pacific Bell used a time and motion study to split the time spent by its staff between DDTP and non-DDTP related activities. Despite that study, Pacific Bell requested funds for another time and motion study for its Berkeley Special Needs Center. We expect Pacific Bell to charge the program by accurately tracking the time spent by its staff on DDTP related matters. If the utility elects to utilize its staff for non-program related functions, that is Pacific Bell's choice and not DDTP's; therefore, TD believes that Pacific Bell should bear the expense of another time and motion study. We will require Pacific Bell to ensure that all time charges to the DDTP are authorized and accurate. Funds requested by Pacific Bell for a time and motion study should be disallowed. The impact of this disallowance is to reduce Pacific Bell's budget request by \$37,800.

Program Staffing

Assignment of a Director

Pacific Bell plans to assign a Director as well as an Area Manager to work on DDTP matters. Pacific Bell justifies these two assignments because it believes that these individuals possess the "knowledge and experience as it relates to their level of authority and accountability within Pacific Bell's Deaf and Disabled Services" ¹³.

Pacific Bell has a voting member on the DDTPAC. We believe that that individual should have sufficient expertise to represent the interests of Pacific Bell on all DDTP related matters. Adding a second person at the level of Director is inappropriate for the DDTP because it goes beyond the

Commission's expectations with regard to responsibilities of the voting member. In any case, we believe that other employees who are dedicated to work on the program are adequate to take care of DDTP related activities. We will disallow expenses related to the assignment of a Director to work on the DDTP. The impact of this is to reduce Pacific Bell's proposed Equivalent Full Time Employee (FTE) count by 0.25 and its proposed budget by \$38,400.

Program manager

Pacific Bell plans to assign a Program Manager to work on DDTP matters. The function of that position is training and handling interim arrangements associated with the transition of equipment related functions from Pacific Bell to the DDTP's centralized warehouse. Eventually, all warehouse related functions will be handled by the DDTP's new equipment manager. Since this is a transition function, we will adopt the program manager as a temporary position; this individual will be available to train the DDTP's new equipment manager.

Equivalent Full Time Employees (FTEs)

We believe that the number of equivalent FTEs required to support DDTP related traffic should be proportional to projected call volumes. Pacific Bell expects the total Deaf Trust related calls handled by it will decline by 11.5% in 1998 as compared with 1997.¹⁴ In addition, about 10% of seven Field manager responsibilities are associated with outreach functions. Those functions are expected to be handled through the centralized DDTP outreach efforts. If the DDTP elects to use Pacific Bell employees for outreach, it should reimburse the utility for those efforts from its outreach budget. The impact of this on Pacific Bell's portion of the 1998 budget request is a reduction of \$37,000 for one FTE.

¹³ Response to Request 11 of Staff Data Request PB-50-1,R1.

¹⁴ According to Pacific Bell's work papers, Actual calls for 1996-97: 250,166, 1997 projection: 209,888, 1998 projection: 185,716. This represents a decrease of 11.5% over 1997 projections.

Overhead rates

Pacific Bell is permitted to recover actual expenses associated with providing services on behalf of the DDTP. It charges the program actual salaries plus expenses. Actual salaries are composed of a base salary plus a percentage to recover benefits provided to employees. The latter is called the overhead (OH) rate and is a percentage of each employee's base salary. No profits or charges unrelated to the services provided, unless specifically adopted by the Commission, may be charged to the program.

Pacific Bell proposes to apply an OH rate of 64.2% to base salaries of staff assigned to provide DDTP related services. This OH level appears reasonable at this time. We therefore will allow Pacific Bell to charge its proposed OH loading rate for this interim budget.

Team awards

DDTP services are provided on an actual cost reimbursement basis. Pacific Bell's OH rates include team awards that are dependent on achieving certain minimum revenue, profit and service quality objectives for the Corporation as a whole. OH rates based on corporate profitability or revenue enhancements may not be passed along to the DDTP. Pacific Bell proposes to allocate \$ 170,265 (\$74,610 for management and \$ 95,655 for others) for Team awards to staff working on DDTP matters. TD was unable to determine the proportion of the Team awards that are attributable to improving the quality of service to DDTP consumers. Since quality of service is one of three criteria used to determine the Team awards, TD estimated this component to be a third of the total Team awards proposed by Pacific Bell. Because DDTP services are provided on an actual cost reimbursement basis and only service quality objectives could be related to the DDTP, we will reduce Pacific Bell's 1998 labor expenses by \$113,510, related to Corporate minimum revenues and profit for Team rewards.

The following table summarizes the adjustments to Pacific Bell's 1998 budget discussed above:

Table PB-1: Adjustments to Pacific Bell's 1998 budget

	Budgeted	Disallowed	Revised Amount
Time and motion study	37,400	37,400	0
<u>Labor expenses</u>			
Director's charges to DDTP	38,400	38,400	0
Reduction in FTE positions	2,679,109	37,000	2,642,109
Team awards	170,265	113,510	56,755

GTEC's SB 60 and SB 597 Proposed 1998 Budgets

GTEC's SB 60 and SB 597 proposed 1998 budgets are based on actuals as of 5/31/97. Using the last 12 months data, GTEC made projections to December 28, 1998 for budgeting purposes. A TD staff data request to update the information was not responded to in time for inclusion in this resolution.

GTEC projects equipment purchases to grow by 6.5% between May 31, 1997 and December 31, 1998. During that time, it expects its customer base to grow at the same rate from 116,822 to 124,415. During 1998, GTEC does not expect to increase its staffing for DDTP related activities.

Outreach

Part of GTEC's labor expenses include outreach activities by its field representatives. These activities will be centralized in 1998 through the DDTP office. We estimate that this will impact

GTEC's labor expenses by about 0.5 FTEs. We expect that any authorized outreach activities by utility personnel will be segregated and reimbursed from the DDTP's outreach budget.

Management Incentive Payout

GTEC charges the DDTP for a Management Incentive Payout (MIP). The computation of that award is based on overall performance of the Company. The exact amounts are based on the achievement of certain Team Measures and Core Measures. In response to a TD data request, GTEC listed 10 factors that were used to determine the payout of the awards. TD was unable to relate any of the 10 factors to the work performed on behalf of the DDTP. We will therefore disallow the payment of MIP awards to GTEC by the DDTP. The result of this is to disallow \$57,169 from GTE's 1998 labor expense budget.

Equipment Tracking Policy

There is inconsistency in the equipment tracking policies followed by Pacific Bell and GTEC. Pacific Bell does not track most individual pieces of equipment such as TTY's while GTEC and the California Telephone Association (CTA) do. As a result, it is difficult to accurately account for individual equipment distributed by the program without expensive audits. We expect that all participants in the equipment distribution program will track all equipment that they distribute on behalf of the program. To ensure that this is not a burdensome requirement, we will require all equipment with a retail price of \$25 or above to be tracked by the program. Once centralization of the equipment distribution function is in place, we will expect all program equipment to be traceable. We expect the DDTP to oversee this effort and report back sixty days after the equipment distribution is centralized with detailed plans to the Director, TD, to carry out this requirement.

California Relay Service Budget

We adopt the DDTP budget request for Senate Bill (SB 244). The adopted CRS budget reflects both MCI and Sprint providing CRS during 1998.

Estimated DDTP Receipts and Change in Surcharge

Receipts

It is necessary to determine unencumbered funds at the beginning of 1998 in order to calculate the DDTP surcharge necessary for 1998. The TD estimated receipts for 1997 by using nine months actual data for 1997 and a projection for three months of 1997. The TD estimated receipts for 1997 were \$46,867,032 or \$9,561,08 more than the estimate submitted by the DDTP. If the DDTP 1997 expenses of \$35,619,563 are used, the unencumbered funds at the end of 1997 will be \$36,331,244 or \$9,561,008 more than the estimate submitted by the DDTP. To determine the receipts for 1998, a surcharge of 0.25% was applied to the 1998 revenue base of \$12,697,068,633. Toll revenues and CRS Damage Assessments were estimated by TD at the same level for 1997 based on nine months actual for 1997. Investment Income and Miscellaneous revenues were decreased by TD from the 1998 DDTP budget levels to adjust for the lower 1998 revenues receipts of \$33,811,885. If the adopted 1998 estimated expenses of \$48,720,453 are used, the unencumbered funds at the end of 1998 would be \$21,422,676.

Change in Surcharge Level

Section 2881 (f) of the Public Utilities Code places a cap on the fund balance that should not exceed six months of expected spending requirements. We examined the present fund of the DDTP along with the interim approval of the 1998 Program Budget. We also have taken note that the management audit report dated April 30, 1997, recommended (Recommendation 22) that a funding level of three months expenses is adequate because the predictable flow of cash receipts and disbursements provides for very little fluctuation in DDTP's cash flow. The Universal Lifeline Telephone Service Trust, another telephone surcharge program in California,

has reduced its cash balance from six months to three months without experiencing any adverse effects from the cash balance reduction. A reduction in the current DDTP surcharge of 0.36 % to 0.25 % should provide for a cash balance of three months expenses of \$12.18 million at the end of 1998 plus a reserve of \$9.24 million dollars to cover transitional projects such as outreach and a centralized database. We adopt the surcharge rate reduction from 0.36% to 0.25% effective January 1, 1998. We anticipate that the surcharge level of 0.25 % will be required to be increased for the DDTP 1999 budget.

The 0.25% surcharge adopted by this resolution does not include the surcharge of 0.02% provided by PU Code Section 2881.2 to provide for publicly available telecommunications devices capable of serving the needs of the deaf and hearing impaired in existing buildings, structures, facilities, and public accommodations.

With regard to the adopted change in the DDTP surcharge, we waive the notice requirements of General Order 96-A, Section III, G.I., the requirement to furnish competing utilities either public or private with copies of related tariff sheets. We do so because it does not appear to be in the public's interest for each utility to send and receive hundreds of notices advising them of regulatory changes they already know about.

The "Combined California PUC Telephone Surcharge Transmittal" form (Transmittal Form), attached to this Resolution No. T-16017 as Appendix A is revised to reflect a Total California Relay Service and Communications Device Surcharge (DDTP) of 0.25%.

FINDINGS

1. DDTPAC proposes a total of \$50,818,124 for the 1998 Program Budget.
2. The Office of Ratepayer Advocates (ORA) proposed a reduction of \$3,986,290 or a total of \$46,832,794 in the 1998 Budget.
3. ORA recommends that: 1) the DDTPAC should not increase its outreach program in 1998 during this period of restructuring the DDTP program, 2) the DDTP committees should not be allowed to expand the budget for attending conferences, 3) the increase in equipment purchases should (with exception to the vibrating alert signaling device) be held to growth rates of 3% for the SB 597 program and 7% for the SB 60 program, and 4) the proposed Video Relay Service Trial should not be adopted.
4. We agree in part with the ORA recommendations and disagree in part, as reflected in this resolution.
5. In response to the emergence of multiple telecommunications providers the Commission and the DDTP recognized several years ago the need to change from a utility equipment provided program to one which is centralized and managed by the DDTP.
6. In 1996, in the DDTP's 1996 program budget (Resolution No.T-15828), the Commission required the DDTP to commission an independent audit of the DDTP's structure, practices, and operations.
7. The chosen consultants to perform this audit, AUC Management Consultants (AUC), provided the Commission with the final report on April 30, 1997.
8. The twenty-two recommendations in the AUC report are based on and support two major changes to the program: 1) to move from a committee-administered program to a staff-administered program and 2) to move from a telephone company equipment distribution program to a DDTP directed equipment distribution program.
9. The DDTPAC requested funding in its 1997 Program Budget proposal for twelve consultant projects which the Commission approved in Resolution No. T-16017 on April 9, 1997.
10. Although some of these projects have been completed or are being implemented, many others are awaiting resolution with the Commission regarding the appropriate involvement by the utilities.

11. The DDTPAC's request for its 1998 program budget includes funding to hire consultants to complete the studies adopted in Resolution No. T-16017 as well as additional studies and actions required to achieve the centralization of the DDTP programs.
12. Engaging a consultant firm to oversee the entire centralization effort, including the design and development of the database, the warehouse and the call center as well as the transition of the current equipment distribution and services function from the utilities to the DDTP would reduce the time needed to complete this project and should result in the development of management skills needed by the DDTP to operate this effort after it has gone into effect.
13. The 1998 DDTP budget for its outreach program should be continued at the current outlook budget level of \$1,096,910 until the remaining issues concerning program operation and standards are adopted.
14. Due to the uncertainty concerning the timing of possible restructuring of the DDTP program and the centralization projects scheduled to be completed, the adopted budget for 1998 should be interim.
15. As discussed in this resolution, the DDTP is authorized to file for budget augmentation of the 1998 interim budget adopted herein.
16. The estimated \$377,085 increase in the SB 60 and SB 597 budget to provide a vibrating alert to its severely hearing impaired consumers is reasonable.
17. Utilities do not track individual pieces of equipment distributed on behalf of the DDTP. Such tracking is essential for auditing purposes.
18. Pacific Bell has indicated that it proposes to use its affiliate, PBIS, for certain toll related services to DDTP customers.
19. TD, at this time, is unable to determine the effect of the affiliate transaction rules which will be applicable for Pacific Bell or if the services will be provided in the most cost efficient manner.
20. Pacific Bell has conducted a time and motion study to split time spent by its staff on DDTP and non-DDTP matters but now requests \$37,800 for another time and motion study.
21. Pacific Bell has the responsibility to ensure that its employees accurately track time spent on DDTP matters.

22. Pacific Bell's request of \$37, 800 for a time and motion study is not reasonable. Pacific Bell needs to hire a program manager to resolve transition issues related to handing over of equipment to the DDTP.
23. DDTP's new equipment manager needs training to become familiar with equipment related issues to bring those functions in house.
24. Pacific Bell's staffing on the DDTP should reflect the projected decrease in growth for the program services. A reduction of one FTE reflects the projected decrease in growth.
25. Pacific Bell's request of \$37,000 for one FTE dedicated to the DDTP based on the decrease in growth of program services is unreasonable.
26. Pacific Bell does not need to assign an individual at the level of Director to the DDTP.
27. Pacific Bell's labor expense in the amount of \$38,400 for assigning a Director to the DDTP is unreasonable.
28. Pacific Bell's team awards are based on criteria that includes enhancement of Corporate revenues, profitability and quality of services.
29. The DDTP may reimburse Pacific Bell for a proportion of team awards that are directly related to improving quality of service provided to it.
30. Pacific Bell's team awards in the amount of \$113,510 is unreasonable.
31. GTEC's Management Incentive Plan (MIP) is not based on quality of service improvements related to the DDTP.
32. GTEC's MIP payout in the amount of \$57,169 is unreasonable.
33. TD estimated 1997 receipts using nine months actual data and estimated the last three months.
34. TD used the DDTP 1997 expense estimate of \$35,619,563 in determining the unencumbered funds at the end of 1997.
35. TD's estimate of \$36,331,244 for the January 1, 1998, unencumbered funds is reasonable.
36. TD's estimate of \$33,811,885 for 1998 receipts is reasonable.

37. TD's estimate of \$3,450,078 for 1998 S.B. 597 expenses is reasonable.
38. TD's estimate of \$14,570,594 for 1998 S.B. 60 expenses is reasonable.
39. TD's estimate of \$27,217,897 for 1998 S.B. 244 expenses is reasonable.
40. TD's estimate of \$48,720,453 for 1998 Administrative Expenses is reasonable.
41. A surcharge rate of 0.25% will provide sufficient revenue to fund the projected DDTP expenses for 1998.
42. A reserve balance of \$21.42 million at December 31, 1998, is reasonable. This reserve is approximately three months projected program costs plus a reserve of \$9.24 million for transition projects.
43. The Commission reserves the right in the future to review and adjust the surcharge rate adopted in this resolution as necessary to support the DDTP requirements.
44. It is neither in the public's interest nor the telecommunications utilities' interest to require all utilities to notice all other utilities of a commission order of which they are all aware.

THEREFORE, IT IS ORDERED that:

1. The 1998 adopted annual budget for the Deaf and Disabled Telecommunications Program shall be \$ 48,720,453. The details of this adopted budget are set forth in Appendix B of this resolution. The 1998 Program Budget is adopted on an interim basis subject to adjustment by further Commission action. The DDTPAC may file for a budget augmentation should its actual administrative expenses be larger than is anticipated in the adopted budget.
2. The DDTP shall hire a consultant to oversee its entire centralization project including the design and development of a database, warehouse and call center and also to develop a business plan for submission to the Commission, as discussed in this Resolution. .
3. The request by the DDTPAC to conduct a voucher trial is adopted as described and requested in the DDTPAC's Work Plan submitted to the Commission on May 9, 1997 and in its 1998 budget request.
4. The DDTPAC is authorized to conduct a trial on Augmentative Communication Devices as described in the proposal written on August 11, 1997 for the DDTPAC and which is the basis for the request in the 1998 budget filing.

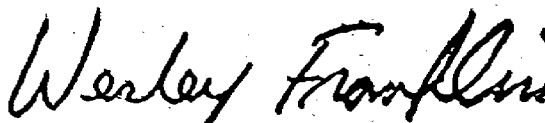
5. The DDTP shall submit to the Director, Telecommunications Division (TD), 60 days after the equipment distribution is centralized, the standardized equipment tracking procedures. TD will respond to the DDTP within 30 days with its comments.
6. Within 30 days from the date of this resolution, the DDTP will meet with the staff of the Telecommunications Division to work out details on how to accomplish each consultant project ordered in Resolution No. T- 16017.
7. Pacific Bell's proposed program manager should be available to train DDTP's newly hired equipment manager.
8. The 0.25% surcharge rate shall be applied to all surchargeable billings rendered on or after January 1, 1998, and continue until changed by the Commission.
9. All telecommunications utilities subject to the DDTP surcharge shall file tariff schedules in accordance with the provisions of G.O. 96-A on or before December 31, 1997, which shall be effective on January 1, 1998. All Local Exchange companies and Interexchange companies are granted an exemption from the noticing requirements of General Order 96-A, Section III,G.1 for this filing only.
10. Effective January 1, 1998, all telecommunications utilities subject to the DDTP surcharge shall use the revised Transmittal Form, attached to this Resolution No. T-16090 as Appendix A, to report and remit the DDTP surcharge on all billings rendered on or after January 1, 1998.

December 16, 1997

11. The Executive Director shall serve a copy of this Resolution to all Local Exchange Companies, Interexchange Companies, Cellular Companies and other certificated companies who are subject to assessing the DDTP surcharge.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 16, 1997. The following Commissioners adopted it:



WESLEY M. FRANKLIN
Executive Director

P. GREGORY CONLON

President

JESSIE J. KNIGHT, Jr.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners

APPENDIX A