

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Promotional filing to temporarily) DOCKET NO. 900138-TL
waive 50% of the nonrecurring charges)
for WatchAlert Installation by UNITED) ORDER NO. 22802
TELEPHONE COMPANY OF FLORIDA (T-90-036)
filed 1-03-90).) ISSUED: 4-11-90
)

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
THOMAS M. BEARD
BETTY EASLEY
GERALD L. GUNTER
JOHN T. HERNDON

FINAL ORDER APPROVING TARIFF FILING

BY THE COMMISSION:

WatchAlert Service (WatchAlert) is offered by United Telephone Company of Florida (United or the Company) to alarm and security companies which perform private alarm security monitoring for residential and business line customers. WatchAlert provides for continuous transmission of signals which can identify a change in the status of alarm monitoring sensors located on a client's premises. WatchAlert utilizes a scanner located in the serving central office and connected to that client's single party exchange access line. The scanner is used to repetitively poll a customer-provided Subscriber Terminal Unit (STU), which is connected to alarm or monitoring sensors. A change in the status of an alarm sensor is recorded in the STU. When polled by the scanner, the change in status is transmitted through the scanner to two centrally located message switches. These message switches then transmit the change in status of the STU involved to the client's alarm agency via appropriate private line or special access type channels.

The Company reports that WatchAlert competes in the alarm security monitoring market with various types of monitoring services. The primary competitor is customer provided alarm detection and reporting equipment known as digital communicators, the most widely used form of alarm signal transmission. Other competitors in this market include long and short-range radio and multiplex security systems.

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WatchAlert is viewed as a transitional technology for Integrated Systems Digital Network (ISDN). However, United does not expect the service to be replaced by ISDN in the near future.

At the current time, demand for WatchAlert is quite low. United reports that there were 114 business customers and only 14 residential customers for the service as of December 30, 1989. Total revenues for WatchAlert were \$1,372 during that month. This figure is in stark contrast to United's projected demand of 4,650 clients for 1989, as forecasted by United's marketing department.

This tariff proposal is United's first attempt to offer discount rates to potential clients. The company is proposing this Special Promotion discount in order to stimulate demand. The demand for the service was only 128 clients in December, 1989. United plans to use alarm agencies' assistance in promoting the service in conjunction with the Company's efforts.

United has submitted, with its filing, cost data based on original client demand assumptions. Since the actual demand has fallen far short of the projected demand used in United's cost study, the actual recurring cost per unit of service is much greater than originally expected. When actual demand is considered, the actual recurring cost per unit far exceeds the recurring rates offered for the service. One way to quantify the impact of the demand shortfall is to consider the cost per client in 1989 by dividing the recurring costs for that year by the number of clients. The company's annual recurring cost of \$235,364, divided evenly among its 128 customers, yields a revenue requirement of \$1,838 per customer for 1989, or \$153 per customer per month. Since the recurring rate charged by the company was only \$9.00 per business customer per month and \$6.50 per residential customer per month, it is quite evident that WatchAlert has been an extremely unprofitable venture for the Company. The general body of ratepayers has thus absorbed much of the cost of this service. However, the Company declares that the salvage value of the equipment used for WatchAlert is very low and, therefore, a sunk cost to the Company. The prudent approach to improving the profitability of the service does seem to be to stimulate demand rather than to encourage the Company to abandon the service, assuming the service has strong promotional possibilities.

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There appear to be two reasons why United's WatchAlert offering may have strong promotional possibilities. The Company responded to our data requests that WatchAlert offers substantial benefits above and beyond those offered through other market offerings. Specifically, the primary advantage WatchAlert offers is enhanced security by providing line supervision and line integrity. Due to these security advantages, Underwriter's Laboratory has approved WatchAlert for improved insurance coverage, and United intends to use this fact in its promotional campaign. Secondly, strong promotional possibilities may exist for United's WatchAlert based upon the marketing success achieved by Southern Bell for its WatchAlert Service. Southern Bell reports 5,440 business clients and 2,643 residential clients as of December 31, 1989, and most of these clients are located in Dade and Broward Counties. The popularity of the service in these locations indicates that it may achieve market acceptance in other areas of the state through effective promotional efforts. If the first promotion is successful, the Company plans to offer a similar promotion in the third quarter of 1990 or the second quarter of 1991.

We have also considered the impact of the promotion on the general body of ratepayers. The Company's proposal to lower nonrecurring charges by 50% would have the effect of reducing nonrecurring business charges from \$55.00 to \$27.50 and reducing nonrecurring residence charges from \$40.00 to \$20.00. The nonrecurring cost incurred by United is \$31.40 for WatchAlert service, thus exceeding the proposed promotion period's nonrecurring business and residential charges for the service. As such, the general body of ratepayers would, at first glance, appear to be liable for the excessive costs of the promotion. However, it has been our policy to allow nonrecurring costs to exceed nonrecurring rates for local exchange company special promotions. This is based on the premise that demand will be stimulated to such an extent that any losses sustained by the discount will be recouped through increases in revenues resulting from increases in demand.

Since the Company has considerable sunk investment in the dedicated equipment required for this service, representing a cost now borne by the general body of ratepayers, we believe an attempt should be made to recover these costs through an appropriate promotional offering. Therefore, we find it appropriate to grant a waiver of 50% of the nonrecurring

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charges for WatchAlert installation during a Special Promotion by United Telephone Company of Florida to begin April 1, 1990, and to extend through the close of business on May 25, 1990. However, the Company shall submit a marketing report to this Commission within 30 days following the end of this promotional period which would include the new business and residential demand levels for WatchAlert, the revenues and expenses incurred during this promotional period, and a description of all of the promotional efforts put forth to improve WatchAlert's market acceptance.

Based on the foregoing, it is, therefore,

ORDERED that United Telephone Company of Florida's tariff filing for a promotional offering to temporarily waive 50% of the nonrecurring charges for WatchAlert installation for the period April 1, 1990, through May 25, 1990, is hereby approved as set forth in the body of this Order. It is further

ORDERED that United Telephone Company of Florida shall submit a report within 30 days of the end of this promotional offering as set forth in the body of this Order. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission,
this 11th day of April, 1990.



STEVE TRIBBLE
Director of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.