

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
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Tallahassee, Florida 32399-0850

M E M O R A N D U M

July 22, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF COMMUNICATIONS [CHEEK] *MLC*
DIVISION OF LEGAL SERVICES [KURLIN] *sak* *WR* *HL*

RE : DOCKET NO. 930423-TL - REQUEST FOR APPROVAL OF PROPOSED
TARIFF TO OFFER A THIRTY DAY (30) MONEY BACK GUARANTEE
FOR SMARTCALL FEATURES AND PACKAGES AND CERTAIN CUSTOM
CALL LOCAL AREA SIGNALLING SERVICE FEATURES AND
PACKAGES BY GTE FLORIDA INCORPORATED (T-93-151 FILED
MARCH 26, 1993)

AGENDA: AUGUST 3, 1993 - CONTROVERSIAL - PARTIES MAY
PARTICIPATE

CRITICAL DATES: COMPANY WAIVED 60-DAY STATUTORY REQUIREMENT
COMPANY REQUESTED EFFECTIVE DATE: AUGUST 4, 1993

SPECIAL INSTRUCTIONS: I:\PSC\CMU\WP\930423.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should GTE Florida Incorporated's proposed tariff filing to offer a thirty-day (30) Money Back Guarantee for SmartCall features and packages and certain custom calling Local Area Signalling Service (CLASS) features and packages be approved?

RECOMMENDATION: Yes. GTE Florida Incorporated's proposed tariff filing to offer a thirty-day (30) Money Back Guarantee for SmartCall features and packages and certain custom calling Local Area Signalling Service (CLASS) features and packages should be approved. GTEFL should track the results of its 30 DMBG offering over the next two years and provide the Commission with semi-annual results. The staff and the Company should work together to determine the nature of the information necessary to obtain maximum results. The effective date of the tariff should be August 4, 1993.

DOCUMENT NUMBER-DATE

07909 JUL 22 1993

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STAFF ANALYSIS: On March 26, 1993, GTE Florida Incorporated (GTEFL) filed revisions to its General Service Tariff to offer a Thirty-Day (30) Money Back Guarantee (30 DMBG) to encourage customers to try new network services. The proposed tariff allows customers to subscribe to services with the option of being guaranteed their money back if they are unsatisfied with the service. Currently, there is no provision for Money Back Guarantees in the tariff. However, often local exchange companies offer promotions which accomplish the same goal of encouraging customers to try new services. GTEFL anticipates that the Money Back Guarantee will encourage increased network sales. The Company's plan to market this plan is in its business as usual approach, meaning customers will be notified of the service via bill stuffers and customer service representatives.

The money back guarantee will be applied as follows: if the customer notifies GTEFL within the first 30 days of trying the service that he is not satisfied with the service(s), and wishes to discontinue the service(s), the customer will be entitled to a full refund of one (1) month's monthly recurring charge (MRC), or portion thereof if subscription is less than 30 days. The customer will not be refunded the non-recurring charge (i.e., the Network Access Charge) associated with ordering the new service. This refund will be applied as a credit on the customer's bill. Each customer will be entitled to the credit one time per service. The 30 Day Money Back Guarantee will be available for the listed services in all GTE central offices where these services are equipped. The 30 DMBG will apply to the following services:

Services Available for The Thirty-Day (30)
Money Back Guarantee

- (1) Call Forwarding
- (2) Three-Way Calling
- (3) Speed Calling (8 Code)
- (4) Speed Calling (30 Code)
- (5) Call Waiting
- (6) Cancel Call Waiting
- (7) Smart Ring
- (8) Smarter Call
- (9) Smarter Call (30 Code)
- (10) Smarter Call with Smart Ring
- (11) Smarter Call (30 Code) with Smart Ring
- (12) Automatic Busy Redial
- (13) Automatic Call Return
- (14) Call Block
- (15) Smart Call PAK 4400
- (16) Smart Call PAK 4900
- (17) Special Call Acceptance
- (18) Special Call Forwarding
- (19) Special Call Waiting
- (20) VIP Alert
- (21) Calling Number ID

Using the scenario of a residential customer ordering Automatic Busy Redial (\$5.00 per month), the refund/credit would be applied as follows: After 15 days, the customer calls to disconnect the feature and requests the money back guarantee. The billing system will automatically credit for the 15 days the feature was not activated. A manual adjustment is then required by a service representative to credit the customer for the 15 days he had Automatic Busy Redial. The customer's bill will show a credit which states "Billing Adjustment".

The 30 DMBG estimate is based on the most current Original Budget (OB) forecast containing the vertical services product line. These services are sold primarily to residential and small business customers. The initial phase of conducting the vertical service forecast basically involves the evaluation of central office switch technology. It is assumed that vertical services will be deployed on all capable switches.

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Upon completion of the central office deployment schedule, a total of capable lines and, in turn, penetration rates are established for Florida. Market research, market strategy, economic conditions, as well as historical penetration rates, and annual growth rates, were evaluated to forecast total billed units. The overall potential market is defined as capable lines (residential one-party and business one party subscribers) which can provide the service. After the estimation of market penetration is defined, the equation is to multiply the capable lines by the estimated percentage penetration, (e.g., Billed Units = Annual penetration rate x estimate potential market).

An estimate for each category of SmartCall and CLASS services is then determined using past trends, technology, and market strategies. The equation to forecast the SmartCall groups is as follows:

SmartCall Forecast Equation		
Individual feature/Package	=	Penetration estimate x Total Billed Units

The forecasts are provided annually for a three-year period. Residence market stimulation is projected using the annual growth between the years of the OB forecast times an estimate of 5 percent times 70 percent. The 5 percent is an estimate of the market that would accept a money back guarantee offer by canceling the service. The 70 percent represents the propensity of residential customers to subscribe to SmartCall. The return rate is assumed to be 10 percent of the market stimulation. The net result is achieved by subtracting the stimulation from the return. The formula is as follows:

Stimulation Residence Business	(OB Year 2 less OB Year 1) x 10% x 70% (OB Year 2 less OB Year 1) x 5% x 30%
Return Residence Business	10% x Residence Stimulation 10% x Business Stimulation
Net Return Residence Business	Residence Stimulation less Residence Return Business Stimulation less Business Return

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Customers who become dissatisfied with their Smart Call Services may obtain the 30 DMBG by telling GTEFL of their dissatisfaction when they cancel the service. The return rate is assumed to be 10% of the market stimulation. GTEFL anticipates that 1 in 10 of the sales stimulated by the 30 DMBG would take advantage of the 30 DMBG and cancels the service. This percentage is an educated guess based on the Company's experience of the forecast. Staff believes that this assumption is reasonable. No other assumptions are assumed in the penetration estimate. The net units associated with the 30 DMBG is achieved by subtracting the rate of return from the stimulated sales. The money back guarantee forecast is summarized for custom calling and CLASS features on Table 1-A and 1-B.

Revenue Information

The Company's forecast includes the customers who discontinue the service after 30 days. The amount of revenue loss associated with dissatisfied customers who discontinue the service during the initial 30 days is as follows:

Revenue Loss Associated with the 30 Day Money Back Guarantee	
Year	Revenue loss
1993	\$24,477
1994	\$34,520
1995	\$31,288

The revenue loss associated with the 30 DMBG is based on total revenues for each group of services. Total revenues are divided by 1992 billed units of each group of service which results in an average per unit rate. For example, the 1992 year end units for the CLASS services (or the more advanced custom calling services) was 109,663 and the 1992 total revenues for the CLASS service was \$852,234 which yields an average per unit rate of \$7.77 per unit (i.e., $\$852,234 / 109,663 = \7.77). Older Smart Call Services (Call Waiting, Call Forwarding, Speed Call) were assessed at \$4.80 per unit (i.e., $\$2,022,871 \div 421,155 = \4.80). The average per unit rate for both CLASS and Custom Calling Services is \$5.42 per unit (i.e., $2,875,105 \div 530,818 = \5.42).

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GTEFL anticipates a net gain in network sales as follows:

Projected Net Gain in Sales		
YEAR	Service	
	Smart Call	CLASS
1993	\$36,204	\$48,306
1994	\$32,880	\$68,218
1995	\$42,420	\$61,661

Based on the revenue loss associated with the 30 DMBG and the projected net gain in sales, we believe this revenue loss is minimal and believe that the revenue gain will offset the revenue loss. Therefore staff is comfortable with the projected revenue loss associated with the 30 DMBG. Further, we recommend that the revenue loss associated with this service be accounted for above the line (ATL).

STAFF CONCERNS

This type of offering is a change in Commission policy. One of staff's concerns is that GTEFL is offering a money back guarantee when promotions are offered on custom calling and CLASS features. Between April 1984 and February 1989, GTEFL, in conjunction with a Custom Calling NRC waiver, offered a 30 day free trial on either an individual feature or a custom calling package. (Special promotions tariffs are filed pursuant to Docket No. 830411-TP, Order No. 12559 and Docket No. 840078-TP, Order No. 13181).

Typically, local exchange companies are able to increase sales via promotions. Promotions are often offered for both recurring and non-recurring charges. At the end of the promotion period, the company is supposed to notify the customer to see whether he wishes to continue with the service or not. The difference between the 30 DMBG and a promotion is that the 30 DMBG is a continuous offering, meaning that a customer is only allowed to "try" a new service when the service is being promoted. With the 30 DMBG, a customer will be able to try a service at any time and receive a refund if they discontinue its use within 30 days.

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GTEFL's rationale behind a 30 DMBG is that it will be used as a sales tool to help them achieve maximum SmartCall penetration. Within the next 3-4 years, GTEFL believes that 70% of its network service will be under competitive pressure. The more penetration the Company can achieve before this happens, the better position the company will be in to compete.

In addition to competitive pressures, GTEFL believes there are substitutes for some of its Custom Calling and CLASS services. GTEFL stated that Speed Calling is available on most modern feature telephones. Call block and Special call Assistance can be emulated by equipment that can be placed between the telephone and the telephone company demarcation point. Automatic Busy Redial can be emulated by some feature telephones. Three way Calling can be obtained by having two lines and a two line feature telephone set (conference button). Although staff would agree that some competition may exist among some of these services, we have not determined to what extent it exists. However, Staff has no concerns with the company justifying a 30 DMBG to increase sales, as long as the revenue loss is appropriately accounted for. We do believe that the concept of a 30 DMBG is feasible to allow customers to "try" new services, while at the same time the Company is able to increase sales.

Finally, staff was concerned that GTEFL has no market research which supports that customers are dissatisfied after they subscribe to Smart Call features. GTEFL states that: "the 30 DMBG is offered to relieve a subscriber's concerns of being dissatisfied with the product, post subscription. GTEFL believes that the promise of, or availability of the 30 DMBG will "win GTEFL a happy customer, convinced that GTEFL will stand behind the quality of its services." Since GTEFL has no market research indicating customer dissatisfaction with SmartCall features, we recommend that GTEFL track the results of its 30 DMBG offering over the next two years and provide the Commission with semi-annual results. The staff and the Company have agreed to work together to determine the nature of the information necessary to obtain maximum results.

Staff believes that GTEFL's proposed tariff filing to offer a 30 DMBG will encourage customers to try new network services with the option of being guaranteed their money back if they are unsatisfied. Based on the information presented, staff recommends approval on the basis submitted. The tariff should be effective August 4, 1993.

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ISSUE 2: Should the docket be closed?

RECOMMENDATION: Yes. If Issue 1 is approved, this tariff should become effective on August 4, 1993. If a timely protest is filed, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed.

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed.

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TABLE 1-A

MONEY BACK GUARANTEE FORECAST - CUSTOM CALLING FEATURES
MARCH 19, 1993

	1993			1994			1995		
	<u>Residential</u>			<u>Residential</u>			<u>Residential</u>		
<u>Individual Features</u>			<u>Stim.</u>	<u>Return</u>	<u>Net</u>	<u>Stim.</u>	<u>Return</u>	<u>Net</u>	<u>Stim.</u> <u>Return</u> <u>Net</u>
Call Forwarding	29	3	26	0	0	0	21	2	19
Call Waiting	64	6	58	0	0	0	47	5	42
Speed Call 8	11	1	10	0	0	0	8	1	7
Speed Call 30	6	1	5	5	1	4	4	0	4
Three-Way Calling	3	0	3	3	0	3	2	0	2
Cancel Call Waiting	1	0	1	1	0	1	0	0	0
Smart Ring	5	1	4	13	1	12	0	0	0
 <u>Packages</u>									
Smarter Call	165	19	166	188	19	169	225	23	202
Smarter Call (30 Code)	33	3	30	34	3	31	40	4	36
Smarter Call with Smart Ring	81	8	73	96	9	87	96	9	87
Smarter Call (30 Code) with Smart Ring	15	2	13	17	2	15	17	2	15
Total	433	44	389	357	35	322	460	46	414
 <u>1993 Business</u>									
<u>Individual Features</u>	<u>Stim.</u>	<u>Return</u>	<u>Net</u>	<u>Stim.</u>	<u>Return</u>	<u>Net</u>	<u>Stim.</u>	<u>Return</u>	<u>Net</u>
Call Forwarding	12	1	11	0	0	0	9	1	8
Call Waiting	28	3	25	0	0	0	20	2	18
Speed Call 8	5	1	4	5	1	4	4	0	4
Speed Call 30	2	0	2	2	0	2	2	0	2
Three-Way Calling	1	0	1	1	0	1	1	0	1
Cancel Call Waiting	0	0	0	0	0	0	0	0	0
Smart Ring	2	0	2	6	1	5	5	1	4
 <u>Packages</u>									
Smarter Call	80	8	72	80	8	72	96	9	87
Smarter Call (30 Code)	1	1	0	14	2	12	17	2	15
Smarter Call with Smart Ring	35	3	32	41	4	37	41	4	37
Smarter Call (30 Code) with Smart Ring	1	1	0	7	1	6	7	1	6
Total	167	18	149	156	17	139	202	20	182

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TABLE 1-B
 MONEY BACK GUARANTEE FORECAST - CLASS

March 19, 1993

	1993						1994						1995					
	RESIDENTIAL			BUSINESS			RESIDENTIAL			BUSINESS			RESIDENTIAL			BUSINESS		
	STIM.	RETURN	NET	STIM.	RETURN	NET	STIM.	RETURN	NET	STIM.	RETURN	NET	STIM.	RETURN	NET	STIM.	RETURN	NET
INDIVIDUAL FEATURES																		
AUTOMATIC BUSY REDIAL	4	0	4	3	0	3	4	0	4	4	0	4	8	1	7	0	0	0
AUTOMATIC CALL RETURN	64	6	58	8	1	7	107	11	96	13	1	12	88	9	79	5	1	4
CALL BLOCK	105	11	94	6	1	5	159	16	143	9	1	8	125	13	112	12	1	11
CALLING NUMBER ID	251	25	226	25	3	22	302	30	272	34	3	31	396	40	356	8	1	7
SPECIAL CALL ACCEPTANCE	6	1	5	0	0	0	10	1	9	0	0	0	4	0	4	51	5	46
SPECIAL CALL FORWARDING	1	0	1	0	0	0	1	0	1	0	0	0	2	0	2	0	0	0
SPECIAL CALL WAITING	1	0	1	0	0	0	1	0	1	1	0	1	2	0	2	0	0	0
VIP ALERT	2	0	2	1	0	1	6	1	5	1	0	1	6	1	5	1	0	1
PACKAGES																		
SMARTCALL PAK 4400	194	19	175				291	29	262				182	18	164			
SMARTCALL PAK 4900	107	11	96				157	16	141				103	10	93			
TOTAL	735	73	662	43	5	38	1038	104	934	63	5	58	916	92	824	77	8	69