

Date Mailed
October 29, 2003

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Administration of the Mechanics of Price Regulation Pertaining to
Wisconsin Bell, Inc., d/b/a SBC Wisconsin, on Its September 1, 2003,
Anniversary

6720-TI-184

FINAL DECISION

This is the final decision to determine the amount that Wisconsin Bell, Inc., d/b/a SBC Wisconsin (SBC), may increase, or shall decrease, its price-regulated rates pursuant to Wis. Stat. § 196.196(1)(c) and Wis. Admin. Code § PSC 163.04(1). The Commission considered this matter at its open meeting of October 23, 2003. SBC is required to decrease its rates for price-regulated services by an average of 0.05 percent.

Introduction

On September 11, 2003, the Commission issued a Notice of Proceeding (Notice) in this docket. The Notice initiated an investigation into the administration of the mechanisms of price-regulation pertaining to the amount that SBC may increase or must decrease its rates for price-regulated services. The price-cap index is the mechanism established by the legislature in 1993 Wisconsin Act 496 for setting reasonable rates in lieu of rate-of-return regulation. The Commission applies Wis. Stat. § 196.196(1)(c), and Wis. Admin. Code § PSC 163.04 to determine prospective adjustments in the price-cap index.

Pursuant to Wis. Admin. Code § PSC 163.04(1), on August 28, 2003, SBC filed certain information with the Commission for the Commission's determination of the amount the utility may increase or shall decrease its rates. Pursuant to Wis. Admin. Code § PSC 163.04(8)(a), the

Commission shall issue an order no later than 60 days after SBC's September 1, 2003, anniversary date, authorizing the amount the utility may increase its rates or mandating the amount it shall reduce them. If a hearing is held, the time within which the Commission shall issue an order may be extended by 60 days.

A notice was mailed to potentially interested persons. Any comments received have been considered in approving this final decision. No hearing was held in this docket and none was requested. As a result, this is not a Class 1 proceeding as defined in Wis. Stat. § 227.01(3)(a).

FINDINGS OF FACT

1. The gross domestic product price index for the second quarter of 2003 was 112.17. This represented a 1.53 percent increase over the index value of 110.48 for the second quarter of 2002.
2. The increase in the productivity offset for quality of service is 0.23 percent.
3. The total decrease in the productivity offset for infrastructure deployment is 1.55 percent.
4. The decrease in the productivity offset based on the Commission's discretion is 0.10 percent.

CONCLUSIONS OF LAW

1. SBC is a telecommunications utility, as defined in Wis. Stat. § 196.01, engaged in providing telecommunications service to the public.
2. SBC is a price-regulated telecommunications utility as defined in Wis. Stat. § 196.196.
3. The Commission has jurisdiction under Wis. Stat. § 196.196(1)(c) and

Wis. Admin. Code ch. PSC 163 to issue an order determining prospective adjustments to the price-cap index for SBC, and authorizing the amount by which SBC may increase its rates or mandating the amount it shall reduce them.

OPINION

Under Wis. Stat. § 196.196(1)(c), in determining the amount the utility may increase its rates or mandating the amount it shall reduce them, the Commission shall consider: (1) the annual percentage change in the Gross Domestic Product Price Index (GDPPI); (2) a statutory productivity factor offset; (3) an increase in the productivity offset for inadequate service or insufficient investment; and (4) a decrease in the productivity offset to encourage infrastructure investment.

Gross Domestic Product Price Index

According to Wis. Admin. Code § PSC 163.04(2)(a), the annual percentage change in GDPPI is calculated by using the most recent quarterly chain-weighted GDPPI index and the prior year's corresponding quarterly index, using the same revision series. According to Wis. Admin. Code § PSC 163.02(4), GDPPI means the figure as reported by the U.S. Department of Commerce (USDOC) in its Survey of Current Business. As reported in the USDOC's August 2003, Survey of Current Business, the GDPPI chain-type index for the second quarter of 2003 was 112.17. This represented a 1.53 percent increase over the index value of 110.48 for the second quarter of 2002.

Productivity Factor Offset

According to Wis. Stat. § 196.196(1)(c), the productivity offset is three percentage points for a telecommunications utility with more than 500,000 access lines at the time of electing to be price regulated. Because SBC had more than 500,000 access lines as of September 1, 1994, the productivity offset for SBC is three percent.

Increase in Productivity Offset for Inadequate Service

The service quality mechanism set forth in Wis. Admin. Code §§ PSC 163.04(2)(c) through (ct), is based on comparing actual results to industry-wide standards and company-specific benchmarks. For SBC's 2003 anniversary date, the maximum increase to the productivity offset for inadequate service specified in Wis. Admin. Code § PSC 163.04(2)(g) is 1.6 percent. Once the comparison is made between actual performance and industry-wide standards and company-specific benchmarks, the Commission must determine the weight to be given to each component. The Commission finds that it is reasonable to give equal weight to each of the seven service quality components specified in Wis. Admin. Code § PSC 163.04(2)(c)1., so that the maximum value for each component is 0.22 or 0.23 percent.

The calculation of the increase to the productivity offset for inadequate service for the year 2002 anniversary date is shown in Appendix B. Actual performance is compared against industry-wide standards, as well as against SBC's most recent three-year average performance and performance ranges as approved in the Commission's order in docket 05-TI-629, dated November 12, 2002.

It appears that some of the performance results include wholesale activity, but that the assigned disincentive would not change regardless of whether or not wholesale activity is

included. Commission staff and SBC will be holding further discussions as to the most appropriate treatment of wholesale and other activity in the service quality performance results.

Average Time Interval for Installation. SBC's average installation interval of 2.2 days meets the industry-wide standard of 2.27 days, but fails to meet the maximum of the company-specific performance range (1.32 days). Based on this fact, according to Wis. Admin. Code § PSC 163.04(2)(cp)2.b., an adjustment equal to 50 percent of 0.22 percent, or 0.11 percent, would be assessed for this component, increasing the productivity offset.

Wis. Admin. Code § PSC 163.04(2)(ct) allows the Commission to give special and individual consideration to exceptional or unusual situations and upon due investigation, to adopt penalties that may be lesser, greater, or different than those provided in Wis. Admin. Code § PSC 163.04(2)(cp). SBC requests that the disincentive for this component be waived, due to such exceptional or unusual circumstances. SBC contends that its 2002 performance would have met the standards for installation that were approved for 2003 performance in docket 05-TI-629.

In that docket, the Commission changed the measurement criteria and established a dual standard for installation interval. The first dual standard is based on average installation interval for access line orders without customer requested due dates. No disincentive would be imposed if this measurement, which excludes orders for vertical features, was less than 3.82 days. The second part of the installation interval standard to be effective for 2003 performance is that SBC must meet customer requested due dates for access line orders at least 94 percent of the time. If these standards were applied to 2002 results, SBC would not be assessed a disincentive for either of these measurements.¹ This part of the 05-TI-629 Order was to become effective for

¹ For 2002, SBC's average installation interval for access line orders without customer requested due dates was 1.8 days, and SBC met 98.02 percent of customer requested due dates.

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2003 service quality results, to be evaluated in 2004. If all standards approved in the 05-TI-629 Order were to be applied to SBC's 2002 results, no additional penalties would be imposed for any service quality measurement.

The Commission finds that it is reasonable to waive the disincentive for installation interval due to exceptional or unusual circumstances. It is reasonable to apply the standards for installation interval approved in the 05-TI-629 Order to SBC's 2002 service quality results. Therefore, no adjustment to the productivity offset shall be assessed for this component.

Speed of Repair. For speed of repair, the Commission has established a two-part industry-wide standard. One of those dual standards is that 95 percent of all routine out-of-service troubles be cleared within 24 hours for at least ten months in any calendar-year period. SBC has not met this standard, if all customer-reported troubles are considered, since it only exceeded 95 percent in only six months during 2002. The other standard is average time out of service. SBC has met this standard. However, since SBC did not meet one of the dual standards, it has failed to meet the industry-wide standard for this component. Based on this fact, and the fact that SBC's performance improved upon its three-year average, according to Wis. Admin. Code § PSC 163.04(2)(cp)2.a., an adjustment equal to 50 percent of 0.22 percent, or 0.11 percent, would be assessed for this component, increasing the productivity offset.

SBC requests that the disincentive for this component be waived, due to exceptional or unusual circumstances. SBC contends that it would have exceeded the 95 percent within 24 hour standard in all 12 months if trouble reports received due to cable cuts, or on days when such reports are more than twice the daily average for that calendar quarter in specified geographic areas are excluded from the calculation as nonroutine, and switch detected troubles occurring

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between 6 a.m. and 11 p.m. are included in the calculation. These are the same measurement specifications that were approved in the 05-TI-629 Order, to become effective for 2003 service quality results, to be evaluated in 2004.

The Commission finds that it is reasonable to waive the penalty for speed of repair due to exceptional or unusual circumstances. It is reasonable to apply the measurement specifications for speed of repair that were approved in the 05-TI-629 Order to SBC's 2002 service quality results. Therefore, no adjustment to the productivity offset shall be assessed for this component.

Other Components. For percent repeat trouble reports, SBC's most recent performance fails to meet both the industry-wide standard and the company-specific three-year average performance. Therefore, according to Wis. Admin. Code § PSC 163.04(2)(cp)3.a., an adjustment equal to 100 percent of 0.23 percent shall be assessed for this component, increasing the productivity offset.

SBC's 2002 performance for overall network quality, average employee answer time for repair calls, average employee answer time for business office calls, and trunk blockage, met the industry-wide standard and the company-specific three-year average performance. Therefore, according to Wis. Admin. Code § PSC 163.04(2)(cp)1., no adjustment to the productivity offset shall be assessed for these components.

Adjustment to Productivity Offset for Infrastructure Investment

The calculation of the adjustment to the productivity offset for infrastructure investment applicable to SBC's year 2003 anniversary date is set forth in Appendix C. The calculation is based on comparing actual performance against thresholds approved in the Order issued May 3, 2002, in docket 6720-TI-171.

Based on SBC's actual deployment of new technologies as of December 31, 2002, an incentive of 0.25 percent shall be granted for this component. SBC added two qualifying new technologies, dense wave division multiplexing (DWDM), and OC192 SONET routes, during 2002. DWDM is a means of increasing the capacity of fiber optic transmission systems by the use of multiple light signals operating at different wavelengths along a single-fiber strand. It can be used as an alternative to fiber reinforcement. OC192 SONET routes are designed to increase the efficiency of SBC's network by expanding the capabilities of existing fiber optic cables, by increasing transmission speeds. SBC deployed three applications of DWDM and one application of OC192.

Based on the actual deployment of service improvement capital as of December 31, 2002, an incentive of 0.20 percent shall be granted for this component. This component is based on SBC's capital expenditures associated with the replacement of problem cable segments, inefficient cable control points, and temporary small pair-gain devices, and improvements to air pressure systems. All of these problem areas contribute to customer troubles.

Based on the actual deployment of fiber in the loop as of December 31, 2002, there will be no adjustment in the productivity offset. Based on SBC's actual deployment of new interoffice fiber routes as of December 31, 2002, an incentive equal to 0.60 percent, shall be granted for this component.

Based on SBC's deployment of Titan X-Connects and central office survivability as of December 31, 2002, an incentive of 0.25 percent shall be granted for each of these components. Titan X-Connects provide for software control of routing and service provisioning, reduce maintenance and provisioning costs, and provide for flexibility in the network. Central office

survivability provides for SONET ring route survivability of either SS7, 911 or interoffice traffic facilities by adding fiber or equipment to new or existing nondiverse routes.

Discretionary Adjustment to the Productivity Offset

According to Wis. Admin. Code § PSC 163.04(2)(f), in addition to the adjustments to the productivity offset for infrastructure investment, and quality of service, as discussed previously, the Commission may also, at its discretion, increase or decrease the productivity offset by up to 0.2 percent for utilities with more than 500,000 access lines. To determine this discretionary adjustment, Wis. Admin. Code § PSC 163.04(2)(f) sets forth the factors the Commission may consider to the extent they relate to the utility's infrastructure investment and quality of service.

As part of its annual filing, SBC submitted a number of indicators of performance and commitment for the Commission's consideration in evaluating the discretionary adjustment to the productivity offset. These indicators reflect SBC's performance and commitments in the areas of: (1) promotion of consumer choice, impact on quality of life, promotion of universal service, economic development, efficiency and productivity, and telecommunications services in geographical areas with diverse income or racial populations; (2) customer assistance programs and new service offerings; (3) customer satisfaction; (4) service quality items not in the price-cap formula; (5) customer education; (6) infrastructure deployment; and (7) contributions and community involvement.

SBC's customer service complaints per thousand access lines decreased by 24 percent from 2001 to 2002, after decreasing 17 percent from 2000 to 2001. Some of this decrease may be attributable to SBC's response to meetings with staff from the Commission's Division of Water, Compliance, and Consumer Affairs. While this is a good trend, SBC's 2002 complaint

statistics still do not compare favorably to other incumbent local exchange carriers (ILECs). In 2002, the Commission received 1.6 complaints for every 1,000 SBC access lines. This ratio is more than double the 0.7 complaints per 1,000 access lines for all ILECs other than SBC.

SBC, along with 82 other companies in the country, report the results of customer satisfaction surveys in Automated Reporting Mechanized Information System (ARMIS) reports submitted to the Federal Communications Commission. SBC's 2002 customer survey results showed that an average of 11.4 percent of residential customers were dissatisfied with SBC's installation, repair, and business office functions. While this is an improvement over the 15.9 percent dissatisfaction reported in 2001, the percent of customers dissatisfied in 2002 is still high compared to 1995-1999 survey results (5.8 to 11.2 percent), and compared to the nationwide median of other companies which report such data in ARMIS (7.9 percent).

The statistics for small business customer dissatisfaction are similar. An average of 12.4 percent of SBC's small business customers were dissatisfied in 2002, compared with 13.8 percent in 2001, and between 7.2 and 15.1 percent from 1995-1999. The nationwide median for small business customer dissatisfaction in 2002 is 8.3 percent.

SBC invested approximately \$205 million in its infrastructure during 2002, which represents approximately \$115 per access line. This is significantly less than the \$185 per line that SBC invested in 2001, and less than the statewide median of \$160 per line for 2002.

The Commission determines that SBC should be assigned a discretionary incentive of 0.10 percent.

The Commission's determination is based on the extent to which the utility has reasonably complied with its annual infrastructure objectives, and the level of customer satisfaction, as indicated by complaints and customer satisfaction surveys.

Calculation of Price-Cap Index

The calculation of the annual Price-Cap Index (PCI) based on the above determinations and Wis. Admin. Code § PSC 163.04(2) is shown in Appendix D. The PCI index, when applied to current rates, determines the level of rates that is reasonable on a prospective basis, pursuant to Wis. Stat. § 196.196(1)(c) and Wis. Admin. Code § PSC 163.04. The annual PCI of 99.95 reflects a negative 0.05 percent result of the annual price cap formula.

A summary of PCI and Actual Price Index ("API") values is shown in Appendix E. According to Wis. Admin. Code § PSC 163.04(8)(a), SBC is required to decrease its rates so that its unadjusted cumulative API is no greater than its unadjusted cumulative PCI/allowed to increase its rates so that its 3-year maximum API is no greater than its 3-year maximum PCI. It is reasonable, based on the API and PCI calculations shown in Appendices D and E, that SBC be required to decrease its rates by 0.05 percent as a result of the order in this docket.

Services Subject to this Decision

The rate decrease authorized by this decision does not apply to all of SBC's telecommunications services. Under Wis. Stat. § 196.196(1)(a), price-regulated services include basic local exchange service as defined in Wis. Stat. § 196.01(1g), and standard business access lines and usage by small businesses with no more than three access lines.

Each year, pursuant to Wis. Admin. Code §PSC 163.04(1)(a), SBC files a price-regulated revenue summary, listing all services and revenues that are subject to price regulation. This

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schedule is used to determine a revenue-weighted API. The revenue weights for each price-regulated service are multiplied by the percentage price changes that SBC chooses to implement in response to this order. The resulting API is used to determine if SBC's changes to average price regulated rates comply with the Commission's order in this docket. According to Wis. Admin. Code § 163.04(5)(b), revenue weights shall be reviewed on each anniversary date.

SBC offers a variety of different packages, some that only include basic service and some that include basic service plus vertical calling features (e.g., caller I.D.) and/or long distance service. Customers may choose a package, or may continue to receive basic service (or basic service plus other features, purchased separately) at the preexisting rates.

In docket 6720-TI-174,² the Commission determined that the basic service portion of a package is price regulated, but that SBC was free to charge whatever it wished for the vertical or other service(s) portion of the package. That decision was upheld in court; an appeal of the court decision is pending.

SBC continues to offer packages and has expanded the choices of packages available to customers. SBC included these services in its price-regulated revenue summary, under protest, as it still believes such services are not subject to price regulation. The Commission reaffirms its previous decision by finding that the basic service portion of all service packages which are currently offered by SBC to residential customers and small business customers with one to three lines is price regulated. SBC may charge whatever it wishes for the vertical or other service(s) portion of the package.

² Final Decision, docket 6720-TI-174, Administration of the Mechanics of Price Regulation Pertaining to Wisconsin Bell, Inc. d/b/a Ameritech Wisconsin, on its September 1, 2002, Anniversary Date, pp. 10-14.

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On August 2, 2002, SBC filed a petition for suspension of Wis. Stat. § 196.196(1) with regard to local service provided to business customers with one to three access lines. The Commission's review of that petition is being addressed in docket 6720-TI-173. Since the Commission's review of that petition is still pending, small business services shall continue to be price regulated for this decision.

In addition, the Commission finds that all other services listed in SBC's price-regulated revenue summary are price regulated.

Infrastructure and Service Quality Standards

According to the Notice, this proceeding will set new company-specific benchmarks for infrastructure investment, and make any other determinations, except those pertaining to service quality standards. According to Wis. Admin. Code § 163.04(2)(dn), a utility such as SBC which has fulfilled its infrastructure investment commitment under Wis. Stat. § 196.196(5)(a) may, at its option, file a proposed infrastructure objectives plan. If SBC wishes to be eligible for an infrastructure incentive for its 2004 performance, to be evaluated on its anniversary date in 2005, it must file a proposed infrastructure objectives plan that meets the requirements of Wis. Admin. Code § 163.04(2)(dn)2. no later than March 1, 2004.

Service quality standards for 2003 performance, to be evaluated on SBC's 2004 anniversary date, were established in docket 05-TI-629. SBC notified the Commission of its election to be governed by the alternative standards approved in that order. These standards shall remain in effect until terminated or modified by the Commission.

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Pursuant to Wis. Admin. Code § PSC 163.04(2)(c)3.a., if SBC wishes to modify its alternative service quality disincentive mechanism, it shall file a proposal before May 1 of the year prior to which the proposed modification would apply.

ORDER

1. This order shall be effective on the date mailed.
2. SBC shall file tariffs that decrease its rates by an average of 0.05 percent for price-regulated services.

Dated at Madison, Wisconsin, _____

By the Commission:

Lynda L. Dorr
Secretary to the Commission

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98

APPENDIX A

This proceeding is not a contested case under Wis. Stat. Ch. 227, therefore, there are no parties to be listed or certified under Wis. Stat. § 227.47. However, an investigation was conducted and the persons listed below participated.

PUBLIC SERVICE COMMISSION OF WISCONSIN

(Not a party, but must be served)

610 North Whitney Way

P.O. Box 7854

Madison, WI 53707-7854

Mr. Scott Jansen

Mr. Steve Beck

SBC Wisconsin

722 North Broadway, 14th Floor

Milwaukee, WI 53202

APPENDIX B

**SBC Wisconsin
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Increase in Productivity Offset for Inadequate Service for the September 1, 2003, Anniversary Date

Component	Actual Performance 2002	Industry-Wide Standard	3-Year Average Performance	Maximum of Performance Range	Increase in Productivity Offset
Average Time Interval for Installation (days)	2.2	2.27	1.20	1.32	0.00%
Overall Network Quality:					
Trouble Reports per 100 Access Lines	12.43	20.00	13.97	15.37	0.00%
Exchanges With More Than Five Troubles per 100 Lines for at Least Three Months	0	0			
Speed of Repair:					
Average Time Out of Service (hours)	12.77	14.05	14.13	15.54	0.00%
Months with 95 or More Percent of Routine Out-of-Service Troubles Cleared Within 24 Hours	9	>=10			
Percent Repeat Trouble Reports	25.99%	14.86%	12.48%	13.73%	0.23%
Average Employee Answer Time for Repair Calls (seconds)	5.9	20.00	13.94	15.34	0.00%
Average Employee Answer Time for Business Office Calls (seconds)	49.13	60.00	93.70	103.07	0.00%
Trunk Blockage	0.000%	0.209%	0.000%	0.000%	0.00%
Total Increase in Productivity Offset for Inadequate Service					0.23%

APPENDIX C

SBC Wisconsin
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Adjustment to Productivity Offset for Infrastructure
Investment for the September 2003, Anniversary Date

Component	Actual 2002	Productivity Offset Benchmarks			Infrastructure Investment Productivity Offset			
		Increase (Disincentive)	50% Decrease (Incentive)	100% Decrease (Incentive)	Maximum Disincentive	Maximum Incentive	Earned Disincentive	Earned Incentive
New Technologies: Technologies Applications	2 4		1 2	2 4		0.25%		0.25%
Service Improvement Capital: All wire centers Target wire centers	\$12.2 M \$ 6.7 M	\$3.3 M \$1.7 M	\$3.85 M \$1.70 M	\$4.4 M \$1.7 M	0.20%	0.20%	0.00%	0.20%
Fiber in the Loop	20.4%		24.8%	25.8%		0.25%		0.00%
Interoffice Fiber- New Routes	3		2	3		0.60%		0.60%
Titan X- Connects: sites ports	10 1,120		3	4 1,000		0.25%		0.25%
Central Office Survivability	17 systems		4	8		0.25%		0.25%
Total Infrastructure Investment					0.20%	1.80%	0.00%	1.55%

APPENDIX D**SBC Wisconsin
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Calculation of Annual Price Cap Index**

Annual Change in Gross Domestic Product Price Index		1.53%
Productivity Factor Offset	(3.00%)	
Adjustments to Productivity Offset:		
Quality of Service (Appendix B)	(0.23%)	
Infrastructure Investment (Appendix C)	1.55%	
Commission Discretion	0.10%	(1.58%)
Total		(0.05%)
Annual Price Cap Index		
$[1+\Delta\text{GDPPI-PROD+INC-PEN}]*100$		99.95

APPENDIX E

**SBC Wisconsin
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Summary of PCI and API Values**

Annual Price Cap Index (PCI)	99.95
Unadjusted Cumulative PCI	96.15
3-Year Maximum PCI	99.95
Annual Actual Price Index (API)	100.00
Unadjusted Cumulative API	96.20
3-Year Maximum API	100.00
Allowed Rate Increase or (Required Decrease)	(0.05%)