

FLORIDA PUBLIC SERVICE COMMISSION

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M E M O R A N D U M

April 4, 1991

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF APPEALS (BELLAK) *RCB*  
DIVISION OF COMMUNICATIONS (RUSSO, SHELFER, BROWN) *JS*  
DIVISION OF RESEARCH (HOPPE) *MD*

RE : DOCKET NO.: 910060-TP -- PETITION OF THE ATTORNEY  
GENERAL AND THE PUBLIC COUNSEL TO ADOPT RULES GOVERNING  
900 AND 976 SERVICES

AGENDA: 4/16/91 - CONTROVERSIAL AGENDA - PARTIES MAY NOT  
PARTICIPATE

CRITICAL DATES: NONE

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BACKGROUND

In its Order dated February 12, 1991, the Commission approved initiation of rulemaking to adopt additional protection for consumers relevant to both 900 and 976 services. The Commission bifurcated the rulemaking process to consider sections 1, 2(a), and 2(e) of the Attorney General's and Public Counsel's proposal on an expedited basis (Phase 1), leaving the remainder of the proposed rules for consideration thereafter (Phase 2).

In accordance with that Order, staff requested an expedited economic impact statement (EIS). That EIS has been completed and is also attached.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission propose the rules comprising Phase 1 of the 900/976 rulemaking?

RECOMMENDATION: Yes, the Commission should propose the rules comprising Phase 1.

DOCUMENT NUMBER-DATE

03289 APR -4 1991

FPSC-RECORDS/REPORTING

**DOCKET NO. 910060-TP**  
**APRIL 4, 1991**

**STAFF ANALYSIS:** The February 12, 1991 Order approving initiation of this rulemaking process sets out the need for additional consumer protection in the area of 900/976 services, as does the Petition of the Attorney General and Public Counsel.

As noted during the discussion of the request for bifurcation, the rules comprising Phase 1, (Attachment 1) are limited to providing increased notice to customers on their telephone bills of what the Commission's policies already are with regard to these services. This is accomplished by rules requiring separate placement on the bill of 900 or 976 nonregulated charges, notice that nonpayment of 900 and 976 service charges will not result in disconnection of service, and the availability of 900/976 blocking.

The Division of Research outlined the costs and benefits of Phase 1. The EIS (Attachment 2), summarized, states that adoption of the proposed rule amendment is not expected to cause additional expense or cost savings to the Commission. In the long run, additional expenses incurred by the regulated utilities would be passed on to the information providers and their customers. It should also be pointed out that some companies indicated it may take between six months and one year to implement the billing changes, though staff questions these responses.

After review of the EIS, staff concludes that these increased expenses associated with implementing the proposed rule changes are outweighed by the need to insure that individual customers are not being unfairly taken advantage of and that the general body of ratepayers is not economically affected by the provision of this unregulated service. Based on the increased protection this afforded consumers, staff recommends that the Commission propose Phase 1.

**ISSUE 2:** If no hearing is requested as to Phase 1, should the rules comprised therein be submitted to the Department of State for adoption?

**RECOMMENDATION:** Yes. If no hearing is requested, Phase 1 should be submitted to the Department of State for adoption.

**DOCKET NO. 910060-TP**  
**APRIL 4, 1991**

**STAFF ANALYSIS:** Bifurcation of this rulemaking was approved in order to expedite, to the extent possible, the adoption of the parts of the rules proposed by the Attorney General and Public Counsel which were least likely to result in a request for a hearing. Submission of Phase 1 to the Department of State for adoption if no hearing is requested, therefore, is consistent with the intent of bifurcating this rulemaking.

**RCB:prl:0046**  
**Attachments**

**25-4.110 Customer Billing.**

(1) Each company shall issue bills monthly. Each bill shall show the delinquent date, set forth a clear listing of all charges due and payable, and not later than December 1, 1982, contain the following statement: "Written Itemization of local billing available upon request."

Charges for 900 or 976 calls shall be segregated from charges for regular long distance or local charges by appearing separately under a heading that reads as follows: "900 or 976 nonregulated charges". The following information shall be clearly and conspicuously disclosed on each page of the bill containing 900 or 976 service charges.

1. Nonpayment of 900 or 976 service charges will not result in discontinuance of service;
2. Customers can obtain blocking of 900 or 976 service from the local exchange company. (The name of the company is to be inserted).

(a) By July 1, 1987, each local exchange company shall provide an itemized bill for local service:

1. with the first bill rendered after local exchange service to a customer is initiated or changed; and
2. to every customer at least once each twelve months.

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

## M E M O R A N D U M

March 29, 1991

TO: DIVISION OF APPEALS (BELLAK) *RCB*

FROM: DIVISION OF RESEARCH (HOPPE) *gmh* *UNAB*

SUBJECT: ECONOMIC IMPACT STATEMENT FOR DOCKET NO. 910060-TP, PETITION OF THE ATTORNEY GENERAL AND PUBLIC COUNSEL TO INITIATE RULEMAKING PROCEEDINGS GOVERNING 900/976 SERVICE, COMMISSION RULE 25-4,110, FAC, CUSTOMER BILLING

SUMMARY OF THE RULE

Rule 25-4.110, FAC, Customer Billing, requires the local exchange companies (LECs) to provide monthly bills to their customers. An itemized bill for local service is required with the first bill rendered for local service and at least once each twelve months. The rule details the line-by-line items to be included in the monthly and itemized bills from the LEC. Further, procedures outlined in this rule include refunds for service interruptions, handling of delinquent bills and associated demands for immediate payment, notification of directory closing dates, backbilling limits, billing for franchise fees and gross receipt taxes, and reporting requirements associated with the reconciliation of billed and booked revenues.

The proposed additions to Rule 25-24.110, FAC, deal specifically with billing information related to 900 or 976 services. These proposed rule amendments would require the segregation of 900 and 976 charges under a separate heading on the customer's monthly LEC bill. In addition, each page of the bill containing a 900 or 976 service charge must contain information stating that 900 and 976 service charges will not result in discontinuance of service and that customers can obtain blocking of these services from the LEC.

DIRECT COSTS TO THE AGENCY

Discussions were held with staff from the Division of Consumer Affairs and the Division of Communications. The Division of Communications has

received an increasing number of complaints and assists the Division of Consumer Affairs on a case-by-case basis. For the calendar year 1990, the Division of Consumer Affairs received 489 protests and inquiries into 900/976 services, with 81 formal complaints resulting in \$4,182 in credits to customer bills. Through March 25, 1991, the Division of Consumer Affairs has received 177 protests and inquiries with 29 formal complaints resulting in \$13,548 in credits to customer bills. If this rate of protests and inquiries and formal complaints continues for calendar year 1991, a simple trend would result in 769 protests and inquiries and 126 formal complaints.

The proposed rule revision notifying customers of the blocking option should decrease the availability of 900 and 976 services, thereby potentially decreasing protests, inquiries, and complaints received by the Division of Consumer Affairs and the Division of Communications. However, if the statement that "nonpayment of 900 or 976 service charges will not result in discontinuance of service" creates any additional consumer abuse of the service, the potential for additional disputes exists if customers make partial bill payments.

In summary, there does not appear to be any increased cost to the Commission associated with implementation of these rule amendments. Notification to the customer of the availability of blocking 900/976 services may reverse the trend of increasing consumer complaints regarding these services. However, the Division of Consumer Affairs handled 5,588 formal complaints in calendar year 1990, 81 of which related to 900/976 services. Based on trending the current year's experience, only 126 formal complaints would be registered for calendar year 1991. Therefore the cost savings to the Commission associated with this rule amendment appear to be minimal.

#### COSTS AND BENEFITS TO THOSE PARTIES DIRECTLY AFFECTED BY THE RULE

Costs to Local Exchange Companies. Data responses were received from twelve of the thirteen LECs surveyed. The major areas of expected cost increases associated with implementation of these rule amendments were identified as billing, collecting, and carrying costs. In the long run, any cost increases would be recovered from the 900/976 information providers. Although some estimates of bad debt were quantified (i.e., Southern Bell estimated bad debt in the first year of rule implementation to be \$1,000,000), increased uncollectibles ultimately would be charged back to the 900/976 information providers and, except

for carrying costs, would not impact the LEC.

Expected increases in billing costs can be attributable to computer programming, processing, bill paper, postage, accounting, and administrative activities. Table 1 highlights the estimated billing costs associated with implementation of these rule amendments. Estimates range from \$400 to more than \$238,000. These estimates vary based on the number of monthly bills and the sophistication of the computer billing process. Some companies indicated it would take up to twelve months to implement the billing changes.

All the LECs indicated collection costs would increase due to implementation of this rule. Northeast Telephone, Southern Bell, and Southland provided estimated increases of \$6,000, \$512,668, and \$1,476, respectively. These estimated increases are attributable to the increased activity anticipated due to customer inquiry and a major concern with the ability to perform the required tracking of 900/976 nonpayments to ensure that local service is not terminated for perceived nonpayment. GTE estimated a potential 50 percent increase in collection center personnel due to implementation of this rule.

Northeast Telephone and Southern Bell estimated additional carrying costs associated with handling increased unpaid balances to be \$9,000 and \$4,904, respectively. Southland Telephone indicated \$6,000 in carrying costs associated with the initial set-up costs. Other companies were unaware of any additional carrying costs.

In addition, LECs may experience reduced billing and collecting revenues because of the reduced usage of 900/976 services associated with additional blocking. Initially, LEC revenues associated with billing and collection may increase if customers call more because they will not have service discontinued for nonpayment. LEC revenues associated with billing and collection services would decrease if 900/976 information providers used alternative billing options or terminated operations in the State of Florida.

The LECs also offered some other comments. They generally agreed that unrestricted removal of billed calls at the customer's request has the potential for abuse. Some LECs further indicated that blocking initiated by the telephone companies should be required in the rule to curb any habitual abuse. Other companies suggested mandatory blocking of all 900/976 services. This would mean such services would be a requested option. Additional comments addressed reducing estimated cost increases through use of bill stuffers to educate



customers on information services in lieu of billing format changes and modification of the required bill message on every page of 900/976 billings to something less than every page.

Costs to Interexchange Companies. Three interexchange companies (IXCs) provide service to 900 information providers. They are AT&T Communications, MCI Telecommunications, and Sprint Gateways. MCI did not respond to the data request. Sprint requested confidential treatment of its responses and AT&T was not responsive to most of the questions contained in the data request. Basically, the IXCs mirrored the LECs concerns and expected increases in identified costs.

Benefits. The LECs estimated over 22,000 900/976 service disputes (see Table 1) in 1990. The Division of Consumer Complaints, Department of Agriculture, estimated 126 complaints in 1990 and 50 complaints in January and February of 1991. A simple trend would imply 300 complaints for the calendar year 1991. The Florida Public Service Commission logged 81 formal complaints in 1990 and 29 formal complaints through March 25, 1991. A simple trend would imply 126 formal complaints in 1991. Both trends indicate consumer complaints are increasing.

The proposed rule amendments would potentially decrease the number of disputes associated with 900/976 services. Education of the consumer with regard to the exact charges billed for 900/976 services and the option of blocking these services would help decrease consumer inquiries, complaints, and intentional abuse. Estimates of LEC savings associated with these decreased complaints were not quantified. The responses indicated that new dispute activity would arise due to increases in uncollectibles associated with notice that service would not be disconnected for nonpayment of 900/976 charges.

#### INDIRECT COSTS AND BENEFITS

Twenty-nine 900/976 information providers and two information service provider associations were sent data requests. The addresses were obtained from the LECs and the IXCs but the IXCs requested confidential treatment of their 900 provider address lists. The requests for confidentiality delayed receipt by the Commission of the 900 information provider addresses, and resulted in 900 providers not receiving the data request. However, with the two national information service provider associations being surveyed and some of the larger



976 providers also providing 900 services, concerns of the 900 providers should be reflected in the data responses received. The companies surveyed consisted of identifiable larger 900/976 information providers and a random sample of the remaining companies identified by the LECs.

Nine 900/976 information service providers responded to the data request. The companies expressed little concern regarding segregation of 900/976 charges and the availability of blocking. Some companies indicated preference for these types of measures if they contributed to curbing unnecessary collection activity and any perceived abuses. The companies indicated that any additional billing, collecting, or carrying costs associated with this rule would eventually be reflected in their charges from the LEC or the IXC. The information providers did not estimate the additional billing, collecting, and carrying costs since the LECs and IXCs provide this service (see section titled "Costs and Benefits to Those Parties Directly Affected by the Rule").

The major concern of 900/976 providers regarding these rule amendments was the required notification to the customer that nonpayment of 900/976 charges would not result in discontinuance of service. The constant reminder that service would not be disconnected is perceived as an open invitation for consumer abuse. To quote AB Communications, "The proposed rule would basically require IPs to place revenue on the honor system of its customers." The 900/976 information providers indicated that current estimates of bad debt range from 10 to 30 percent of booked revenues. The companies also indicated that under current tariff provisions and agreements, the LEC/IXC has little incentive to make extra efforts to collect disputed billings. The LEC/IXC receives its billing and collection charges and any appropriate transport fee regardless of whether the billed revenues are collected or charged back to the information provider. The bad debt is ultimately borne by the 900/976 information provider. Therefore, there is no incentive for the LEC or IXC to change collection procedures if a dramatic increase in uncollectibles associated with 900/976 services occurs. If the proposed rule amendment results in such usage increases, the information providers would not only absorb any increases in bad debt, but also would pay the LEC/IXC the associated increases in billing, collection, and transport fees.

The companies estimated that bad debt could increase to 50 to 80 percent of billed revenues. AB Communications, Inc., estimated that monthly

collections would decrease from \$30,000 to less than \$5,000 per month. All of the responding 900/976 information providers indicated they would eventually have to cease operations in the State of Florida if continued patterns in such charge-backs materialized.

In efforts to limit both customer and 900/976 information provider abuse, several suggestions were made by the companies. These included free blocking, informative preambles, no LEC billings for children-related services, prominent price disclosure, and telephone company initiated blocking for nonpayment by consumers who abuse the service.

There are many benefits that consumers of 900/976 services and society receive from having access to quality information services. Any proposed regulation to curb abuse of 900/976 customers should recognize that there are satisfied customers of 900/976 services who may be adversely affected by such regulation through higher rates and possible elimination of particular services if companies remove themselves from the market due to uncontrollable cost increases. In addition, to the extent that customers use this rule amendment to avoid paying legitimate bills, the quality 900/976 service providers will be unduly penalized.

#### IMPACT ON SMALL BUSINESSES

Six of the nine (66 percent) information providers who responded to the data request indicated they were small businesses. Since we attempted to include all larger information providers in our survey, it would appear that even a greater percentage of the total of 100 information providers identified would be small businesses.

The six small businesses indicated that the rule amendments could potentially put them out of business within a year or less. Increases in charge-backs (uncollectibles) coupled with minimal resources to perform their own billing and collection activities were the major reasons for these companies possibly terminating business in the State of Florida.

#### IMPACT ON COMPETITION

The companies affected by these rule amendments would be the 900 and 976 providers who operate in the State of Florida. All of these companies should be affected equally by the rule. However, to the degree that additional

regulatory requirements associated with these rule amendments increase the cost of providing 900/976 services, substitute information services may benefit, particularly if 900/976 providers cease operation in the State of Florida.

If these potential increased costs are passed on to the information providers, LEC billing and collection services may become less economical than alternative billing services such as credit cards, direct billing by IXC's, or 900/976 information providers opting to move operations outside the State of Florida.

#### IMPACT ON EMPLOYMENT

All nine information providers who responded to the data request indicated that the rule amendments would either put them out of business or cause them to move their operations outside the State of Florida. If this is representative of the industry as a whole, the 100 information providers identified by the local exchange companies would cease operation in the State of Florida. These companies vary in size. Six of the nine respondents qualified as small businesses with fewer than 25 employees. Of the three larger companies responding, Video Jukebox Network, Inc., of Miami, Florida, indicated it had over 52 employees.

#### METHODOLOGY

A data request was sent to the local exchange companies, affected interexchange companies, selected information providers, and two information service associations. Discussions were held with the staff of both the Division of Communications, the Division of Consumer Affairs, and the Department of Agriculture. The statutes and existing rules were reviewed for compatibility. Standard microeconomic analysis was performed to determine the probable impact of the proposed revisions.

dmh:jn/e-900ser

TABLE 1  
SUMMARY OF RESPONSES TO DATA REQUEST  
DOCKET NO. 910060-TP

Local Exchange Company	Estimated Billing Costs	Estimated 1990 Disputes 900/976
Alltel Florida	\$5,000-\$6,000	11,180
Centel of Florida	>\$100,000	1,030
Floralta Telephone	\$400	55
GTE Florida	Unquantified increases	0 <sup>a</sup>
Gulf Telephone	\$400	120
Indiantown Telephone	\$2,100 + \$250/year	12-15
Northeast Florida Telephone	\$6,000/year	60
Quincy Telephone	\$38,500	0 <sup>b</sup>
Southern Bell	\$31,625 + \$238,000/year	9,924 <sup>c</sup>
Southland Telephone	\$50,000 + \$48,604/year	100
St. Joseph Telephone	\$400	20 <sup>d</sup>
United Telephone of Florida	\$130,000	198 <sup>e</sup>

- a. GTE indicated they have credited accounts and used mandatory blocking for habitual abusers; however, these were not deemed disputes.
- b. Quincy Telephone cannot provide estimates but has adjusted accounts.
- c. Southern Bell estimated 900 service only.
- d. St. Joseph Telephone has handled approximately 150 inquiries.
- e. United Telephone estimated 976 service only.