BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Amendment of the)	
Minimum Telephone Service Standards As)	Case No. 00-1265-TP-ORD
Set Forth in Chapter 4901:1-5 of the Ohio)	Case No. 05-1102-TP-ORD
Administrative Code.)	

MEMORANDUM CONTRA AT&T OHIO'S REQUEST FOR WAIVER BY THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

Respectfully submitted,

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I. INTRODUCTION

On May 28, 2008, AT&T Ohio filed a request for a waiver of the rule that prohibits disconnection of a customer's basic service for nonpayment of past due charges if the customer pays at least the rate for stand-alone basic local exchange service plus taxes and surcharges. AT&T Ohio filed its waiver request in response to the Entry, in which the Public Utilities Commission of Ohio ("Commission" or "PUCO") denied requests for waivers of the same rule by the Ohio Telecom Association ("OTA") – on behalf of OTA's member companies – and by four AT&T companies.

OTA filed its waiver request on March 20, 2008. The AT&T companies' waiver request was included in their reply, filed on April 17, 2008, to the Office of the Ohio Consumers' Counsel's ("OCC's") memorandum contra OTA's waiver request. The Commission denied OTA's blanket waiver request as an inappropriate substitute for

¹ Ohio Adm. Code 4901:1-5-10(B) ("Rule 10(B)"), as modified by an Entry issued on May 14, 2008 ("Entry") in these proceedings.

² AT&T Ohio, AT&T Long Distance, AT&T Communications of Ohio, Inc. and TCG Ohio. The May 28 waiver request apparently applies only to AT&T Ohio.

rulemaking.³ The PUCO also denied both waiver requests because there was insufficient documentation to support the requests and because neither OTA nor the AT&T companies described how they would carry out the intent of the rule with the waivers.⁴

Nevertheless, in the Entry the Commission granted a limited waiver of Rule 10(B) as it applies to residential and small business customers who have two or three access lines.⁵ Under the limited waiver, incumbent local exchange carriers ("ILECs") must provide stand-alone basic local exchange service ("basic service" or "BLES") to residential or small business customers who are delinquent in their payments but who make a payment sufficient to cover at least the ILEC's tariffed rate for basic service.⁶

AT&T Ohio asserts that even the limited waiver "results in unreasonable and burdensome implementation requirements for AT&T Ohio." In its waiver request, AT&T Ohio asks the Commission to reinstate previous Ohio Adm. Code 4901:1-5-17(A) and (C), which allowed for disconnection of local service "for subscriber nonpayment of charges for local services regulated by the commission," and applied partial payments first "to past due regulated local service charges, then to any current local charges, before being applied ... to any toll or nonregulated charges...."

OCC, on behalf of residential telephone customers, opposes AT&T Ohio's latest waiver request, consistent with OCC's opposition to the prior requests. Not only is the

³ Entry at 9.

⁴ Id. at 10-11.

⁵ Id. at 11. Because the Entry was not clear concerning the application of the limited waiver, OCC filed an application for rehearing of the Entry on June 13, 2008.

⁶ Id.

⁷ Waiver Request at 4.

⁸ OCC has legislative authority to represent the residential utility consumers of Ohio pursuant to Chapter 4911 of the Ohio Revised Code.

waiver request procedurally defective,⁹ AT&T Ohio has not shown that compliance with the rule is "unduly burdensome compared to the public policy objective involved," as the Commission requires.¹⁰ The Commission should deny AT&T Ohio's waiver request.

II. STANDARD OF REVIEW

MTSS waivers may be granted for "good cause shown as supported by a motion and supporting memorandum..." In the Entry, the Commission set forth two specific showings that must be made regarding a request for waiver of "the features separation requirement" Such a request must demonstrate, with detailed documentation, both the unreasonable hardship the requirement imposes on the company and also how the company intends to comply with the spirit of this provision." The burden of proof in waiver cases is on the applicant, ¹⁴ in this case AT&T Ohio.

In cases involving MTSS waivers, an "unreasonable hardship" must involve more than just an inconvenience to the company. In gauging the need for a waiver, the Commission also takes into consideration the rule's public policy objective:

We remind any company seeking such a waiver that the Commission is aware of and expects that compliance with rule changes will often require a company to make operational changes and to incur costs in doing so. Therefore, the threshold for grant of

⁹ As discussed herein, the waiver request does not comport with the Commission's requirement that telephone companies seek waivers of the Minimum Telephone Service Standards ("MTSS") through a motion and supporting memorandum. Ohio Adm. Code 4901:1-5-02(B)(1). Nevertheless, OCC submits this Memorandum Contra pursuant to Ohio Adm. Code 4901-1-12(B)(1) and 4901-1-07(B).

¹⁰ Entry at 12.

¹¹ Ohio Adm. Code 4901:1-5-02(B)(1).

¹² Entry at 12. It is unclear whether the Commission's reference was to Rule 10(B), the limited waiver or both.

¹³ Id.

¹⁴ In the Matter of the Application of NOW Communications, Inc. to Offer Resold Local Exchange and Intrastate Interexchange Services, Case No. 98-1466-TP-ACE, et al, Opinion and Order (November 2, 2000) ("98-1466 Order") at 58.

a waiver request is not simply a showing that time and expense is required in complying with a rule change, but rather that the company's compliance is unduly burdensome compared to the public policy objective involved.¹⁵

The integrity of the MTSS also must be maintained. "The Commission has already determined that these standards are essential to providing Ohio consumers a minimal level of service, and, as a general matter, the Commission is not inclined to grant waiver requests that would have the effect of abrogating the essential minimum level of telephone service available to Ohio consumers." Thus, in examining a waiver request the key consideration should be the waiver's effect on "the essential minimum level of service" to the applicant's customers. In that regard, the Commission stated that its "intention is to create a payment allocation process that would permit residential and small business customers to avoid local service disconnection by availing themselves of stand-alone BLES, where it is offered, so long as the customer pays for that service alone, including ... any taxes and government mandated fees associated with that service." ¹⁷

III. ARGUMENT

As mentioned above, from the waiver request, it is unclear whether AT&T Ohio is seeking to avoid the obligations of Rule 10(B), the limited waiver granted in the Entry or both. The significance is that Rule 10(B), which the Commission will not enforce until January 1, 2009, ¹⁸ applies to all residential and small business customers, while the limited waiver applies only to residential and small business customers with two or three access lines. Thus, it is difficult to gauge the scope of AT&T Ohio's waiver request.

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¹⁵ Entry at 12.

¹⁶ 98-1466 Order at 58.

¹⁷ 05-1102, Entry on Rehearing (July 11, 2007) ("05-1102 Rehearing Entry") at 43.

¹⁸ Entry at 12.

In any event, it is not a surprise that AT&T Ohio is seeking to avoid the obligations of Rule 10(B) and/or the limited waiver granted in the Entry. In the latest MTSS rulemaking, AT&T Ohio called for the elimination of **all** MTSS payment allocation rules, in AT&T Ohio's comments, in its reply comments and in its application for rehearing. AT&T Ohio repeats many of the same policy arguments against the features separation requirement here. The Commission rejected AT&T Ohio's arguments in the rulemaking, and should reject them now.

Simply put, AT&T Ohio's waiver request does not provide good cause for granting the waiver, especially given the financial and technical resources available to AT&T Ohio. Further, despite being the largest telephone company in the state, AT&T Ohio is the only telephone company seeking to avoid the obligations of the features separation requirement. When put in the perspective of AT&T Ohio's size and opposition to regulation in general, this is obviously a case in which "the company simply disagrees with a rule or does not wish to change its policies or equipment to meet the minimum standards," a situation which the Commission has cautioned telephone companies against in seeking MTSS rule waivers.²²

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¹⁹ 05-1102, AT&T Comments (September 8, 2006) at 33-34.

²⁰ Id., AT&T Reply Comments (September 22, 2006) at 23.

²¹ Id., AT&T Application for Rehearing (March 9, 2007) at 29-30.

²² In the Matter of the Revision of the Minimum Telephone Service Standards as Set Forth in Chapter 4901:1-5 of the Ohio Administrative Code, Case No. 83-869-TP-COI, Finding and Order (October 18, 1988), 1988 Ohio PUC LEXIS 978, *3.

A. AT&T Ohio's Request Contravenes the Policy of Ohio to "Ensure the Availability of Adequate Basic Local Exchange Service to Citizens Throughout the State," Pursuant to R.C. 4927.02(A)(1), and Is Based on Arguments That Are Irrelevant to Consideration of the Waiver Request or That the Commission Rejected in the MTSS Rulemaking.

In the rule that AT&T Ohio seeks to undo, the PUCO is complying with the General Assembly's high-minded policy that Ohioans have adequate basic service available to them.²³ Consistent with the statute for prescribing minimum standards, R.C. 4905.231, the PUCO properly required telephone companies to make available to Ohio consumers a minimum level of service, being stand-alone basic service, when consumers pay the minimum charge for that service. That makes sense under law, rule and reason.

But with characteristic self-focus, AT&T Ohio complains extensively about system modifications that the company says are necessary in order to comply with Rule 10(B) and/or the limited waiver.²⁴ AT&T Ohio complains that meeting minimum standards will cost it money. AT&T Ohio is ignoring the obvious. It is explicit in the law, such as R.C. 4905.22, that meeting minimum standards can obligate companies to make expenditures required to "furnish necessary and adequate service and facilities...."

Further, AT&T Ohio's complaints are irrelevant to the issue at hand. In its reply to OCC's memorandum contra regarding OTA's waiver request, the AT&T companies estimated that they would incur "nearly \$2 million in expenses and approximately 28,000 man hours in implementing the Service Termination Rule." The Commission, however, stated that it "expects that compliance with rule changes will often require a company to

²³ R.C. 4927.02(A)(1); see also R.C. 4905.22 and R.C. 4905.231.

²⁴ See Waiver Request at 3-9.

²⁵ AT&T Reply to Memorandum Contra at 3.

make operational changes and to incur costs in doing so."²⁶ Thus, Commission will expect AT&T Ohio to incur some costs to comply with the rule. As discussed in Section C., the cost estimated by AT&T Ohio should not be prohibited for a company of its size.

In addition, when a telephone company seeks a waiver of the MTSS, the PUCO expects the company to show how it will carry out the intent of the rule.²⁷ The Commission stated that its intention in creating the rule was "to create a payment allocation process that would permit residential and small business customers to avoid local service disconnection by availing themselves of stand-alone BLES, where it is offered, so long as the customer pays for that service alone, including ... any taxes and government mandated fees associated with that service."²⁸

Like OTA did in seeking its waiver,²⁹ AT&T Ohio asks that the Commission allow AT&T Ohio to abide by former Rules 17(A) and 17(C) instead of Rule 10(B) and/or the limited waiver.³⁰ The Commission, however, stated that this alone does not further the intent of Rule 10(B) to protect Ohioans who are able to pay enough to keep basic telephone service.³¹

Two other points made by AT&T Ohio in its grumblings about Rule 10(B) and/or the limited waiver must be noted. First and foremost is AT&T Ohio's scolding of the Commission for changing the rule at all:

[T]he partial payment allocation sub-system will need to be modified – again. It was modified at significant time and expense

²⁷ Id. at 10-11.

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²⁶ Entry at 12.

²⁸ Id., quoting 05-1102 Rehearing Entry at 43.

²⁹ OTA Reply to OCC's Memorandum Contra (April 17, 2008) at 4-5.

³⁰ Waiver Request at 2.

³¹ Entry at 11.

in 1997 as required by the Commission relative to Case No. 95-790-TP-COI ... and again in 2001, as a result of revisions to the MTSS rules in Case No. 00-1265-TP-ORD. And today, here we are again, having to incur expense and expend resources one more time to modify the same systems as before to comply with another change that the Commission is instituting.³²

Despite AT&T Ohio's harangue, it is highly likely that other portions of AT&T Ohio's billing system have undergone modifications that involved significant time and expense during the past eleven years, when the modification suited or benefited AT&T Ohio in the slightest way. Indeed, if the Commission had done away with the payment allocation rules altogether, as AT&T Ohio suggested in the rulemaking, then AT&T Ohio apparently would have been glad to "incur expense and expend resources one more time" in order to modify its systems to get rid of the programming for payment allocation.

Second is AT&T Ohio's statement that "[m]ultiple computer systems are impacted by virtually any programming change." Thus, AT&T Ohio's billing system apparently needed modifications similar to those described in the waiver request when AT&T Ohio, on its own initiative, implemented a late payment charge first against business accounts, and then residential accounts. Once again, it appears that AT&T Ohio has no problem with expending time and resources to modify its billing systems if the modifications benefit AT&T Ohio. Problems seem to develop only when the

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³² Waiver Request at 6.

³³ Id. at 4.

³⁴ In the Matter of the Application of Ameritech Ohio to Revise Its Exchange and Network Services Tariff, P.U.C.O. No. 20, to Add Late Payment Charges for Business Customers, Case No. 95-932-TP-UNC, Finding and Order (February 12, 1997).

³⁵ In the Matter of the Application of SBC Ohio to Modify the General Terms and Conditions Contained in the General Terms and Regulations Part of P.U.C.O. Tariff No. 20, Case No. 03-965-TP-SLF, Finding and Order (June 10, 2003).

modifications are necessary in order to comply with Commission rules offering consumer protections that AT&T Ohio opposes.³⁶

Another irrelevant portion of AT&T Ohio's latest waiver request is the background section of pages 9 through 13. Though interesting for historical purposes, the section has no bearing on the Commission consideration of the waiver request now before the Commission. The purpose behind AT&T Ohio's lengthy recitation of background information seems to be a call for the Commission to hear a supposed "[i]ndustry outcry" and "acknowledge[] the industry-wide concerns," as AT&T Ohio claims that the Commission did in previous cases.

But in fact, there is no "industry outcry" or "industry-wide concerns" regarding compliance with either Rule 10(B) or the limited waiver. AT&T Ohio is the **only** carrier in the state to respond to the Commission's directive in the Entry to seek a company-specific waiver from the obligations of the rule.³⁹ Thus, outcry comes from AT&T Ohio alone. And any concerns about Rule 10(B) or the limited waiver that might be expressed by other sectors of the telecommunications industry in Ohio are irrelevant to consideration of whether "the **company's** [i.e., AT&T Ohio's] compliance [with the rule] is unduly burdensome compared to the public policy objective involved."⁴⁰

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³⁶ See, e.g., 05-1102, AT&T Ohio's Request for a Waiver of, and Additional Time to Implement, Certain Minimum Telephone Service Standards (November 2, 2007).

³⁷ Waiver Request at 11.

³⁸ Id. at 12.

³⁹ In the Entry, the Commission required that company-specific waivers of Rule 10(B) be filed within 14 days of the Entry, i.e., May 28, 2008. Entry at 12.

⁴⁰ Id. (emphasis added).

Also irrelevant at this point is AT&T Ohio's complaint that many of its competitors do not have to comply with the rule.⁴¹ OTA raised similar arguments in the rulemaking, which the Commission rejected.⁴²

AT&T Ohio would turn the PUCO's rulemaking on its head, with the cost of AT&T Ohio's computer software modifications ascending to a priority above the General Assembly's laws and the PUCO's rules. AT&T Ohio's proposed subordination of law, rule and reason to its computer budget should be denied.

B. The Impact of the Rule on the Protection of Residential and Small Business Customers Is Broader Than AT&T Ohio Claims.

AT&T Ohio states that "[a] relatively low number of AT&T Ohio customers are disconnected for nonpayment in the current environment and are thereby affected by the proposed changes. AT&T Ohio estimates that less than 1% of its residential and business customers are disconnected in a given month." AT&T Ohio concludes that "[t]here is simply no reason to require the implementation of complex and expensive changes to provide any additional protection for the relatively few delinquent payers." AT&T Ohio customers are

AT&T Ohio's conclusion is faulty. According to AT&T Ohio's annual report for 2007, filed with the Commission, AT&T Ohio has approximately 2.4 million access lines, with approximately 2.1 million of them serving residential and small business

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⁴¹ See Waiver Request at 6, 13.

 $^{^{\}rm 42}$ See 05-1102 Rehearing Entry at 7.

⁴³ Waiver Request at 3.

⁴⁴ Id. at 13.

customers.⁴⁵ Rule 10(B) would actually protect **all** of these consumers, because **any** of them could face disconnection at some point during the life of the rule. At the very least, Rule 10(B) protects most those customers most at risk of disconnection, i.e., those who have difficulty each month paying for basic service plus numerous features. That number is likely to be substantially greater than the number of customers who are actually disconnected, and is likely to rise given the impact that the recent dramatic increases in the price of oil has had on the price of nearly all consumer goods and services.

Even focusing on actual disconnections, based on AT&T Ohio's estimate that as many as 1% of its customers are disconnected each month, as many as 21,000 residential and small business access lines are disconnected **every month**. Thus, annually as many as 252,200 residential and small business access lines are disconnected. The impact of Rule 10(B) on the protection of residential and small business customers is significant.

The same can be said of the impact of the limited waiver, which applies only to residential and small business lines customers with two or three access lines. AT&T Ohio's annual report does not specify the number of residential customers who have more than one line, or the number of business customers who have two or three lines. Thus, there is no way of knowing how many residential or small business customers have two or three access lines. But even assuming that only 10% of AT&T Ohio's residential access lines belong to customers who subscribe to two or three lines, more than 160,000

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⁴⁵ See 2007 Annual Report of the Ohio Bell Telephone Company ("2007 AT&T Ohio Annual Report") at 50-8 (Schedule 28). The Ohio Bell Telephone Company does business as AT&T Ohio. AT&T Ohio reported 1,641,229 residential access lines and 505,223 single-line business access lines. AT&T Ohio also reported 257,542 multi-line trunks, some of which are likely to be two- or three-line business access lines.

⁴⁶ 2.1 million x 0.01 = 21,000.

residential access lines would be protected by the limited waiver,⁴⁷ because **any** of them could face disconnection at some point during the life of the rule. Even focusing on actual disconnections, based on AT&T Ohio's estimate that as many as 1% are disconnected each month, the limited waiver would protect the customers of more than 1,600 residential access lines that are disconnected each month,⁴⁸ or 19,200 annually.⁴⁹

The foregoing discussion shows that granting AT&T Ohio's waiver request would abrogate the essential minimum level of telephone service available to thousands of AT&T Ohio customers. The Commission should not allow this to occur.

C. AT&T Ohio Has Not Supported Its Claim Regarding the Cost It Would Incur to Comply with the Rule, and in Any Event, the Cost Estimate Does Not Show That AT&T Ohio Would Suffer an Unreasonable Hardship, Given the Company's Size.

AT&T Ohio claims that it will cost the company one to three million dollars to make the billing system changes necessary to comply with Rule 10(B) and/or the limited waiver. AT&T Ohio did not provide **any** documentation to support its assertion, let alone the "detailed documentation" the Commission required. The absence of documentation is enough for the Commission to deny AT&T Ohio's waiver request.

Nevertheless, three million dollars is not a significant amount for a company the size of AT&T Ohio to spend in order to comply with a Commission rule designed to protect the basic service of Ohio consumers. AT&T Ohio is the largest telephone

 $^{^{47}}$ 1,641,229 x 0.1 = 164,123.

 $^{^{48}}$ 164,123 x 0.01 = 1,641.

⁴⁹ As with residential access lines, there is no way of knowing how many small business customers have only two or three access lines. But even if only 25% of the 257,542 multi-line trunks reported by AT&T Ohio for 2007 belong to such customers, the limited waiver would protect the customers of more than 62.000 access lines.

⁵⁰ Waiver Request at 3.

⁵¹ Entry at 12.

company in Ohio, and is a subsidiary of what its parent company calls "the largest communications holding company in the world, by revenue." AT&T Ohio reported that it spent more than 109 million dollars on information management in 2007. Thus, three million dollars for compliance with the Commission's rule – even if spent in a single year – would be only 2.74% of the company's information management expenditure last year.

For 2007, AT&T Ohio reported a net income of \$198,068,119.⁵⁴ Thus, a three million dollar expenditure to comply with the PUCO's rule would amount to only 1.5% percent of AT&T Ohio's net income for last year. Given that AT&T Ohio had a healthy 11.07% return on equity in 2007, ⁵⁵ it is not unreasonable to require this expenditure to give AT&T Ohio's customers the protection deemed necessary by the Commission.

Further, the rule would be in effect for at least five years. Thus, the cost per year for AT&T Ohio to comply with the rule – and the effect on AT&T Ohio's bottom line – would be less than discussed above. Assuming that complying with the rule costs AT&T Ohio three million dollars, its cost of complying with the rule, amortized over five years, would be no more than \$600,000 per year.

AT&T Ohio also states that "[u]ltimately, through the upward pricing pressure these added costs give rise to, the cost for implementing such a change will have to be absorbed by all customers, including the majority who are responsible, reliable and timely paying customers." If, as AT&T Ohio suggests, the company were to spread the cost of compliance with the rule throughout the entire affected customer base, the effect

 55 See OCC Memorandum Contra (April 7, 2008) at Attachment.

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⁵² http://www.att.com/gen/investor-relations?pid=5711 (accessed June 6, 2008).

⁵³ 2007 AT&T Ohio Annual Report at 20 (Schedule 5).

⁵⁴ Id. at 21 (Schedule 5).

⁵⁶ Waiver Request at 3.

would be insignificant at AT&T's highest projection of the highest (and not lowest) possible cost. And, again, it should be noted that AT&T has provided no documentation to support its argument, which should be taken on its face as a failure to show the just cause that the PUCO requires in order to waive the rule.

D. AT&T Ohio's Request for a Waiver Is Not in the Form Required by the MTSS and Should Be Dismissed.

Effective January 1, 2008, MTSS waiver requests must be made by filing a motion and supporting memorandum.⁵⁷ AT&T Ohio did not file its waiver request in the form required by the MTSS, however. Instead, AT&T Ohio filed a "request for waiver," with no formal motion or supporting memorandum.⁵⁸ Because AT&T Ohio's waiver request is not in proper form, the Commission should deny the waiver request.

OTA's waiver request, which precipitated AT&T Ohio's current filing, also was procedurally flawed. Instead of asking for a waiver in the form of a motion with a supporting memorandum, OTA filed an "application" for an order granting a waiver of Rule 10(B).⁵⁹ The Commission should make clear that waiver requests not complying with Rule 2(B)(1) will be dismissed outright.

Rule 2(B)(1) invokes the response rights of parties to the proceeding, and thus is not a small issue. Nothing in the Commission's rules sets forth a procedure for opposing an "application" for a waiver or a "request" for a waiver. On the other hand, Rule 2(B)(1) triggers the timelines for parties' rights to respond to a motion found in Ohio

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⁵⁷ Ohio Adm. Code 4901:1-5-02(B)(1) ("Rule 2(B)(1)").

⁵⁸ AT&T Ohio cites Ohio Adm. Code 4901-1-12(B)(2) as authority for its "request." Waiver Request at 1. Ohio Adm. Code 4901-1-12(B)(2), however, allows parties to reply to a memorandum contra a motion and does not support the filing of a motion.

⁵⁹ Application of the Ohio Telecom Association for an Order Granting Waiver of Ohio Administrative Code Section 4901:1-5-10 (March 20, 2008).

Adm. Code 4901-1-12(B), and movants' replies. That rule allows any party to file a memorandum contra a motion within 15 days after the motion is served, and any party to file a reply memorandum within seven days after the memorandum contra is served. Rule 2(B)(1), in conjunction with Ohio Adm. Code 4901-1-12(B), thus provides clarity regarding the process that will be followed in considering a waiver. The Commission should enforce Rule 2(B)(1) and automatically dismiss any MTSS waiver request that is not filed in the form of a motion with a supporting memorandum. The first step would be to dismiss AT&T Ohio's non-complying waiver request here.

IV. CONCLUSION

As discussed herein, AT&T Ohio has not met the PUCO's standard for granting a waiver. AT&T Ohio has not shown that compliance with Rule 10(B) and/or the limited waiver granted in the Entry would be unduly burdensome compared to the public policy objective involved. And AT&T Ohio has not sufficiently shown how it would carry out the intent of the rule in the event of a waiver. Thus, AT&T Ohio has not carried its burden of showing the necessity of a waiver of Rule 10(B) and/or the limited waiver. Further, the waiver request is procedurally deficient. The Commission should deny AT&T Ohio's waiver request.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Memorandum Contra AT&T Ohio's Waiver Request by the Office of the Ohio Consumers' Counsel was served by first class United States Mail, postage prepaid, to the persons on the attached list, on this 16th day of June 2008.

/s/ Terry L. Etter
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