

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46(REV 08/15)

Fiscal Year	Business Unit 8660	Department Public Utilities Commission	Priority No. 004
Budget Request Name 8660-004-BCP-BR-2016-GB		Program 6680 -- Regulation of Utilities	Subprogram 6680073-Communications

Budget Request Description

Requesting \$1.0 million in reimbursable authority to contract for network engineering consultants.

Budget Request Summary

This BCP seeks \$1.0 million in reimbursable authority in 2016-17, funded through the Public Utilities Commission Utilities Reimbursement Account (Fund 0462), to allow the CPUC to hire a network engineering consulting firm to examine AT&T's and Verizon's network facilities, and evaluate company policies and practices regarding network construction, maintenance, and repair.

Telephone service outages pose a significant threat to public safety and have an adverse effect on the State economy. CPUC Decision 13-02-023 ordered an examination of AT&T's and Verizon's communications networks to determine why these specific telephone companies have failed to meet the CPUC service quality standards for telephone outage repair time throughout the state for the past four years.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

FSR SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Ryan Dulin	Date 01-05-16	Reviewed By Jack Dwyer	Date 01-05-16
Department Director Timothy J. Sullivan	Date 01-05-16	Agency Secretary	Date

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA Original Signed By: Ellen Moratti Date submitted to the Legislature 1-7-16

Analysis of Problem

A. Budget Request Summary

Over the past five years, AT&T and Verizon have consistently failed to meet service quality metrics, most notably the standard to restore service after outages. Pursuant to a CPUC decision in the Order Instituting Rulemaking to Evaluate Telecommunications Corporations Service Quality Performance proceeding (D.13-02-023), CPUC staff is directed to retain a consulting firm with communications network experience to examine AT&T's and Verizon's network facilities, review company policies and procedures for network maintenance, repair and replacement; advise Communications Division management and CPUC decision makers' on technical telephone and communications network issues; prepare a report on the results of the examination and testify before the CPUC should hearings be held.

The purpose of the examination is to gauge the condition of both companies' network infrastructure and facilities used in the provision of telecommunications services within California to ensure that the facilities and practices support a level of service consistent with public safety and customer needs. The results of the examination are intended to provide the CPUC with information that may be used to change service quality policies, rules, measures, and standards.

The contract is a one-time, reimbursable contract that is estimated at \$1.0 million with a \$1.5 million cap, as ordered by the CPUC. This is a reimbursable contract, for which AT&T and Verizon will reimburse the CPUC the cost of the contract. The duration of the contract is expected to be approximately 18 months from the signing of the contract to the end of the payment period after the CPUC issues its decision.

B. Background/History

The CPUC regulates public utilities to provide for safe and reliable service at reasonable rates (Public Utilities Code §451). General Order (G.O.) 133-C is the CPUC's service quality program and contains five service quality measures and related standards for assessing the quality of telephone service. The Out-of-Service (OOS) metric is to repair 90 percent of outages within 24 hours. The results for this metric are collected monthly and reported quarterly. To put the results in perspective, following are the annual average results for AT&T and Verizon. During the years 2010 through 2014, AT&T's average annual OOS repair results within 24 hours were: 50 percent, 67 percent, 71 percent, 67 percent, and 60 percent, respectively. For the same period, Verizon's average annual OOS repair results within 24 hours were: 76 percent, 73 percent, 72 percent, 70 percent, and 68 percent respectively.

In December 2010 and January 2011, severe storms in Southern California caused wide-spread outages that caused over 250,000 people to be without telephone service for periods of time between two weeks and one month. In response to the wide-spread outages and the chronic failure of AT&T and Verizon to meet the OOS repair time standard, the CPUC opened Rulemaking 11-12-001 and issued Decision 13-02-023 which ordered a review of AT&T's and Verizon's telephone networks to better understand the root causes of performance deficiencies. Combined, AT&T and Verizon account for approximately 85percentof the residential and small business wireline customers in the state, based on 2014 line counts.

With regard to workload history, this BCP is for consulting services and an in-depth examination of telephone network and the OOS metric of repairing 90percentof out-of-service telephone lines within 24 hours, work that is not currently performed by Communications Division staff and outside of the CPUC staff expertise. The Communication Division's current service quality work entails monitoring wide-spread outages in California, and evaluating telephone corporations' reported service quality results, for compliance with service quality measures and standards, preparing reports and advising CPUC decision.makers on service quality matters and policy.

Analysis of Problem

Resource History (Dollars in thousands)

Program Budget	2010	2011	2012	2013	2014	2015
Authorized Expenditures						
Actual Expenditures						
Revenues						
Authorized Positions	2.7	2.1	1.3	2.4	3.5	3.5
Filled Positions						
Vacancies						

Workload History

Workload Measure	2010	2011	2012	2013	2014	2015
# of OOS results reviewed AT&T and Verizon	8	8	8	8	8	4
All other telephone companies OOS results reviewed	100	100	100	96	92	92

C. State Level Considerations

This proposal to conduct the network examinations reflects the state's policy to have high quality telephone and advanced services that are available to all residents and businesses in the state, and is consistent with the CPUC's mission to serve the public interest by protecting consumers and regulating utilities regarding the provision of safe, reliable utility service, and the underlying infrastructure, at reasonable rates, with a commitment to environmental enhancement and a healthy California economy (P.U. Code §451). The CPUC regulates utility services, stimulates innovation, and promotes competitive markets, where possible, in the communications, energy, transportation, and water industries.

The results of the network examinations are expected to have positive impacts on the quality of telephone service and the reliability of emergency 911 services. Examination of communications networks will result in better information about service outages and network reliability, and in turn, may enhance California's **Office of Emergency Services'** mission, and a particular goal, as described: **Goal 6.** Strengthen capabilities in public safety communication services and technology enhancements.

D. Justification

The CPUC has not had a comprehensive review of the networks of AT&T (previously Pacific Telephone/Pacific Bell) and/or Verizon (previously GTE) since the 1980's. Changes in regulatory policy left the network investment and maintenance decisions to the management of the respective companies. The assumption was that competitive pressures would provide the incentive for the companies to maintain, or improve, service quality levels. The consistent failure of AT&T and Verizon to meet minimum service quality standards over the past four years, as well as the wide-spread and long-lasting outages in Southern California in December 2010 – January 2011 has caused the CPUC to order an examination by contracted consultant to determine the cause(s) of substandard telephone service and to determine what policies and rules should be adopted to improve service. On August 27, 2015, the CPUC voted to affirm this decision, and made a finding that "the performance of the largest carriers (AT&T and Verizon) remains below the adopted standards in the areas identified four years ago." The Communications Division is directed to manage the activities associated with such reviews and contracts.

An examination of this scale, scope, and complexity has not been conducted before and the Communications Division does not have the resources with the technical expertise to conduct an in-

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depth engineering examination of telecommunications networks of the two largest telephone companies in California. AT&T and Verizon combined have approximately 88percent of the residential and small business wireline telephone lines in California. By focusing the network examination on these two companies, the CPUC will have reliable information to make informed judgements as to the condition of telecommunications infrastructure in the state and what actions may be appropriate to improve service quality. Consequently, an independent consultant firm with telecommunications network expertise and experience is needed to conduct the examination.

E. Outcomes and Accountability

The outcome of the examination will be: a) a report and possibly expert testimony in hearings which will answer questions that the CPUC has regarding the maintenance of telecommunications facilities and b) provide information that the CPUC will use as a foundation for determining what, if any, service quality policies and rules should be adopted to ensure that the telephone companies provide safe and reliable service regardless of technology used to provide the service.

Projected Outcomes

Workload Measure	CY	BY	BY+1	BY+2	BY+3	BY+4
Facilities Examined	0	50-100	25-50			
Locations Visited	0	20-30	10-20			
Interviews with SMEs	0	50-100	25-50			
Write a Report	0	0	1			

F. Analysis of All Feasible Alternatives

Alternative 1:

AT&T and Verizon could directly pay the contractor chosen by the Commission.

Pro: No cost to the state and no budgeting impact on the Commission.

Cons: The examination may focus on the strengths of the networks and downplay the problem areas and weaknesses of the networks.

The results of the examination could be called to question as being biased and inaccurate because the examination was not conducted in an objective manner (e.g. similar to studies on the effects of smoking that were conducted by the tobacco industry that said that adverse health effects related to smoking were inconclusive).

Alternative 2:

Do not conduct the examination. There would be no direct financial costs associated with this alternative.

There are no perceived pro's with not conducting the examination. The con's are that the CPUC will be deprived of relevant information that it needs to meet its statutory obligation to ensure that the residents and business of the state receive quality telephone service at reasonable rates, and California telephone consumers would continue to receive service that does not meet the Commission's minimum service quality standards. Consequently, AT&T and Verizon may continue reporting substandard service quality results resulting in consumers not receiving adequate service for what they are being charged.

Alternative 3:

Approve new staff to be hired. This alternative is not the most suitable for the long-term because this is a specific one-time effort and hiring additional staff is unnecessary to complete the ordered task. The pro is that hiring additional staff will increase institutional knowledge and expand available technical

Analysis of Problem

expertise within the Commission. The con is that hiring staff that are paid for by the state is more costly on a long-term basis than hiring a consultant firm that will be ultimately paid for by AT&T and Verizon.

G. Implementation Plan

This BCP covers two fiscal years: 2016/17 (BY 1) and 2017/18 (BY 2). It is expected that \$1M would be spent in the first fiscal year and \$500K in the second fiscal year. Specifically, the proposed time line is:

BY 1:

- 1st Q (July – Sept., 2016): Release RFP, review bids, conduct interviews and select consultant.,
- 2nd Q (Oct.- Dec., 2016): Commence examination,
- 3rd Q (Jan – Mar., 2017): Continue examination,
- 4th Q (Apr –June, 2017): Complete examination, write report, release and distribute report.

BY 2:

- 1st & 2nd Q (July – Dec., 2017): Comments & Reply Comments on Consultant Report.
Consultant analyzing comments on report and preparing written analysis of comments with conclusions and recommendations,
- 3rd Q (Jan. – Mar., 2018): Consultant testifies in hearings if necessary. Provide consultation to CD management and assigned Legal staff.
- 4th Q (Mar. – June, 2018): Review proposed decision and provide analysis, comments and recommendations to CD staff. End of Contract expected at June 30, 2018.

CD expects to receive quarterly invoices. For BY 1, the first invoice will be at the end of the 2nd Q (December). It is estimated that each quarterly invoice will be for approximately \$333K. For BY 2, it is estimated that there will be 4 quarterly invoices in the amount of \$125K each.

H. Supplemental Information

The cost estimate for this BCP is based on amounts adopted in the CPUC's Rulemaking (R.)11-12-001 (pg. 13) and related decision (D) 13-02-023 (pgs. 3, 7, and 8 – Ordering Paragraph 3).

I. Recommendation

The CPUC recommends Alternative #1 be approved as discussed above. This alternative will allow the CPUC to have the reliable and necessary information to make informed judgements as to the condition of telecommunications infrastructure in the state and what actions may be appropriate to improve service quality for Californians.

BCP Fiscal Detail Sheet

BCP Title: Service Quality

DP Name: 8660-004-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Operating Expenses and Equipment						
5340 - Consulting and Professional Services -	0	1,000	500	0	0	0
Total Operating Expenses and Equipment	\$0	\$1,000	\$500	\$0	\$0	\$0
Total Budget Request	\$0	\$1,000	\$500	\$0	\$0	\$0

Fund Summary

Fund Source - State Operations

0462 - Public Utilities Commission Utilities	0	0	0	0	0	0
0995 - Reimbursements	0	1,000	500	0	0	0
Total State Operations Expenditures	\$0	\$1,000	\$500	\$0	\$0	\$0
Total All Funds	\$0	\$1,000	\$500	\$0	\$0	\$0

Program Summary

Program Funding

6680073 - Communications	0	1,000	500	0	0	0
Total All Programs	\$0	\$1,000	\$500	\$0	\$0	\$0