

Decision **90 04 024** APR 11 1990

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
AT&T Communications of California,)
Inc. (U 5002 C) under Rule 15 for)
authority to restructure ACCUNET®)
T1.5 And DATAPHONE® Digital Private)
Line Service Rates.)

Application 89-11-015
(Filed November 17, 1989)

INTERIM OPINION

Background

On November 17, 1989, AT&T Communications of California, Inc. (AT&T) filed Application (A.) 89-11-015 for authority to restructure its rates for ACCUNET® T1.5 (T1.5) Service and DATAPHONE® Digital Service (DDS). T1.5 and DDS are private line services presently offered by AT&T which provide customers with high speed and intermediate speed digital communications. T1.5 service is provided at a transmission speed of 1.544 megabits per second and DDS is provided at transmission speeds of 2.4, 4.8, 9.6, and 56 kilobits per second (kbps) to transport customer information on a digital, dedicated, premises-to-premises basis.

AT&T proposes to unbundle its present premises-to-premises rate structure for T1.5 and DDS services to a rate structure consisting of an interoffice channel element and a local channel element. The interoffice channel element relates to the service provided by the facilities of AT&T, and the local channel element relates to the facilities to access the AT&T facilities. AT&T would thereby no longer offer bundled premises-to-premises T1.5 and DDS services in California. This will allow customers in California to select the special access arrangements which best suit their needs to reach AT&T's network points of presence (POP). The customers would have the option of obtaining access to the AT&T network by local channel service from AT&T, special access service

from the local exchange company (LEC), or providing it themselves. Consequently, the rates for interoffice channel service, AT&T's POP to POP, would reflect AT&T's competitive pricing of its network services; while the rates for local channel service, when sought by a customer from AT&T, would be based on AT&T's costs of access from the LEC.

AT&T also requests authority to introduce a new multi-service volume pricing plan (MSVPP) to add volume and time dimensions to the pricing of its digital interoffice channel services. AT&T indicates that the MSVPP is a competitive pricing plan that allows a customer to commit to a certain minimum revenue level over a specified term and in return to buy an interoffice channel at a discount from AT&T's regular monthly rates.

AT&T also requests authority to offer an additional DDS substrate transmission speed of 19.2 kbps.

In elaboration of its proposed unbundled interoffice channel service, AT&T requests authority to use rate bands, for all rate elements except the T1.5 interoffice channel element, set at +5% and -15% about the reference rate. For the T1.5 interoffice channel element, AT&T requests that the rate bands be set at +5% and -25% about the reference rate. AT&T further requests authority to change rates within the requested bands by advice letter on five days' notice. AT&T alleges that all prices at the lower limit of the proposed bands cover the associated long run incremental costs.

AT&T further seeks approval of the reference rates for the T1.5 and 2.4, 4.8, 9.6, 19.2, and 56 kbps DDS interoffice channels. These rates were based on the competitive realities at the time the application was filed and form the basis for the rate bands described in the preceding paragraph.

AT&T seeks approval of rates for DDS 2.4, 4.8, and 9.6 kbps and establishment of rates for DDS 19.2 kbps local channel service. The proposed local channel rates include the LEC charges for special access in their serving territories, plus a 5%

management fee. AT&T also seeks authority to flow through to its customers changes in the LEC's access charges for the local channel by means of an advice letter, on five days' notice. AT&T avers that it would only use this flexibility to flow through access charges changes. This pricing flexibility is the same as that requested by AT&T for its ACCUNET[®] Spectrum of Digital Services (ASDS) in A.89-05-052.

AT&T indicates that the restructure of local channel rates may result in significant increases in local channel charges to some customers. To moderate these impacts, AT&T also proposes to use transitional pricing algorithms to limit increases in local channel charges during the two years immediately following approval of the proposed tariffs. AT&T proposes that the local channel transitional pricing apply to the currently effective T1.5 and DDS 56 kbps local channel service approved in Decision (D.) 89-12-019 in addition to the DDS 2.4, 4.8, 9.6, and 19.2 local channel rates proposed in the instant application. AT&T further requests that the transitional pricing not apply where a customer establishes, changes, rearranges, or replaces the local channel after the effective date of this order.

In support of this application, AT&T states that these features represent important competitive responses to similar offerings already available from other carriers in California and all of the offerings are presently available to its interstate private line customers.

AT&T finally requests that this application be granted on an expedited basis without hearings.

Pacific Bell Protest

On December 27, 1989, Pacific Bell (Pacific) filed a protest to A.89-11-015 objecting to the granting of the application without hearings. In particular, Pacific objected to AT&T's request that the rate band for the T1.5 interoffice channel rate element be set at -25% of the reference rate without a hearing.

Pacific indicates that although AT&T filed an application as required by D.88-12-091 to change rate bands, AT&T's request for approval without hearings defeats the intent of the application requirement. Interested parties should have the opportunity to examine the reasonableness of the expansion of the rate band requested in this proceeding. Pacific also indicated that it was premature to base rates on long-run incremental costs that depend on a methodology to be adopted in A.89-03-046 et al. prior to resolution of that issue in that proceeding.

On January 12, 1990, AT&T responded to Pacific's protest and indicated that it was revising its request reluctantly for downward flexibility in its T1.5 interoffice channel rate from the -25% proposed in the application to the -15% agreeable to Pacific in order to obviate the need for a hearing in this proceeding. AT&T stated that it would modify its T1.5 tariff pursuant to a Commission order in this proceeding.

On January 22, 1990, Pacific sent a letter to the administrative law judge originally assigned to this proceeding withdrawing its protest based on AT&T's amended request for a -15% pricing band for T1.5 interoffice channel service.

Prior Proceedings

D.88-12-091, dated December 19, 1988, in A.87-10-039 et al., granted AT&T limited regulatory flexibility subject to the following conditions, among others:

- a. AT&T-C shall adjust its proposed rate bands so that no rate band changes more than 15% in either direction from the reference rate, except when necessary to round to the nearest penny.
- c. Sections IV and V of General Order (GO) 96-A shall be waived to allow AT&T-C to make changes within its approved rate bands effective on five days' notice through advice letter filings, provided AT&T-C serves such advice letter filings on any requesting party by overnight mail.

- d. AT&T-C shall be required to use the formal application process to make any changes to the rate bands authorized today.
- j. AT&T-C shall make a maximum of four revisions within approved rate bands per service per year.

In A.89-05-052, AT&T requested authority to provide its ASDS service on an intrastate interLATA basis. At that time, AT&T was only authorized to provide service at 1,544 kbps (T1.5) or 56/64 kbps (DDS) on a bundled premises-to-premises basis. Authorization of ASDS on an interim basis by D.89-12-019, dated December 6, 1989, permitted AT&T to provide DDS service at 56/64 kbps, as well as intermediate bit rate speeds of 128, 256, 384, 512, and 768 kbps. Further, the service was authorized on an unbundled basis so that the rate structure for ASDS consisted of an interoffice channel rate element and a local channel rate element. AT&T also requested pricing flexibility about the reference rate, similar to its request in the instant application. D.89-12-019 denied the request for pricing flexibility for purposes of interim authority.

Discussion

AT&T's request to unbundle its rate structure for its T1.5 and DDS private line services into an interoffice channel element and a local channel element is a logical response to its need to price these services at rates that are close to its costs of providing the service. If AT&T continues to provide these services at averaged bundled rates, its competitors will be able to pick off the low cost customers, because the present average bundled rate structure results in incorrect cost assignments to the rate elements, especially the local channel element. Unbundling the rate structure will enable AT&T to reduce its interoffice channel prices to levels that are competitive with similar offerings of other carriers. Unbundled local channel rates would reflect the actual cost of access to individual customers, so that

the interoffice channel rates would no longer in effect have to subsidize the high cost local channel customer. AT&T should be authorized to unbundle its T1.5 and DDS services into interoffice channel and local channel rate elements.

AT&T requests pricing flexibility for its interoffice channel rate element seeking approval of changes within the authorized rate bands on five days' notice by the filing of an advice letter. AT&T was granted such rate flexibility by D.88-12-091 for its present T1.5 and DDS premises-to-premises services. AT&T accordingly filed tariffs that provided for +10% and -10% rate bands around the reference rate. AT&T's request for similar pricing flexibility in its ASDS A.89-05-052 was denied by D.89-12-019 following protests on this issue by US Sprint Communications Company Limited Partnership and MCI Telecommunications Corporation. The difference between the current application and the ASDS application is that no protest was filed on that issue in this proceeding. AT&T now has pricing flexibility for those services and only seeks unbundling of the existing services into their component parts. There is no reason to withdraw this pricing flexibility for the interoffice channel elements and it should be authorized. However, this authority should be interim as well and subject to change based on a decision in A.89-03-046 et al.

In this proceeding, AT&T originally sought rate bands of +5% and -25% around the reference rate for its T1.5 service, but modified its proposal in response to a protest by Pacific to seek rate bands of +5% and -15% around the reference rates for both DDS and T1.5. AT&T claims that the revision of the rate bands from the currently effective +10% and -10% around the reference rate is appropriate because intense competition among the service providers has provided a strong downward pressure on the rates for these services. The request for rate bands +5% and -15% around the reference rate is reasonable and should be authorized because the

reference rates can only be changed by formal application, and the lower limits of the rate bands are above the long-run incremental costs as determined by AT&T at the present time.

However, the long-run incremental cost methodology used by AT&T to support its reference rates and associated rate bands for its interoffice channel service has not been adopted by the Commission and is being tested in the READYLINE proceeding, A.89-03-046 et al. Therefore, these reference rates and associated rate bands should be interim rates. AT&T agrees that these rates are provisional and subject to adjustment, if necessary, to reflect the costing methodology ultimately adopted in A.89-03-046 et al.

These reference rates are not separately identified on the tariff sheets appended to A.89-11-015. These reference rates and the associated rate bands can only be changed by formal applications. The price lists included in the tariff sheets represent the effective rates, which are subject to change within the rate bands on five days' notice. However, the price lists also represent the reference rates which are approved in this decision. When AT&T files an advice letter changing the effective rates, the price lists can no longer serve as both the effective rates and the reference rates, unless AT&T revises its tariffs to clearly identify the original reference rates. AT&T is expected to file tariffs in compliance with this decision that will clearly differentiate between the adopted reference rates and the price lists over time.

AT&T requests that both the interoffice channel and the local channel rates be subject to change on five days' notice by advice letter. Advice letter changes on five days' notice are appropriate for changes within the rate bands for the interoffice channel rate elements, consistent with the flexibility authorized above. Such authority is not appropriate for the local channel rate element, because pricing flexibility for such service will not be granted for the reasons set forth in the following paragraph.

AT&T's request for approval of rates for DDS 2.4, 4.8, 9.6, and 19.2 kbps local channel service is reasonable and should be authorized. AT&T also seeks pricing flexibility for its local channel service. This pricing flexibility is the same as that requested for ASDS in A.89-05-052 and denied by D.89-12-019. No good reason has been presented in this proceeding to disturb that order, so we will not grant AT&T pricing flexibility for local channel service at this time.

AT&T's requests for authorization of a local channel transitional pricing algorithm and a multi-service volume pricing plan are reasonable and should be authorized.

Findings of Fact

1. AT&T filed an application to restructure its rates for T1.5 and DDS on November 17, 1989.
2. Pacific filed a protest to the application on December 27, 1989, objecting in particular to AT&T's request for downward flexibility of 25% from the reference rate for T1.5 interoffice channel service without hearing.
3. On January 22, 1990, Pacific withdrew its protest after AT&T agreed to limit its downward flexibility request to the limit of 15% authorized in D.88-12-091.
4. T1.5 and DDS are private line services which provide customers with high speed and intermediate speed digital communications.
5. AT&T presently provides T1.5 and DDS on a bundled, averaged premises-to-premises basis.
6. AT&T proposes to unbundle the T1.5 and DDS rate structures into interoffice and local channel rate elements. The interoffice channel provides transport by AT&T facilities between AT&T's POPs. The local channel provides access from the customer's premises to AT&T's POPs.
7. In D.88-12-091, AT&T was authorized to price T1.5 and DDS interoffice channel rate elements within a pricing band no more

than 15% in either direction from the reference rate by advice letter on five days' notice.

8. AT&T's proposed rate structure will allow a customer to purchase the interoffice channel element from AT&T separately from the local channel element, which the customer can then purchase from AT&T, from the LEC, or provide it himself.

9. The unbundling of the present rate structure allows AT&T to reflect its actual cost of access and network costs in the individual rate elements, thereby allowing AT&T to offer its T1.5 and DDS services at competitive rates.

10. The unbundled T1.5 and the DDS 56 kbps local channel rate were approved in D.89-12-019, but AT&T's request for pricing flexibility was denied.

11. AT&T requests approval of rates for DDS 2.4, 4.8, 9.6, and 19.2 kbps local channel service.

12. The unbundling of T1.5 and DDS services and the establishment of local channel rates that reflect actual access costs to AT&T will result in significant increases in local channel charges to some customers.

13. To mitigate these increased charges, AT&T requests authority to use transitional pricing algorithms to limit increases in local channel charges for two years.

14. AT&T requests authority to establish an MSVPP which allows customers to commit to pay AT&T a minimum revenue amount over a specified term and in return buy an interoffice channel at a discount from AT&T's regular monthly rates.

15. AT&T used California-specific long run incremental costs to support the proposed interoffice channel rates. The Commission is evaluating costing methodology in A.89-03-046 et al. AT&T proposes that the rates and charges for interoffice channel service are provisional and subject to adjustment to reflect the costing methodology adopted in A.89-03-046 et al.

16. AT&T indicates that based on its costing methodology, all prices at the lower limits of the proposed pricing bands for the interoffice channel service cover the associated long run incremental costs.

17. A public hearing is not necessary.

Conclusions of Law

1. AT&T's request to restructure its rates for T1.5 and DDS service should be granted subject to the conditions set forth in the ordering paragraphs.

2. The reference rates and corresponding rate bands for the T1.5 and DDS interoffice channel rate elements should be authorized on an interim basis subject to modification resulting from a decision on appropriate incremental cost methodology in the READYLINE proceeding, A.89-03-046 et al.

3. The rate bands for the T1.5 and DDS interoffice channel rate elements should be limited to departures of no more than 15% from the reference rate.

4. AT&T's request to make changes within the rate bands for T1.5 and DDS interoffice channel service effective on five days' notice should be granted provided that AT&T serves its advice letters on any party so requesting by overnight mail.

5. AT&T's request for pricing flexibility for its local channel service should be denied consistent with D.89-12-019.

INTERIM ORDER

IT IS ORDERED that:

1. AT&T Communications of California, Inc. (AT&T) is granted interim authority to restructure its ACCUNET® T1.5 (T1.5) Service and DATAPHONE® Digital Service (DDS) consistent with this decision and subject to the following conditions:

- a. Final authority for the T1.5 and DDS interoffice channel reference rates and

corresponding rate bands is deferred until resolution of A.89-03-046.

- b. The rate bands for the T1.5 and DDS interoffice channel rate elements are limited to departures not greater than 15% from the reference rates.
- c. AT&T shall specifically designate the reference rates as well as a clear definition of the price lists in the tariff filing authorized by this decision.
- d. AT&T is denied pricing flexibility to change its local channel rates by advice letter on five days' notice.

2. AT&T is authorized to change its interoffice channel rates within the rate bands by advice letter on five days' notice.

3. AT&T is authorized to offer a transitional pricing algorithm to mitigate increased local channel charges to existing T1.5 and DDS customers as well as T1.5 and DDS 56 kbps service approved in D.89-12-019.

4. AT&T is authorized to offer the multi-service volume pricing plan to its T1.5 and DDS customers.

5. AT&T is authorized to offer a 19.2 kbps speed private line service.

6. AT&T is authorized to file, after the effective date of this order and in compliance with General Order No. 96-A, tariff

sheets consistent with this order. The tariff sheets shall become effective on not less than five days' notice.

This order is effective today.

Dated APR 11 1990, at San Francisco, California.

G. MITCHELL YALK

President

FREDERICK R. DUDA

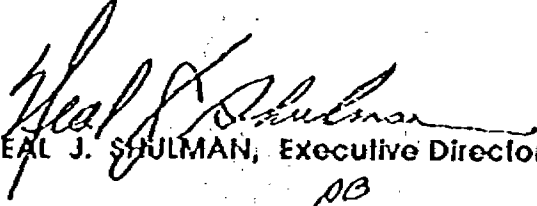
STANLEY W. HULETT

JOHN B. OHANIAN

PATRICIA M. ECKERT

Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY


NEAL J. SHULMAN, Executive Director