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Decision 91-03-059 March 22, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Application of AT&T Communications of California, Inc. (U5002C) Under Rule 15 for Authority to Restructure the Voice Grade Private Line Service and Foreign Exchange Service.	Application 90-06-058 (Filed June 26, 1990)

INTERIM OPINION

Summary

This decision grants AT&T Communications of California, Inc. (AT&T) interim authority to restructure the rate elements for its Series 1000, 2000, and 3000 Channel Service (Voice Grade Private Line Service) and Foreign Exchange Service.

Background

On June 26, 1990, AT&T filed an application requesting authority to restructure the rate elements for its voice grade[1] private line service and foreign exchange service. The proposed rate structure mirrors AT&T's interstate voice grade private line service rate structure as set forth in Federal Communications Commission (FCC) tariffs 9, 10, and 11.

In general, voice grade private line service is composed of two distinct service elements: (1) an interoffice channel furnished by AT&T using its network facilities between its points of presence (POPs), and (2) a local channel or special access element that AT&T purchases from the local exchange carriers (LECs) in order to connect the customers' premises to AT&T's POP. AT&T's

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1 A voice grade service is a service suitable for the transmission of analog signals within a frequency bandwidth of approximately 300 to 3000 Hz.

current voice grade private line service tariff requires that the customer buy both the local channel and inter-office channel elements from AT&T, in order to receive full premises-to-premises service. The proposed rate structure unbundles the present rates to offer customers the choice of selecting, in addition to AT&T's interoffice channel, optional local channel services.

AT&T's application states:

> "AT&T's rates for its present Voice Grade Local Channel rate elements do not reflect the prices the LECs charge for the Special Access facilities AT&T employs in providing Local Channel service from its POP to the customer's premises. The LEC's Special Access rates are significantly higher than the rates AT&T charges customers for Local Channels under its present Private Line rate structure. For example, AT&T charges a rate of $26.24 for a 4-Wire Local Channel element regardless of its length. The equivalent Special Access rate for a Local Channel set forth in Pacific Bell's access tariff is $66.72 or 150% more for a zero mile length facility; a seven mile Special Access facility is priced at $96.80 or 270% more. Further, when provided by General Telephone, a Special Access facility of zero mile in length is priced at $55.94 or 113% more than AT&T charges for the equivalent Local Channel; at seven miles in length, the Special Access facility price of $222.96 is 750% more than AT&T charges for a Local Channel.
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> "The pricing disparities between AT&T's rates and the rates for access provided by the LECs harms AT&T's position in the market because it precludes AT&T from pricing its Interoffice Channel competitively. As a result of the Local Channel being priced too low, AT&T has had to price its Interoffice Channel quite high in an effort to recover the total cost of providing service. In contrast, AT&T's competitors' Local Channel rates more accurately reflect LEC Special Access prices allowing them to more competitively price their Interoffice Channels. If AT&T continues to provide Private Line Service at averaged, bundled rates, its competitors will be able to

attract certain low cost customers because the present averaged, bundled rate structure results in incorrect cost assignment to the rate elements, especially the Local Channel element."

By this application, AT&T seeks rate bands of 15% above and below its interoffice channel reference rates as shown in Scheduled Cal. P.U.C. No. C9. AT&T requests authority to change interoffice channel rates within the rate bands by advice letter on five days notice.

On August 3, the Division of Ratepayer Advocates (DRA) filed a protest to the application. DRA objected to a proposed rate increase for some intrastate voice grade private line service customers. According to DRA's protest,

"The reason for our objection is DRA's recent petition to modify Decision 88-12-091 to reexamine the reference rates currently in effect and the rate bands associated with them. Because of this filing, DRA does not believe that it would be appropriate to make an isolated rate adjustment for private line service at this time. DRA therefore recommends that a rate increase for private line service not be granted now but that the proceeding should be consolidated with the proceeding dealing with DRA's petition to modify the above decision."

On September 21, 1990, AT&T filed a petition for immediate interim approval of its request to restructure the services.

Although this pleading is captioned as a "Petition," it is more properly classified as a response to DRA's protest. In this pleading, AT&T argued that the remedy sought by DRA can be obtained without delaying the authority sought by AT&T's application. According to AT&T:

"In its Application, AT&T made it very clear that the rates and rate bands it is requesting are to be interim until the costing methodology supporting those rates is approved. AT&T has

> no objection to these rates and rate bands also remaining interim pending a decision on the DRA petition to modify Decision 88-12-091 (or in the alternative, to include the revenue effects of the restructured rates in any modification of AT&T's revenue requirement)."

On October 9, DRA filed an opposition to AT&T's petition for immediate interim approval. DRA opposed further restructuring of individual services until the issue of framework restructuring is settled. DRA recommended that Application (A.) 90-06-058 be consolidated with A.90-07-015. As an alternative, DRA stated that it would agree with interim approval of the present request to restructure these services if an equal reduction in MTS rates were adopted in the interim order.

On January 22, 1991, AT&T filed Advice Letter No. 196 to reduce its basic toll rates by approximately $20 million per year. This advice letter also reduces AT&T's other service rates by approximately $10 million per year.

In view of AT&T's filing of Advice Letter No. 196, on January 31, 1991, DRA withdrew its protest of A.90-06-058, subject to Advice Letter No. 196 becoming effective.

Advice Letter No. 196 became effective March 3, 1991.

Discussion

AT&T's present voice grade private line service rates do not accurately reflect the costs associated with providing the local channel and inter-office channel rate elements. AT&T's request to unbundle its rate structure for its voice grade private line service 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 the costs of providing the service. 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 subsidize the local channel customer. AT&T should be authorized to unbundle its voice grade private line service into interoffice channel and local channel rate elements.

AT&T requests pricing flexibility for its interoffice channel rate elements. AT&T requests authority to seek 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 Decision (D.) 90-04-024 for its present T1.5 and DDS premises-to-premises services. AT&T accordingly filed tariffs that provided for +5% and -15% rate bands around the reference rate. AT&T's request for similar pricing flexibility for the inter-office channel rate elements of the voice grade private line service, within a band 15% above and below the reference rate, is reasonable. As in D.90-04-024, we will require AT&T to serve a copy of each such advice letter by overnight delivery, upon each party who requests such delivery. AT&T does not seek pricing flexibility for its local channel service.

As we stated in D.88-12-091, 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. This methodology is being reviewed in A.90-04-001. 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.90-04-001.

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

AT&T also proposes to modify the pre-divestiture Foreign Exchange (FX) rate structure. According to AT&T's application:

> "AT&T's proposed [FX] rate structure is consistent with AT&T's Interstate FX rate structure and is comparable to the way FX

service is provided by other Interexchange Carriers. With this filing, AT&T proposes to only provide the Private Line Service portion of FX service to its present FX customers. AT&T will provide the Private Line Interoffice Channel element between its POPs, and the LECs will provide FGA Switched Access service, as identified in their access tariff, from the customer specified LEC FX central office to AT&T's POP. The customer will be AT&T's Private Line Service customer and will be billed by AT&T for the Interoffice Channel element between its POPs. The customer will also be the LEC's FGA Switched Access service customer and be billed by the LEC for that service.... Also, under AT&T's proposed Private Line rate structure, FX customers may obtain Special Access from their premises to AT&T's POP by purchasing access either from AT&T's Local Channel Private Line Service Tariff or from a LEC Special Access service tariff, or alternatively they may provision their own access.

"...AT&T has proposed Local Channel transitional pricing arrangements which use the present Local Channel charge as the basis of calculating transitional Voice Grade Private Line rates. However, AT&T is unable to offer its existing FX service customers a similar transitional pricing arrangement because they are not paying a private line Local Channel charge today under the present FX service structure. Consequently, AT&T has no way of developing a transitional pricing algorithm using the Local Channel charge as a basis.

"Accordingly, to lessen the potential rate impact on existing FX customers and to provide them a period of time to pursue alternatives to FX service, AT&T proposes to "Grandfather" the existing FX customers and continue to charge existing FX service rates for a period of one year following the grant of this Application.

"AT&T proposes that its present method of providing FX be limited to those customers, locations, and quantities in service as of the tariff effective date. The present FX offering for existing customers would remain in effect

> for one year from the tariff effective date. At that time, all remaining FX customers, locations, and quantities would be converted to AT&T's Private Line Service and LEC FGA Switched Access."

We will approve AT&T's proposal for modifying the FX rate structure.

Findings of Fact

1. AT&T filed an application to restructure its rates for voice grade private line service on June 26, 1990.

2. DRA filed a protest to the application on August 3, 1990.

3. On January 31, 1991, DRA withdrew its protest, subject to AT&T Advice Letter No. 196 becoming effective.

4. Advice Letter No. 196 became effective on March 3, 1991.

5. AT&T presently provides voice grade private line service on a bundled, averaged premises-to-premises basis.

6. AT&T proposes to unbundle the voice grade private line service into two rate elements.

7. 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.

8. 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 voice grade private line service at competitive rates.

9. The unbundling of voice grade private line service will result in significant increases in local channel charges to some customers.

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

11. AT&T used California-specific long run incremental costs to support the proposed interoffice channel rates. The Commission

is evaluating costing methodology in A.90-04-001. 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.90-04-001.

12. A public hearing is not necessary.

Conclusions of Law

1. AT&T's request to restructure its rates for Voice Grade Private Line Service and Foreign Exchange Service should be granted subject to the conditions set forth in the ordering paragraphs.

2. The reference rates and corresponding rate bands for the interoffice channel service rate elements should be authorized.

3. AT&T's request to make changes within the rate bands for 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 delivery.

4. Because AT&T's petition for immediate interim approval of its application is unopposed, this decision should be effective today.

INTERIM ORDER

IT IS ORDERED that:

1. AT&T Communications of California, Inc. (AT&T) is granted interim authority to restructure its Voice Grade Private Line Service and Foreign Exchange Service consistent with this decision and subject to the following conditions:

a. Final authority for the interoffice channel reference rates and corresponding rate bands is deferred until resolution of A.90-04-001.

b. The rate bands for the 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 not authorized pricing flexibility to change its local channel rates by advice letter on five days notice.

2. AT&T is authorized to change its rates within the rate bands by advice letter on five days notice.

3. 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 March 22, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL WM. FESSLER
NORMAN D. SHUMWAY
Commissioners

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

NEAL J. SHULMAN, Executive Director