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Decision 91-07-044 July 24, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Alternative)
Regulatory Frameworks for Local)
Exchange Carriers.)

I.87-11-033

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And Related Matters.)
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)
_____)

Application 85-01-034

Application 87-01-002

I.85-03-078

OII 84

Case 86-11-028

I.87-02-025

Case 87-07-024

ORIGINAL

(See Appendix A for appearances.)

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**INTERIM OPINION RESOLVING SPECIFIC POLICY
ISSUES TO FACILITATE PREPARATION OF
IMPLEMENTATION RATE DESIGN**

1. Summary

This decision provides technical and policy guidance to resolve the following four issues prior to preparation of implementation rate design (IRD) for the new regulatory framework (NRF)¹ of Pacific Bell (Pacific) and GTE California Incorporated (GTEC) and contemporaneous changes for all other California local exchange telephone companies (LEC):

1. Continuation of settlements
2. Statewide average toll rates
3. Statewide uniformity of access charges, and
4. Noticing methods and information to customers on NRF to coincide with the IRD decision.

1.1 Continuation of Settlements

This decision directs the continuation of toll pooling and settlements for the small independent LECs currently participating in settlements, until they choose to file applications to participate in NRF, or until we complete the full transition of the mid-sized LECs to NRF. This latter date would not likely occur prior to January 1, 1997.

For GTEC, which is currently operating under NRF and has exited from the settlement pool and now receives in lieu payments of about \$215 million annually from Pacific, the order adopts a phase-out plan which would yield about \$115 million to GTEC in 1992.

¹ NRF appears to be the most common and preferred acronym for the new regulatory framework (also known and referred to as the new economic regulatory framework and the alternative regulatory framework) for local exchange telephone companies, adopted in D.89-10-031.

and reduces that amount for years 1993 through 1995 and drops to zero by no later than January 1, 1996.

Any significant shortfall in revenues to GTEC would be made up by increases to GTEC's below cost basic rates and a modest statewide surcharge in the range of 1% to 2% on all intrastate message toll and toll equivalent services; this surcharge in turn would phase out over five years.²

This decision would allow the three mid-sized LECs to negotiate an exit date from the toll settlements pool with Pacific and to apply for an entry date to the NRF, the latter being no later than January 1, 1994. The phase down of transition payments by Pacific would begin one year later than for GTEC, to 50% in 1993, and the phase out would be completed by January 1, 1997. The mid-sized LECs would raise rates and charges for their below cost basic services in IRD and would also be eligible to make up any significant revenue shortfall from the statewide surcharge to intrastate message toll and toll-like services.

1.2 Statewide Average Toll Rates

The two NRF utilities Pacific and GTEC will be permitted to have different intraLATA toll rate structures, but must maintain uniform toll rates on a mileage basis within their entire service areas.

Until they apply to be regulated under the NRF, or establish their own DCP or ORP, the mid-sized and smaller LECs will concur in Pacific's message toll rates under this order.

1.3 Statewide Uniformity of Access Charges

Pacific and GTEC will be permitted to establish their own separate access charges in IRD. All other LECs except GTE-West Coast Incorporated (GTE-WC) will concur in Pacific's access charges

² This surcharge will apply to the intra and interLATA services of all LECs and Interexchange Carriers (IECs) which are authorized to provide intraLATA services.

until they choose to participate in NRF regulations or establish their own DCP or ORP.

1.4 Noticing Methods and Information to Customers on NRF to Coincide with the IRD Decision

This decision adopts a five-element notice and public information program that will employ four well planned and scheduled bill inserts, a reasonable number of public participation hearings (PPH), white pages directory information, public outreach information, and public service announcements (PSA) to explain IRD and the emerging intraLATA competition to significant segments of the population at large. However, this decision does not require the LECs to perform market research activities or validation of penetration of information keyed to percentages of the population at this time.

The LECs will absorb the cost of this information program, except for the white pages information specific to competitive interexchange carriers (IECs). The IECs will pay to be identified and to include other information in the LECs' white pages directories.

1.5 Other Issues

The decision does not redirect any Category I services, now treated as monopoly services, to other categories at this time. Rather, it leaves such recategorization of services to be determined in IRD.

2. Background

On August 29, 1990, the Commission issued Interim Decision (D.) 90-08-066 providing proposed policy guidance for Phase III of the continuing investigation into intraLATA competition with special emphasis on policy directions for the preparation of IRD for the NRF for the LECs.

D.90-08-066 directed the LECs, and invited other parties, to file comments by October 12, 1990, and reply comments by

November 2, 1990, on the proposed policy guidelines contained in that order. That order further directed the parties to:

"...specifically identify any material issues of fact that they believe the Commission must resolve through hearings before adopting or modifying the proposed policies, or before adopting policies on the issues for which comments are solicited." (Ordering Paragraph 1, 37 CPUC 2d 226, 339.)

On November 9, 1990, the assigned Commissioner issued a ruling (ACR) establishing a procedure to address costing and implementation rate design issues in this proceeding. This ruling essentially directed Pacific and GTEC to "...serve their respective detailed costing methods exhibits (including therewith sample calculations with illustrative numbers) to all parties in these proceedings..." (ACR, 11/9/90, p. 9.)

On November 28, 1990, the assigned Commissioner issued another ruling noting that there were certain unsettled technical and policy issues that needed to be addressed prior to the completion of the IRD phase of NRF. Specifically, the November 28, 1990 ACR noted the following:

"We have reviewed all the initial and reply comments to Decision (D.) 90-08-066, to determine the potential issues both of a technical and policy nature that should be simultaneously laid to rest in the balance of Phase III of this proceeding, along with development of IRD. To the maximum extent possible, this should assure that legitimate concerns of the parties are addressed prior to, or contemporaneously with adoption of the IRD. See Attachment A to this ruling for a comprehensive list of the Technical/Policy issues we have identified for further consideration by the parties and the Commission.

"In presenting these issues for resolution along with the development of the IRD, it is my goal to develop a suitable schedule which will allow the IRD and expanded intraLATA competition to

be implemented by January 1, 1992." (11/28/90 ACR, pp. 1 and 2.)

Attachment A to the November 28, 1990 ACR contained a list of seven "Technical" and eleven "Policy" issues which were identified to the parties for their consideration for settlement or for review in further hearings. The parties were asked to study the issues in Attachment A to ACR and then to attend a prehearing conference (PHC) on December 10, 1990 to participate in scheduling evidentiary hearings for IRD which would allow a final order to be rendered by the Commission with an effective date of January 1, 1992.

Following the December 10, 1990 PHC, it was clear that a large number of technical and policy issues needed resolution before Pacific and GTEC could effectively prepare their respective rate designs for IRD. Accordingly, on December 21, 1990, the assigned administrative law judge (ALJ) issued a ruling covering five prominent issues as follows:

- "1. Presubscription
- "2. Continuation of Settlements
- "3. Statewide Average Toll Rates
- "4. Statewide Uniformity of Access Charges
- "5. Noticing Methods and Information to Customers on NERF to coincide with the IRD decision."

The ALJ opined that each of these issues could be addressed with a yes or no answer or some reasonable middle ground position. However, without direction to the utilities and the other parties, the development of IRD would be hopelessly complex and burdened with numerous alternative calculations likely to yield widely differing results, making the scope of further hearings confusing and unduly prolonged.

At a January 7, 1991 PHC, the parties concurred and confirmed that they had held a workshop and that four of the five issues still needed to be resolved prior to preparation of IRD for the NRF. While the "Presubscription" issue was not fully resolved from the viewpoint of the assigned ALJ, the parties agreed to set that issue aside until after the IRD was initially implemented. This point became clear upon receipt of numerous comments following the issuance of an ACR on January 14, 1991 establishing a hearing schedule on the five issues listed above, commencing on March 4, 1991.

Accordingly, on January 28, 1991, the assigned Commissioner issued a further ruling setting aside the "Presubscription" issue as follows:

"... I agree that presubscription as defined by DRA and the commenting parties (to mean 1 + dialing of any intraLATA telephone number) has been set aside and will not be considered as an issue in this proceeding through and inclusive of any decision on Phase III implementation rate design. However, in setting this issue aside, we still want to be certain that a clear record is developed on each possible manner and method of access for the competitive intraLATA services and service providers to be established and provisioned by the local exchange telephone companies." (1/28/91, ACR, pp. 1 and 2.)

3. Evidentiary Hearing Summary

Fifteen days of evidentiary hearings were held to take evidence on the four technical and policy issues described above, during the period from March 4 to March 27, 1991. The evidentiary hearings yielded 2,381 pages of transcript. Testimony was given by 26 witnesses, 6 from the Division of Ratepayer Advocates (DRA), 3 from Pacific, 4 from GTEC, 3 from Citizens Utilities Company of California (Citizens), 2 from C.P. National (CPN) representing CPN and seven other smaller LECs, and 1 each from Contel of California (Contel), Calaveras Telephone Company (Calaveras) representing

Calaveras and eight other smaller LECs, Roseville Telephone Company (Roseville), AT&T Communications of California (AT&T-C), US Sprint Communications Company Limited Partnership (US Sprint), California Bankers Clearing House Association and the County of Los Angeles (CBCCHA & CLA), Department of Defense and other Federal Executive Agencies (DOD & FEA), and Toward Utility Rate Normalization (TURN). Twenty-six exhibits were identified and subsequently received and nine reference items were provided as background information for the record.

Hearings were concluded on March 27, 1991 and parties agreed to file opening briefs on or before April 17, 1991 and reply briefs on or before April 29, 1991.

Consequently, this part of Phase III of Investigation (I.) 87-11-033 was submitted on April 29, 1991, upon receipt of the parties' reply briefs.

4. Continuation of Settlements

4.1 Definition of Settlements

"Settlements" as used herein is an accounting procedure based on an LEC's total investment in telephone equipment used to provide California intrastate telephone service. The settlements procedure defines how revenues from intrastate telephone calls are distributed among the different companies, both Pacific Bell and the independents involved in connecting to each other and completing the calls.

From this definition an example could be hypothetically formulated as follows: Assume that the 22 LECs serving the people of California form a single partnership and place all of their intrastate telephone property into a common pool. Assume further that all companies charge the same toll rates even though their individual costs vary widely. Then the companies place all revenues into a common pool of funds, and compute their costs of providing toll service on a uniform basis, and withdraw those costs from the pool, along with a rate of return on their dedicated toll

plant equal to the rate of return earned by the pool. Since intraLATA toll rates today are priced well above costs, the LECs, with the full knowledge and consent of the Commission, will use the excess revenues derived from the pool to subsidize local exchange rates. This example mimics the process and results of the toll settlements pool in California, except that the partnership does not own the property of the 22 LECs, and Pacific performs the services of the banker for the pooled revenues, dispensing payments to the other 21 LECs³ and then retaining its share of the remaining revenues based on its cost of operation.

The toll settlements procedure dates back to the 1960's or earlier and has permitted all telephone companies in the state to charge the same basic toll rate for a similar call of a given duration over the same distance. Prior to full implementation of the toll settlements pool, which is now in place, small telephone companies would add "other line charges" to cover their own cost of receiving and sending toll messages. What occurred in a 50-mile call from a Pacific customer to a small independent telephone company customer was that the independent telephone company would add an increment of about 20¢ more or less to a typical three-minute call in this example, whether the call was initiated in its service area or Pacific's.⁴

3 GTEC is no longer treated as a partner in the pool, from which it exited at the end of 1989. Instead, it bills and keeps its sent-paid and received-collect calls. Pacific also makes a large annual payment to GTEC ever since January 1, 1990 (approximately \$200 million) based on economics of telephone plant costs which GTEC expended to accommodate toll traffic of the toll pool.

4 The Commission over the years sought to discourage these surcharges and expressed its preference for uniform toll rates, wherever possible. The Commission's views were discussed, among other places, in D.46071 in response to Application (A.) 32114,

(Footnote continues on next page)

Today, as has been the case for more than 25 years, intralATA toll rates of the LECs are uniform throughout California, and except for GTEC (discussed supra) and Winterhaven Telephone

(Footnote continued from previous page)

filed February 9, 1951, wherein the Western Telephone Company (applicant) stated that it had made substantial investments to improve service in its Garberville, Covelo, and Laytonville exchanges. Accordingly, it proposed to apply a 10 cent surcharge to every intrastate originating and terminating message. The Commission responded as follows:

"In the main, there are but two applicable methods by which the needed revenues may be spread in rates for this company. One, which is comparable to that which applicant has proposed. . . . This method has certain disadvantages, some of the more important of which are that the surcharge becomes an arbitrary amount related neither to line haul nor to terminal costs, that it must be collected at remote points on incoming calls from other company lines, thereby possibly requiring the development of a revised settlement arrangement, and that it is an unusual charge which creates subscriber and public ill will. . . . The second method is to place into effect the general level of California intrastate toll rates in all areas served by applicant and obtain additional revenues required from the exchange rates. In view of the record in this proceeding, we believe that the latter method is the logical and more reasonable, and it will be adopted as the basis for the rate form and rate levels to be authorized. The increases in rates have been spread in accordance with the principle that the charges for telephone service in one area will not place an undue burden on the balance of the company's customers.

"With respect to the number of intracompany toll calls that can be made within the minimum toll user's bill, it will be noted that elimination of the surcharge from the proposed rate, in effect, will double the number of allowable calls." (The Western Telephone Company, (1951) 51 CPUC 51, 56.)

Company (Winterhaven), each LEC draws its share of toll revenues from the settlements pool based on its cost of operation.

Although the record portrays GTEC as a high-cost company, when measured against any other LEC, its costs are far less than any other non-Bell company in California. As a rough comparison, Pacific's payment to GTEC in 1990 represented about \$5.00 per month per access line in excess of GTEC's billed revenues. The next lowest-cost LEC received nearly \$18.00, the average non-Bell LEC received about \$31.00, and the highest cost LECs drew over \$100 per month per access line.⁵ The latter LECs are truly high-cost companies.

Nonetheless, no one has complained. It was to the statewide telephone users' advantage for California's highest cost LECs to be modernized and equipped to originate and terminate toll calls readily to and from all points in California on a uniform basis. Further, it was advantageous to the statewide telephone industry as well to quickly and automatically place telephone calls to any and all telephone subscribers in California.

5. Continuation of Settlements

5.1 DRA would end all Settlements

DRA urges termination of settlements as we know them today for all the LECs, large and small. DRA states that "Elimination of Pooling Will End Unreasonable Subsidy Flows from One Company to Another."⁶ (DRA Op. Br. Caption, p. 17.) It is

⁵ Developed from data contained in Exhibit (Ex.) 501a for the mid-sized and smaller LECs, and from dividing the \$200 million approximate payment to GTEC by its 3.3 million access lines and spreading it over 12 months.

⁶ As we have noted (supra), the settlement process is necessary because the smaller LECs generally incur higher levels of cost to provide service and thus receive settlements to recover their costs from the statewide pool of which Pacific is merely the banker.

DRA's opinion that ending of message toll service (MTS), Toll Private Line, and extended area service (EAS) pools would advance productivity and pricing efficiency. (DRA Op. Br., p. 18.)

5.2 Concerns for the Smaller LECs

AT&T-C, Pacific, and 17 of the smaller LECs agree that it would not be appropriate to end pooling for the smaller LECs at this time. AT&T-C opines that:

"In principle it agrees with the DRA. However, in this instance the practical impediments to obtaining a competitive environment are too overwhelming. The Commission cannot deal with [17] individual revenue requirements, tariff and rate rebalancing [applications] and still authorize intraLATA competition within a reasonable time frame." (AT&T-C Op. Br., pp. 32-33.)

AT&T-C then asserts that:

"[T]he practical result of the DRA proposal is to shift a greater burden to the CHCF [California High Cost Fund], not the individual services of the smaller LECs. The rate design options of the smaller LECs are too limited to allow them to absorb any significant additional amount of their revenue requirement. All parties agree with the Commission's proposal in Decision 90-08-066 to modify the funding source of the CHCF to a surcharge on all intrastate end user services (see, for example, Exhibit 501, p. 2C-10, Chang for DRA). Therefore, the DRA's proposals to end pooling and settlements would do little more at best than shift the support for the smaller companies to a different group of ratepayers. At worst, the proposal could cause inequities in the competitive balance by forcing these rural LECs to load their expenses on access charges paid primarily by AT&T and Pacific, both of whom have an obligation to serve these LECs. This result would also inhibit competition in rural areas by discouraging other alternative toll carriers from serving these rural service territories.

"DRA Exhibit 501a, Table 2.1 establishes that pooling and settlements with these smaller

independent companies constitutes less than 1 percent of the 1990 recorded inter-company settlement revenues. Continuation of this pooling is not significant enough to be detrimental to Pacific's competitive position. Indeed, the DRA's proposal for fixed contract payments from Pacific to these smaller LECs is no less of a burden on Pacific. (AT&T-C Op. Br., pp. 33-34, footnote omitted.)

CPN asserts that continuation of settlements will not impede introduction of intraLATA competition and the resulting reduction in intraLATA toll rates will automatically reduce settlement revenues to the smaller LECs. CPN referred to the testimony of Pacific's witness Sawyer (Ex. 516, Attachment A) setting forth current net settlement payments of \$44 million annually to the smaller LECs. With rate adjustments that will occur during IRD and the removal of the present pooled 8.57% surcharge from the access pool together with an assumed reduction of \$500 million in intraLATA toll, the post-IRD level of settlements would approximate \$22 million. (CPN Op. Br., p. 4.)

Calaveras argues that DRA's objections to continued pooling are unfounded. Calaveras contends that DRA ignores evidence that the smaller LECs have deployed cost-saving new technology and digital switches in all central offices except Happy Valley Telephone Company's Platina office that serves 49 subscribers, and that office will be equipped with a digital switch this year. If the Commission chooses to modify pooling and settlements for the smaller LECs, then according to Calaveras, it must follow Public Utilities (PU) Code § 739.3 and establish a fair and equitable local rate structure aided by transfer payments to small independent telephone utilities serving rural and small metropolitan areas.

5.2.1 Discussion of Settlements for the Smaller LECs

We agree with AT&T-C that the termination of toll settlements to the small independent LECs now under pooling, as DRA proposes would create a rate rebalancing problem of major proportions, and the rate design options available to the smaller LECs are too limited to absorb any significant amount of the additional revenue requirement resulting from the termination of settlements. Therefore, we will continue pooling and settlements with these small independent LECs until they choose to file applications to participate in NRF, or until we complete the full transition of the mid-sized LECs to NRF. Then, we may foresee changes that may justify an investigation by the Commission to consider the potential benefits of eliminating toll settlements for the smaller LECs at that time.

Meanwhile, we are convinced by CPN's argument that, as toll rates for MTS are reduced through competition, the toll settlement revenues to the smaller LECs will drop significantly. This, in combination with the means test provisions of the CHCF, will assist the smaller LECs in becoming more productive and efficient and thereby meet certain of the stated goals of DRA.

5.3 Treatment of GTEC's Transition from Settlements under NRF

GTEC is currently operating under the NRF and since 1989 is no longer a participant in the settlement pool. In place of pooling, Pacific and GTEC have begun to establish an Originating Responsibility Plan (ORP) for MTS and EAS, and Meet Point Billing (MPB) for toll private line services. Under ORP, Pacific and GTEC will each bill their customers for toll calls that originate in their respective territories, and each will pay terminating access charges to the other for termination of intraLATA toll calls in the other's territory. GTEC would also bill on a bill-and-keep basis for originating WATS traffic and terminating 800 traffic, either

concurring in Pacific's tariffs or establishing its own tariffs. GTEC would then compensate the other carriers for (1) transport and termination of jointly provided MTS and WATS traffic and (2) transport and origination of jointly provided 800 traffic, based on access tariffs. (See Appendix E for further details of GTEC's proposed ORP.)

In 1990, Pacific made transitional contract payments to GTEC totaling about \$215 million, consisting of \$162 million for MTS, \$32 million for toll private line and \$20 million for EAS. As the result of these current arrangements under MPB and ORP, Pacific estimates that GTEC will receive \$50 million more than Pacific will receive from GTEC. Accordingly, the \$50 million would be applied against the \$215 million transitional payment with a net amount of \$165 million to be paid to GTEC after IRD if the contract payments from Pacific are not terminated. (Pacific Op. Br., pp. 8 and 9.)

Pacific argues that it must "...bring its toll rates closer to cost to meet its competitive challenges, and elimination of the transitional GTEC subsidy payments will help enable Pacific to do so."⁷

Pacific also cites Dr. Hausman's testimony that:

"There would be a marked increase in economic efficiency. The toll rates are currently priced certainly in Pacific's case well above cost. And to bring those down closer to costs, especially given what we know about demand for toll, would lead to a large increase in economic efficiency." (Transcript (Tr.) 10375.)

⁷ Pacific should note that these are toll settlement dollars resulting from statewide toll rates set above cost to generate them, rather than the result of Pacific's own productive work. The toll settlement pool, historically for GTEC and currently for all other California LECs (except Winterhaven) is merely an extension of PU Code § 739.3 to promote the goals of universal service by reducing any disparity in rates charged by LECs.

Pacific contends that all parties expressing an opinion on this issue, including GTEC, DRA, and AT&T, agree that Pacific's existing contract payments to GTEC should be eliminated.

DRA recommends that GTEC and its ratepayers be made to bear the burden of the approximately \$195 million on a "flashcut" basis concurrent with the implementation of IRD. "DRA uses the term 'flashcut' to imply that Pacific and Pacific's ratepayers should immediately be removed from the burden of having to subsidize GTEC and GTEC's ratepayers in phasing down the \$195 million payment." (Ex. 501, p. 2B-9.)

Initially, GTEC agreed to end the contract settlement payments in IRD, so long as they are offset by increases in GTEC's below cost rates. GTEC proposed that an end user surcharge be used to replace the contract payment currently received from Pacific. GTEC correctly points out that:

"In establishing GTEC's start up revenue requirement to achieve the 11.50% rate of return authorized in D.89-10-031, the Commission specifically took into consideration the \$195.3 million transition payment that GTEC received from Pacific in exchange for exiting the MTS and toll private line pools, effective January 1, 1990. D.89-12-048, mimeo, pp. 25-28, p. 51 (Finding of Fact 34); p. 62 (Ord. para. 4). GTEC and Pacific contemplated that this payment would be phased out over some period of time, and offset in the case of GTEC, by increases in the rates for its services that are currently priced below cost. The Commission, however, in D.90-08-066 (mimeo, pp. 77-78), and in the Assigned Commissioner's Ruling of November 22, 1989, at page 7, made it clear that it intended to determine how this phase out should occur and how the necessary offsetting rate increases should be implemented.

"To replace at least part of the revenues generated by the transition payment, GTEC and Pacific are implementing an Originating Responsibility Plan (ORP). Under this ORP,

each company will compensate the other for the use of its facilities to complete intercompany MTS calls. Compensation will be based on each company's respective access tariff rates that will be approved in IRD. The ORP arrangement will result in each company recovering its own discrete costs associated with terminating access.

"No party to this proceeding expressed opposition to the proposed ORP or MPB arrangements [for toll private line service] between GTEC and Pacific as a reasonable way to recover the actual costs associated with these previously pooled services. Therefore, the Commission should hold that, as a matter of regulatory policy, these compensation arrangements are reasonable.

"However, the actual implementation of the new MPB billing arrangement for intercompany private lines will be a lengthy process. According to GTEC's witness Tong, there are many details that must be resolved between GTEC and Pacific before billing records can be exchanged and each company has the capability to do its own billing. The ability of the companies to actually implement toll private line MPB will, therefore, not exist until the middle or latter part of 1992."

"Even after these new compensation arrangements are in place, GTEC will still experience a revenue shortfall as a result of the termination of the current \$195.3 million transition payment. As noted earlier, the transition payment represents the recovery of GTEC's costs directly associated with the provision of toll and toll private line services that are not recovered by GTEC through its toll and toll private line billings. The payment also includes costs that were allocated to the pool through the separations process to meet certain social policy goals such as universal service. The policy question that must be decided in this proceeding is how to recover this revenue shortfall so that GTEC can earn its start-up revenue requirement." (GTEC Op. Br., pp. 11-13.)

Various proposals were advanced, to make up any significant shortfall from the phase-out of toll revenues which cannot be recovered from increases to basic rates. Dr. Hausman suggested that the Commission...

"consider levying a surcharge on all intraLATA and California interLATA service. The surcharge would apply to both IXC and LEC end user billings. Each intraLATA carrier, including Pacific and GTEC, as well as the IXCs, which will provide both intraLATA and interLATA services, would be assessed a given percentage surcharge on its bills. The surcharge would have favorable economic efficiency properties compared to other methods because the full benefits of competition would be more likely to be realized, competitors would be treated symmetrically, the economic incentives of ARF would be maintained, and economic efficiency considerations would not be compromised. I continue to believe that a surcharge is the best means for the Commission to achieve its regulatory goals while at the same time maximizing economic efficiency and have consumers of telecommunicating services in California receive the benefits of increased competition." (Ex. 504, p. 17.)

5.3.1 Discussion

We are aware that the toll settlement procedure was not "flashcut" into existence. Rather it was developed over a long period of time. Therefore, we are not comfortable with DRA's and Pacific's proposals.⁸

We are even more concerned about this "flashcut" proposal when we consider that IRD will not likely be in place prior to April 1, 1992. By then, the existing MTS toll rates will have

⁸ DRA's first preference would be to raise all of GTEC's below-cost services to cost, with the balance to come from the CHCF, under the rules of that fund. Pacific would instead recoup the balance from a statewide surcharge on all end user services, after GTEC's below-cost services are raised to cost.

generated fully 25% of the equivalent annual \$215 million payment in the hands of Pacific. There is no rational basis to allow Pacific to retain that amount in lieu of forwarding it to GTEC from the MTS pooled revenues. If we leave a burden of another 25% of that payment level to Pacific for the balance of calendar year 1992 and reduce that combined amount by 25% for each calendar year 1993, 1994, and 1995, we arrive at a fairly rapid phase out of Pacific's payments to GTEC by 1996. (See Appendix B for an illustrative example of the proposed phase out).

Following the phase out plan which would yield about \$115 million⁹ to GTEC from Pacific, in lieu of a toll pool settlement payment in 1992, GTEC will still experience a significant revenue shortfall that it suggests be made up from below cost basic services and a surcharge on the end user services of all LECs.

AT&T-C, Pacific, and GTEC all support the use of an end user surcharge to make up the shortfall of GTEC. However, AT&T-C would like to see that surcharge eliminated in a reasonable time frame of five years. Accordingly, we will adopt a modest surcharge on all intrastate toll services and toll-like services applicable to LECs and IECs who provide intraLATA services and/or use LEC access to LEC ratepayers. This surcharge would be similar to that recommended by Dr. Hausman, except that it would be applied only to intrastate toll and toll-equivalent services. This modification is necessary since GTEC would first increase the rates and charges of its below-cost basic services. Therefore, any surcharge to basic services would merely be a tax on services that are already being increased to make them more cost-based.

⁹ Illustrative estimated numbers are used herein for discussion. Actual dollar amounts will be developed in IRD.

We also recommend that GTEC and all other LECs consider incorporating reasonable increases in their basic exchange rates of \$1 per month to Universal Lifeline Telephone Service (ULTS), \$2 per month for residential one-party service, and \$3 per month to business one-party service. These increases will tend to offset revenue shortfall from intralATA MTS reductions of 20% to 25% and any residual shortfall to GTEC could be made up by the statewide surcharge (supra) on the order of 1% to 2% on all intrastate toll services and toll-equivalent services.¹⁰

This differs from our earlier position set forth in D.90-08-066 which would have allowed the LECs to substantially increase their carrier common line charge (CCLC) and switched access charges to derive revenues to offset the shortfall associated with exiting the settlements pool under NRF and phase-out of Pacific's in lieu transition payment. Finding of Fact 6 of D.90-08-066 states:

"The basic rate levels found reasonable in the implementation phase should act as a constraint on the level at which the CCLC can be set and on other potential cost-based revenue shifts, in order to maintain an appropriate balance between cost-based rate design and affordable basic exchange rates."

Upon review of the current record, we note that the magnitude of the shortfall of revenues which is projected by GTEC, at the onset of the NRF, exceeds that which could be absorbed by reasonable increases in its basic rates in combination with reasonable access charges and CCLCs. Such increases would be borne

¹⁰ These rates are illustrative for discussion purposes and for IRD development, but seem to also provide ball park references of revenue reasonableness when compared to a potential 20-25% MTS toll reduction.

entirely by its ratepayers and IECs doing business in GTEC's service area.

It is worth emphasizing that the avoidance of rate shock for GTEC's business and residential ratepayers is a primary motivation for the collection of rate design policies that we endorse in this decision. A substantial reduction in intraLATA toll rates, which is a prerequisite for full intraLATA competition but which we wish to explore in any event (see Section 9, *infra.*), the phase-out of Pacific's continuing payments in lieu of settlements, and the elimination of GTEC's existing surcharge will combine to create substantial upward pressure on GTEC's rates. As noted earlier, the payments from Pacific alone amount to about five dollars per GTEC access line per month, and the other rate reductions could cause that amount to double. No party has opposed the elimination of Pacific's payment to GTEC; rather, the discussion has focused on the period and terms under which the payment should be eliminated. GTEC and its ratepayers must face the full amount of GTEC's costs at some future time after GTEC has some reasonable period to seek efficiency improvements, both out of fairness to Pacific's ratepayers and as a greater spur to efficiency on GTEC's part.

The losses in revenue for GTEC must be offset by revenue increases elsewhere. To anticipate to some extent the discussion in the remainder of this decision, the available sources seem to be basic rate increases for GTEC and deaveraged intraLATA toll and access charges for GTEC (presumably higher than those charged by Pacific). In this decision we face a tension between identifying the rate design tools that will be available in later hearings to deal with these impacts, and leaving room for parties to argue alternatives. Nonetheless, we must identify enough rate design tools to permit full intraLATA competition to be considered without rate shock, and we presently have the record to narrow the alternatives somewhat to further focus the upcoming hearings.

As Pacific's witness Dr. Hausman discussed, a transitional surcharge (to last on the order of five years) is another rate design option that could be used to mitigate rate shock for GTEC's customers. A surcharge on toll and toll equivalent services has the advantage of being neutral with respect to the potential implications of intralATA competition, in that it does not favor one group of competitors over another. By contrast, the existing settlements process (as well as contract payments in lieu of settlements) in effect supports basic rates through a contribution from toll services provided by only one set of competitors, the local exchange companies. Further, we need not determine the potential level of this surcharge in this decision, for that will hinge on whether and how competition is expanded, the level of revenues that must be recovered, what the parties believe would constitute rate shock for GTEC's customers, and so on. Still, this record shows that we should have this tool available in the upcoming hearings.

As we noted earlier, the settlements process has functioned for over thirty years to help keep basic telephone rates reasonable by using contributions from statewide toll rates of all serving utilities. The substitute contract payments provide for the same purpose, and the potential surcharge on toll and toll equivalent services we endorse in this decision continues the same policy. There is nothing new here with regard to the Commission's mandate to keep basic telephone rates just and reasonable. The planned phase-out of any such surcharge will also limit its impact.

Two other issues have been raised with regard to the contract payments in lieu of settlements from Pacific to GTEC. One argument is that such payments are somehow inconsistent with the NRF. In response, we note that such payments were part of the revenue level and rate design for both Pacific and GTEC when the NRF was put into effect, and that we are planning for their phased elimination in any case. Second, DRA and Pacific have suggested that Pacific's contract payment to GTEC be terminated immediately and replaced entirely by monies raised from basic rates, coupled with either the

CHCF or the new surcharge. We decline to adopt this suggestion because the immediate use of the surcharge to fund the entire amount of Pacific's transition payment would unduly restrict our rate design flexibility and might well affect our ability to design GTEC's rates without the rate shock alluded to above.

Accordingly, the temporary transitional toll surcharge now appears to be the necessary additional revenue source. We will seek further evidence in the IRD exhibits to determine the extent to which revenues from access charges, and the CCLCs, together with reasonable basic rate increases will cover any shortfall projected for GTEC, to keep the statewide toll and toll-equivalent revenue surcharge as small as possible.

5.4 Continuation of Settlements to the Mid-Sized LECs

The three mid-sized LECs (Citizens, Roseville, and Contel) have each agreed to exit the settlement pool. They should be allowed to do so. We need only to consider whether the withdrawal should be uniformly established for all three of these LECs or whether separate plans are appropriate.

5.4.1 Concerns Stated by Roseville

Fundamentally, Roseville recommends that the Commission not involve itself in the negotiations between the mid-sized LEC and Pacific on this issue. While this suggestion has great appeal and we hope that the parties will allow Roseville's recommendation to proceed, we are concerned that the phase out plans will be of reasonable length and uniform in execution. Toward that end, we will describe our understanding of the three mid-sized LEC proposals and then set forth our views of uniform data and provisions for their withdrawal from the toll settlement.

5.4.2 Citizens' "Five-Point Plan"

Citizens has set out a comprehensive Five-Point Plan which will allow it to exit the pooling and settlement arrangements in the new intraLATA competitive environment in California. The "Five-Point Plan" obligates Citizens to:

- "1. [E]xit the intrastate settlement pools, including Extended Area Service [EAS] arrangements, effective January 1, 1991;
- "2. [E]nter into a contract with Pacific to establish a schedule for fixed transitional payments based on existing support levels to be phased out by the end of 1994;
- "3. [F]ile an application for general rate review no later than mid-1992, with a test year of 1993 and new company-specific access rates to become effective January 1, 1993;
- "4. [E]nter into an [NRF] effective January 1, 1993; and
- "5. [I]mplement operations under a Designated Carrier Plan (DCP) effective in 1992 or 1993." (Citizens Op. Br., p. 11.)

While Citizens would no longer participate in the EAS arrangement, it has not yet resolved how the costs of EAS will be recovered. Citizens plans to "bulk bill" Pacific for the EAS revenue requirement until a permanent arrangement is agreed upon.

In a Designated Carrier Plan, the Citizens could pick any carrier to be the designated switched toll carrier; however, it has selected Pacific to be its designated carrier. The retail relationship between Citizens and its customers would not change: the company would continue to bill its customers for service at the designated carrier's (Pacific's) tariffed rates.

5.4.3 Contel's Comprehensive Plan to Phase Out of Toll Settlements

Contel described its comprehensive plan to phase out of the toll settlements and pooling as follows:

- "1. Effective as of January 1, 1991, Contel will terminate all settlement agreements with Pacific Bell for interLATA access, intraLATA message toll, WATS/800, and private line, and eventually extended area service (EAS).

- "2. Effective January 1, 1991, Contel will bill and keep interLATA access rates (and, when they are authorized, intraLATA access rates) and intraLATA toll rates (both still by concurrence with Pacific Bell's tariffs); and, as a replacement for pooling, Contel will receive from Pacific Bell a predetermined annual transition payment.
- "3. Effective January 1, 1991, and through the conclusion of a general rate case, Contel will continue to concur with the interLATA (and any intraLATA) access rates and intraLATA toll rates of Pacific Bell.
- "4. On or before December 31, 1992, Contel will file a general rate case with a test-year appropriate to have its new rate design for all services effective no later than January 1, 1994.
- "5. The foregoing general rate case will include Contel's proposal (a) for company specific access rates, with a differential between the originating access rate (set at the statewide average) and the terminating access rates for the CCL [carrier common line] and traffic sensitive elements, (b) for an alternative regulatory framework similar to that adopted for Pacific Bell and GTE California but appropriate for Contel's specific circumstances and (c) for the implementation of either a designated carrier plan (DCP) for which Pacific Bell will be the designated carrier) or an originating responsibility plan (ORP) as the replacement intercompany compensation plan." (Contel Op. Br., pp. 4 and 5.)

Contel contends that the foregoing orderly transition period will end by December 31, 1993, and will allow Contel the opportunity to gradually move from its historical reliance on toll settlement revenues to a higher risk competitive toll environment. During the transition period, there will be significant reductions in toll and access rates in the IRD phase of this proceeding, as

"5. Submit a general rate case application after IRD and after sufficient data has been collected about intraLATA competition to rebalance all of the Company's rates for the impacts of intraLATA competition and the transitional phase-down negotiated with Pacific Bell." (Roseville Op. Br., pp. 3-4.)

Unlike Citizens and Contel, Roseville was silent in its plan as to whether it would ask to have the flexibility to operate under the NRF as part of its intended general rate proceeding referred to in Element 5. above.

5.4.5 Pacific's Position on Continuation of Settlements to the Three Mid-Sized LECs

Pacific recommends that the Commission "...adopt the proposals of the mid-sized LECs (Roseville, Contel, and Citizens) to end pooling and move to a Designated Carrier Plan (DCP) or an ORP." Pacific contends that the transitional contract payments to be agreed to by Pacific and each mid-sized LEC will enable transition to a DCP or ORP arrangement. (Pacific Op. Br., p. 4.)

However, Pacific asserts that, if for any reason a mid-sized LEC elects or is allowed to remain in pooling indefinitely, Pacific's settlements payments to that LEC should be reduced to zero by January 1, 1998. (Pacific Cl. Br., p. 2.)

5.4.6 Discussion of Settlements for the Mid-Sized LECs

While we believe that Pacific and the mid-sized LECs should have reasonable flexibility in reaching an understanding and agreement on phase out from the settlement pool, we do believe there should be uniformity of the phase out or transition from the pool as they elect to participate in the NRF.

Therefore, in keeping with Pacific's desire to reduce settlements or contract payments to zero by 1998, we will require transition payments, for the mid-sized LECs, to remain at the

current 1991 level (cost basis) for 1992, then reduced by about 50% for 1993 and by 25% or more for each year 1994, 1995, and 1996 then drop to zero payment by no later than January 1, 1997. (See Appendix B for details of the example transition payments.)

It is also appropriate to require the mid-sized LECs to accept NRF incentive regulation on, or before, January 1, 1994, the date proposed by Contel for its conversion to NRF. Under this modified proposal, the three mid-sized LECs would continue to concur in Pacific's toll rates and access charges in calendar years 1992 and 1993.

Any shortfall of payments to cover these mid-sized LECs' costs during the transition period would be made up by the same increases to basic rates¹¹ and, if they elect the NRF, they would qualify for the illustrative 1% to 2% surcharge to intrastate toll and toll-like services discussed above for GTECs.

6. Statewide Average Toll Rates

It has been the Commission's long-standing practice to establish and maintain uniform statewide toll rates wherever it is practical to do so. Under monopoly regulation, the Commission was able to ultimately achieve its goal sometime in the 1960's when "other line charges" of the small independent telephone companies were eliminated and the cost-based settlement pool provided the necessary revenues to the high-cost LECs to help keep their basic rates affordable.

As we consider whether or not intraLATA toll rates should be maintained uniform under competition, it is useful to briefly recall the evolution of the current interLATA market. When competition began in the mid-1980s with the breakup of the Bell system, the creation of the LATAs, and the certification of numerous IECs to provide interLATA service in California, each IEC

¹¹ For example, as discussed earlier, \$1 per month on ULTS, \$2 on one-party residence, and \$3 on one-party business service.

established its own toll rate structure. To that extent statewide interLATA toll rates varied among the IECs and their interLATA toll rates gradually became even more competitive.

While interLATA toll rates vary among IECs, the Commission requires that they be uniform within each IEC. When competition was first authorized on an interLATA basis, AT&T-C's uniform message toll rates were established by Commission decision.¹² These rates formed the necessary ceiling from which competition could emerge without fears that excessively deaveraged rates would affect either individual high-cost routes or universal statewide telecommunications services.

6.1 Position of Key Parties
Re Average Toll Rates

DRA's witness Roy Lathrop opined that the current intraLATA MTS toll rates must be significantly reduced to more closely reflect the market level of IECs' (interLATA) toll rates. In doing so, Lathrop contends that the Commission should adopt a reasonable imputation method:

"[W]hich allows certain mileage bands or rates over certain periods to reflect rates that may not cover the per-minute costs, provided the entire service passes an imputation test. DRA envisions that toll service pricing parameters to be determined in IRD will include price floors (based on costs to be determined in IRD) and price ceilings to be set at statewide market rates, with consideration given to the total bill impact upon customers (for whom the diminished toll portion of their monthly bill may be offset in part by an increase in the basic monthly service rate)." (Ex. 501, p. 3-17.)

¹² D.84-06-111.

With that background DRA recommends various toll alternatives as starting points for IRD. For our discussion here, we will focus on DRA's first alternative as follows:

"Status Quo with Concurrence in Rates for Most Toll Services; Pooling of Costs and Billings."

"Details of Alternative 1 Toll Tariffing Policies:

- "a. All LECs continue to concur in Pacific's tariffed rates and charges for MTS toll, toll coin and OCPs [optional calling plans];
- "b. All LECs continue to concur in Pacific's tariffed rates and charges for WATS/800 service, with the exception of GTEC's Business Line 800 service;
- "c. All LECs, with the exception of GTEC, continue to concur in Pacific's private line rates and charges;
- "d. Pacific and all other LECs continue pooling of costs and billings; GTEC and Winterhaven do not participate in toll MTS or toll private line pools." (Ex. 501, p. 3-18.)

DRA also recommends that MTS, which is now a Category I (monopoly) service be reclassified to a Category II (partially competitive) service so that an LEC could seek multiple changes in its MTS rates during the course of a year. DRA states that similar pricing flexibility rules apply to IECs' interLATA MTS rates. (DRA Op. Br., p. 66.)

GTEC asserts that:

"The NRF would be frustrated if all LECs had to reach some consensus before initiating toll price changes, or if one LEC was allowed to initiate price changes, which then had to be adopted by all other LECs independent of their market requirements or business objectives."

"There is no compelling reason to require strict uniformity in MTS toll rates after IRD."

Uniform LEC MTS rates have not existed for a number of years because of the various surcharges and surcredits that individual LECs have applied to their rates. Those surcharges and surcredits range from +28.24% to -41.43%. GTEC, Kissell, Ex. 507, p. 16; Attach. A. These surcharges/surcredits have effectively deaveraged MTS rates even though the published tariff rates of all California LECs are the same. GTEC is unaware of any significant public complaints or problems as a result of this departure from average toll prices. Moreover, the public is already familiar with the fact that the rates charged by interexchange carriers for intrastate interLATA toll calls vary from company to company. If the Commission permits LEC MTS rates to vary by company after IRD, it would be simply taking this established Commission policy with respect to the intrastate interLATA market and applying it to the intraLATA MTS market." (GTEC Op. Br., p. 21.)

GTEC argues that DRA's basic toll service most closely fits the Commission's description of a Category I service and a inflexibly priced service certainly does not belong in Category II. GTEC, however, agrees with DRA and Pacific, that if toll competition is authorized, then toll services should become Category II services and subject to the pricing flexibility of other Category II services. (GTEC Cl. Br., p. 11.)

Pacific argues against adoption of DRA's proposal for a basic toll rate schedule or its proposed findings that a statewide uniform "Basic Schedule" for all LECs be adopted if intraLATA competition is approved. Instead, Pacific contends that:

"GTEC and Pacific have nearly identical proposals for statewide average toll rates. One area of significant difference, however, is GTEC's proposal that the starting, uniform toll rates include a combination of Pacific's and GTEC's costs, or otherwise be set high enough to recover GTEC's higher toll costs.

"At this point, it is safe to say that rates for most toll services will likely exceed the

incremental cost of either GTEC or Pacific, and for this reason, "combining costs" is unnecessary.

"Moreover, there are two major problems with GTEC's suggestion. First, GTEC has not explained how such a combining of costs would occur, how the work can be completed in time to keep IRD on its current schedule, and what usefulness will be served by the exercise.

"Pacific firmly believes that GTEC should be provided a fair and reasonable opportunity to earn its authorized revenue requirement, but its effort to cloud toll cost issues with irrelevant and potentially harmful matters will competitively disadvantage Pacific and ill serve all Californians. Professor Hausman made clear that the sensible approach is to allow GTEC to recover any revenue shortfalls from its below-cost services to the extent reasonable, and fund any remaining shortfalls through an external surcharge (86 Tr. 10442-44). This external surcharge should be available for public review and subject to a well-defined phase-down schedule. It should not be hidden in the prices of Pacific's competitive toll services." (Pacific Cl. Br., pp. 13-15.)

6.2 Discussion

In D.89-10-031, the Commission concluded that the two NRF utilities (GTEC and Pacific) should be required to adjust the prices for their Category I services each year based on the changes in their respective price cap indexes. The Commission also required them to apply their indexes to the ceiling rates for Category II services. D.89-10-031, 33 CPUC 2d 43, 142-143. According to GTEC, these Phase II policies should apply to MTS services as well. We agree, and in fact it may well be necessary to allow the NRF utilities to revise their MTS rates more frequently than once a year.

Our current treatment allows each IEC to establish its own interLATA toll rates on a uniform statewide basis. Through this policy we have non-uniform interLATA toll rates today. As we

begin to implement IRD we will have only the two largest utilities (Pacific and GTEC) under NRF. It is likely that most of the other LECs will initially be concurring in Pacific's toll rates. Accordingly, Pacific's MTS schedule will initially apply to all the LECs (except GTEC). GTEC, under its ORP, will establish its own competitive rate structure. We will require these toll rate structures to be uniform (within each utility) on a statewide basis. Also, since pre-subscription is not contemplated at the onset of intraLATA toll competition, Pacific, GTEC, and the smaller LECs will most likely remain the dominant carriers of intraLATA MTS for the near future. Therefore, their rates for MTS should be set, in the words of Pacific, "consistent with [their] cost and market factors."

At this time intraLATA toll is a Category I service and the timing of moving this service to Category II will be an issue in the IRD phase of this proceeding.

GTEC's shortfall¹³ should be made up, to the extent that it can, from its own services, including toll, and should not impose any greater burden on others. Thereafter, any remaining GTEC revenue shortfall may be recovered through the small surcharge proposed for intrastate toll and toll-equivalent services. This should allow all ratepayers early access to substantially (20-25%)¹⁴ lower intraLATA MTS rates throughout California with only modest increases in basic rates.

If customers are concerned about GTEC's toll rates being non-uniform and potentially higher than other LECs, those customers

13 Unrecovered cost of service after rate adjustments to basic services.

14 Assumed level of initial decrease. Pacific and GTEC will provide their actual levels of MTS rates, separately, on a uniform statewide basis as part of IRD.

may use any of a number of IEC's to obtain such services. Since IECs can maintain statewide authority, they can average their message toll rates and in that way maintain pressure on GTEC to keep its rates more nearly uniform. Lastly, no matter what level GTEC plans to use to set its rates, the rates will have to be about 20% to 25% less than today's rates in the competitive environment.

7. Statewide Uniformity of Access Charges

As the 22 California LECs open their respective service areas to intraLATA competition, their costs of providing originating access and terminating access between their customers and IECs will vary.

Today, the small and mid-sized LECs concur in Pacific's intraLATA toll rate schedules and (except for GTE-WC) in its interLATA access charges, and until these utilities either choose to or are directed to change their regulatory posture to NRF, they will likely continue to concur in Pacific's intraLATA toll rates. Therefore, it is reasonable to conclude that they will also apply Pacific's level of access charges until they either exit the statewide settlement pool or choose to participate in NRF. Following either or both of those events, the question of uniformity of access charges becomes an issue. The broad consensus of the parties to this proceeding supports the adoption of LEC-specific access rates and charges, as the LECs accept the regulatory flexibility afforded by NRF and exit the settlement pool, as GTEC has already done. AT&T-C differs in its position on uniformity of access charges from other parties to this proceeding.

AT&T-C's "first and recommended proposal" is for a statewide uniform access rate which "...would be set based solely on Pacific's costs, with any resulting revenue shortfall for the high cost LECs recovered through increases in below-cost services and as necessary from the CHCF." (AT&T-C Op. Br., p. 15.)

AT&T-C's alternative approach, as a substitute for pooling

"...would establish uniform access charges based on a weighted average of the LECs' individual access charges." (AT&T-C Op. Br., p. 16.) AT&T-C alleges that it will be competitively disadvantaged if LEC-specific access rates are permitted (AT&T-C Op. Br., p. 17), although it admits that this same disadvantage exists from state-to-state for interstate purposes.

The arguments against the adoption of uniform access rates were best presented by MCI's witness Anthony Di Tirro as follows:

"MCI does not believe that the goals the Commission may have regarding LEC intraLATA toll rate levels should involve the averaging of access rates across all LECs. If the focus of the Commission is uniform LEC toll rates, it is unnecessary and unduly complicated to use access rates to achieve this goal.

"As I stated above, a primary goal to be achieved in the upcoming implementation rate design, or IRD, is the development of access rates that are based on underlying costs of providing that service. Adding to this process the perceived need to develop uniform statewide access rates to accommodate the averaging of LEC toll rates can only serve to obscure the actual costs of interexchange access. Pacific Bell and GTE of California (GTEC) will be proposing new rate designs for a variety of services in IRD. To support the proposed rate design, each company will provide cost support relevant to its provision of those services. If uniform statewide access charges are mandated as part of this process, Pacific and GTEC will be required to consider the costs of interexchange access for all LECs operating in the state. This requirement will unduly complicate the costing and rate design process.

"Additionally, Pacific and GTEC will submit interexchange access rate design proposals, including a rate element structure, which fit the environment in which they operate. The resident technologies, network architecture and customer demographics of these two companies

are significant inputs to the costing and rate design structure best suited to their respective operations. This rate structure may not be applicable to the interexchange access environment of other LECs."

"For these reasons, MCI believes that a requirement for uniform access charges will complicate and confuse the IRD process, and create additional problems for toll providers." (Ex. 512, pp. 3-4.)

Pacific also challenges AT&T-C's assertions that it would suffer and be disadvantaged by varying access charges. In its reply brief, Pacific chides AT&T-C on this point, noting that access charges vary from state to state yet:

"...AT&T's financial performance since divestiture can hardly be characterized as one of 'suffering' from varying access rates.

"Furthermore, Mr. Sawyer explained that this so-called disadvantage will likely be extremely small, if it will exist at all (Ex. 525, p. 4), and AT&T has offered nothing to rebut his testimony. Given the existing record and the overwhelming consensus that company-specific access rates be permitted, nothing speaks in favor of AT&T's second alternative.

"Consistent with these recommendations, the Commission should reject AT&T's proposed findings of fact for statewide average access rates..." (Pacific Cl. Br., pp. 20-21.)

We agree with the general consensus of the parties that company-specific access rates should be permitted. This will give the LECs the flexibility to recover some of their costs of operation from competitive toll services to keep basic rates affordable as we move away from settlements under the NRF.

For the smaller LECs who plan to remain under rate of return regulation indefinitely, we expect that they will continue to concur in Pacific's toll and (except for GTE-WC) its access rates. In doing so, their rates of return, supported in part from toll settlements, will likely decline due to sharply falling toll rates. This erosion of earnings may then lead some of larger of the small LECs to opt for NRF. At that time, it is expected that they too will establish company-specific access charges in keeping with their costs of operation.

8. Noticing Methods and Information to Customers on NRF to Coincide with the IRD Decision

There is general agreement among the LECs and the DRA that a four-element program as recommended by DRA would be effective in informing the LECs' customers about the emerging availability of alternative carriers for intralATA toll services as a part of IRD when it is made effective.

8.1 DRA's four-element program:

DRA's four-element program includes:

- "1. Public Participation Hearings. These should be held in locations throughout the state, and would be accessible by ratepayers in the service areas of all LECs. The hearings should occur at the end of evidentiary hearings in IRD, but prior to the submission of briefs.
- "2. Bill Inserts. DRA proposes that a minimum of 3 bill inserts be mailed to explain the proceedings and proposals of the LECs, to announce the public participation hearings, and to alert customers to changes in rates and service options.
- "3. White Page Directory Information. This element would have two parts - 1) material in the information section of the white pages directory, and 2) a listing of intralATA carriers, along with their company calling codes and (800) telephone numbers. The listing

of intraLATA carriers would be a Category I ~~tariffed~~ ~~service~~ ~~tariffed~~ service.

"4. Customer Outreach. This would involve the LECs incorporating customer information about intraLATA competition and calling options into existing customer outreach activities. DRA supports both Pacific's and GTEC's customer outreach proposals as they were described to DRA during the course of this proceeding." (DRA Op. Br., p. 61.)

8.2 Public Participation Hearings:

Public Participation Hearings (PPH) are unopposed by any party to this proceeding. There are only three general concerns:

- o When should they be held?
- o Where should they be held?
- o How many locations are necessary?

DRA and TURN recommend that the PPHs be held during the briefing cycle of this proceeding, after receipt of testimony but prior to submission of the evidentiary record. Where and how many to hold should, according to DRA, be worked out by the Commission's Public Advisor in cooperation with personnel in the Commission's regional offices to assure reasonably adequate coverage throughout the state. No one opposed DRA's recommendation determining the locations for PPHs. However, TURN did recommend that the PPHs be held in the following 14 communities throughout the state:

"Eureka, Redding, San Francisco, San Jose, Sacramento, Fresno, Monterey, San Luis Obispo, Bakersfield, Los Angeles, Anaheim, Long Beach, Ontario, and San Diego." (Ex. 513, p. 19.)

Pacific suggested that dates certain be established for the PPHs. These dates would be during the IRD phase, but depending on scheduling, might occur prior to conclusion of the evidentiary hearings.

8.2.1 Discussion

We concur with Pacific that dates certain need to be established for the bill inserts advising customers of the PPHs. Accordingly, the appropriate bill insert will list the dates and locations of the PPHs, which will be established at the outset of the IRD hearings by the ALJ after coordination with the assigned Commissioner and the Commission's Public Advisor. The PPHs will be planned to occur during the IRD evidentiary hearings, and the PPHs will be held on fixed and scheduled dates, whether or not the evidentiary hearings are concluded.

We also agree that the text for bill inserts should be submitted to the Commission's Public Advisor for review and approval because he has knowledge of recent attendance and interest in PPHs relative to prior telecommunications proceedings such as Phase II of this proceeding. The list of locations for PPHs provided by TURN (supra) will be used as a reference for determination by the assigned Commissioner and the ALJ of the number and the ultimate locations of the PPHs. The appropriate bill insert should be prepared and mailed not earlier than 60 days and not later than 15 days prior to the first PPH.

8.3 Bill Inserts

The parties concur that bill inserts are necessary to advise the general public of the nature and extent of this IRD phase of I.87-11-033 and, more specifically, to inform the public of three activities that will take place during the next nine months, as follows:

- o Explaining the nature of the NRF, and the dates of the forthcoming hearings which will consider IRD to establish the new rates and charges for basic and other LEC services necessary to allow the development of intraLATA competition.
- o The times and places when the public may attend PPHs and present statements or testimony regarding the proposed IRD and any

other issues concerning the NRF and intraLATA competition.

- o The date when the IRD for commencement of intraLATA competition under the NRF will become effective if adopted as planned. This bill insert would also include information on how to reach competitors of the LECs and how to access their available services.

As to these three bill inserts, no LEC opposes their use or the need for the LECs to absorb the cost of these customer notices in its regular on-going expenses. While DRA did estimate some costs associated with these inserts, the estimates were not based on recorded data and no LEC requested additional revenues to provide these notices to its customers with their periodic bills for service.

TURN also recommends that the LECs be required to mail two additional bill inserts, the first, shortly before commencement of intraLATA competition, containing the "Notice of 10XXX calling options" (access codes for IECs) and the second six months later containing an update of the 10XXX calling options. (Ex. 513, p. 1.)

Pacific supported the use of a fourth bill insert along with the majority of other parties. GTEC supported the use of three bill inserts, stating that the LECs should not be required to advertise their competitors' names, 10XXX access codes, and telephone numbers either in their directories or in bill insert notices. (GTEC Cl. Br., p. 17.) GTEC also points to and emphasized a statement made by AT&T-C that:

"It is up to the competitive IECs to promote their services [citations omitted]. It is no coincidence that the IEC participants in this proceeding all emphasized their preference for using their own advertising to attract customers. Once the Commission opens the LATA to competition, it must step aside and allow that competition to develop on its own. The Commission should recognize that it will not

be the most efficient provider of competitive information." [Emphasis added by GTEC.] AT&T Br., p. 42.

Actually, AT&T-C was dwelling on a different issue on page 42 of its brief; namely, TURN's proposal to place actual IEC rate information in the information section of the white pages. As to Pacific's sample "fourth" bill insert AT&T-C stated:¹⁵

"AT&T generally concurs in the position taken by Pacific on the bill inserts and public participation hearings. AT&T does not oppose a fourth bill insert similar to Pacific Exhibit 515 if it is deemed necessary. AT&T agrees that these bill inserts are a normal part of doing business of the IECs and should not be reimbursed from external sources." (AT&T-C Op. Br., p. 37.)

AT&T-C footnoted its Opening Brief on this matter, confirming GTEC witness Shaw's statement that if a fourth bill insert is ordered, GTEC proposes that it be compensated for this bill insert, although the method for compensation was not specified (Tr., pp. 11778-11779).

8.3.1 Discussion

We believe that the five bill inserts recommended by TURN can be cut to four, with its recommended third and fourth insert combined, as it may be possible to list those IEC access codes that represent IECs which have received intralATA CPCN authority from this Commission, and have filed tariff revisions to immediately commence intralATA message toll service contemporaneously with the IECs' IRD.

This would leave a need for a comprehensive fourth bill insert, similar to Pacific's sample contained in Appendix C hereto, to be issued about six months following the introduction of IRD.

¹⁵ See Appendix C for review of Pacific's sample fourth bill insert.

The modest costs of the fourth bill insert will be borne by the LECs through the various revenue sources intended to form the first year transition payments to preserve the financial integrity of the LECs as we move forward with NRF.

We will also direct Pacific and GTEC to submit their respective bill inserts to our public advisor for review and approval and seek to make the bill inserts as clear, brief, and succinct as possible. The bill inserts should also contain a notation, in the appropriate languages, that the same information is available in the respective foreign language. A variation of Pacific's suggested billing envelope notation, "IMPORTANT See Bill Insert" should be included on the face of each envelope containing Bill Inserts 2 through 4.

Our preferred notation is: "IMPORTANT INFORMATION ON POTENTIAL CHANGES TO YOUR TELEPHONE SERVICE-ENCLOSED"

8.4 White Pages Directory Information

For many years the LECs have included an information section as a preface to their white pages directory listings. The current directories for multiple exchanges totaling over 100,000 listings may well include about 50 pages of such information preceding the actual listings. Some of the larger LEC directories include much of the information in a second language (most often in Spanish). Alternatively, some directories include toll free telephone numbers of information sources for foreign language subscribers.¹⁶

DRA recommends that the preface to the white pages include two elements: (1) 10XXX information which includes explanations of what constitutes an intraLATA toll call as well as definitions of the rate elements to be used in comparing different carriers' rates, and (2) a tariffed listing by company code of all carriers planning to offer intraLATA service in that LEC's area and

¹⁶ For example, Pacific's Marin County May 1991 directory includes information numbers for Spanish, Chinese, Vietnamese and Laotian speaking customer representatives.

choosing to be included in the listing. DRA's proposed directory listing would be provided under tariffs adopted by the Commission for the LECs (Category I) monopoly services.

TURN recommended that comparative rates for the various carriers also be included in the information section of the white pages. (TURN Op. Br., pp. 8-10.)

Pacific proposes that the example information contained in its Exhibit 515 (Appendix B) also be printed in the "Customer Guide" preface to its white pages. For its directories Pacific would include generic information that would not become obsolete with the passage of time and thus not be misleading to customers. (Pacific Op. Br., p. 45.)

GTEC objected to the inclusion of competitors' access codes, rates, or "other advertising" in its directories. In the event that the Commission mandates that LECs must print such materials in their directories, then the competitors should be required to pay the additional costs incurred for printing the information in the LECs' directory or in bill inserts. (GTEC Op. Br., p. 35.)

In response to a question from the ALJ, GTEC's witness Karen Shaw testified that, "GTEC's directory cost estimate is .025 cents per page..." and this was the best number she had. (Tr. 11785.)

On May 8, 1991, after the reply briefs were due and filed on April 29, 1991, GTEC's counsel wrote to the ALJ and stated that Ms. Shaw had mispoken when she provided the figure of .025 cents per page and that she now declares that the figure should be ".025 dollars per page."

TURN responded to the GTEC letter and takes issue with GTEC's attempt to introduce a new number in the record in this fashion and then questioned the validity of the revised number.

No party supported TURN's recommended inclusion of comparative rates in the LECs' directories white pages and many

objected to that information being included on the grounds that it could easily and quickly become obsolete with the passage of time and thus be a disservice to customers. TURN asserts that: "This argument ignores the fact that scores of white pages directories around the state have different production schedules," and "Rates will have to be continually provided to the LECs so that each white pages directory has the most up-to-date rates." (TURN Op. Br., p. 12.)

TURN further contends that the publication of rates in directories will actually spur price competition by carriers who will seek to appear price competitive in the many different white pages directories produced throughout the year. (TURN Op. Br., p. 12.)

8.4.1 Discussion

We will adopt the recommendation of DRA and TURN that LECs be required to list alternative intralATA carriers in the information or "Customer Guide" portion of the preface to the white pages directory listings of each LEC, where the respective IECs desire to operate. The LECs may file tariffs to recover the cost of the listings. In addition, those carriers who wish to provide intralATA message toll service may at their discretion have their rates listed on a comparative table with those same rate distances and sample rates shown for the LEC.

This requirement will provide a level playing field between the IECs and the LECs, since the LECs already list their sample rates for typical intralATA MTS calls in the white pages of their directories. The white pages information on how to get in touch with alternative providers and any separate rate information will be included on a random selection basis, rather than alphabetical, following the LEC's own information and separately from its rate information.

Accordingly, we will require the LECs to provide the space for such information and charge the IECs the cost of

providing such service. The IECs may choose to place their directory information in the LEC directories or be excluded as they desire.

GTEC's testimony and letter depicting estimated directory white pages costs of 2.5 mills per page and 2.5 cents per page, respectively, are so different that there is no basis to accept either number without the opportunity for cross examination after GTEC supplies recorded data to support one figure or the other. Therefore, we will require GTEC to do so in IRD.

8.5 Customer Outreach

TURN advocates an active outreach program to inform the general public of the NRF and intraLATA competition. Its witness, Karen Miller, recommends that the information proposed for the white pages directories on 10XXX calling and similar bilingual material be prepared by the LECs and made available to public schools, English as Second Language (ESL) programs, senior citizens and other community centers. Miller opines that the Telecommunications Education Trust could assist in the distribution of materials.

Miller also recommends that:

"Public Service Announcements (PSAs) that describe 10XXX calling options and potential benefits and provide contact numbers for further information should be provided through both radio and television media. In addition to PSAs in English, PSAs should be aired in various languages over stations that serve non-English speaking audiences.

"The PSAs should be written and mailed by the Commission's Public Information Office. A Commission spokesperson should also be made available to present the PSA, if requested by any radio or television station. In my experience, PSAs are often welcomed by the media and aired at no charge. The Commission has an obligation to fully inform all ratepayers of a change of the magnitude under consideration in this proceeding. PSAs are a low-cost way to reach a broad base of customers." (Ex. 513, pp. 16-17.)

Miller suggests that the PSAs should be aired at least one month prior to the introduction of intraLATA competition. TURN also recommends that marketing studies be conducted six months after the introduction of intraLATA competition to assess the public understanding of the new industry structure and service options.

Miller expresses concerns that GTEC has only English and Spanish speaking service representatives, while it serves large numbers of Southeast Asian refugees in pockets of its service areas. Accordingly, TURN recommends that GTEC be directed to assess the demographics of its service territory and be required to implement bilingual capability "to be able to communicate with 95% of its customer base." (Ex. 513, p. 20.)

DRA's witness Cynthia Walker notes that both GTEC and Pacific have customer outreach programs in place to explain changes in rates and or services to their customers. Walker opines that: "Rather than 'bombard' the customer with detail, DRA suggests that the involved LECs include a service number in the implementation bill insert which customers can call, at no charge, for more information." (Ex. 501, pp. 5-14 and 5-15.)

DRA also supports the use of PSAs to alert the public to forthcoming changes to their telephone services. Walker expresses some concern over the possible bias that may affect the wording used by the LECs to describe the NRF to their customers. Nonetheless, she still believes that these utilities "...are in the best position to effectively communicate this information to their customers." (Ex. 501, p. 5-15.)

As a response to concerns about biased information, Walker suggests that further details of the notification program be presented as exhibits in the IRD portion of this proceeding.

Pacific generally supports the outreach proposals but asks the Commission to reject the requirement for validation of its

foreign languages to reach 95% of its customers. (Pacific Op. Br., p. 43.)

GTEC takes serious issue with TURN and DRA on reevaluation and validation of its communications program to reach 95% of its customer base. GTEC asserts that it has demonstrated that it "is doing more than adequately addressing the issue of customer notification without a Commission order or establishment of an arbitrary penetration level." (GTEC, Cl. Br., p. 20.)

8.5.1 Discussion

In this order TURN's recommendations for preparation and dissemination of information on NRF including 10XXX calling in English and in those foreign languages representing significant second language concentrations in the LECs service areas are reasonable. Therefore, we will require the LECs to prepare and disseminate foreign language versions of bill inserts and 10XXX calling information upon inquiry and request to their service representatives.¹⁷ As used herein, significant concentrations will be defined as more than 5% of the listings in the white pages of any directory distributed by a LEC. In the event that the utilities can produce a superior standard which will fully satisfy our Public Advisor, they would be free to substitute that superior standard. To assure objectivity, we will direct the LECs to coordinate drafts of these materials and texts of PSAs with our Public Advisor prior to finalizing them.

We will also require GTEC and other LECs to expand their bilingual customer representatives' capability to better match the needs of the second languages of their customer concentrations, via toll free telephone numbers. Where any significant numbers of

¹⁷ GTEC should also reference all of its toll free bilingual customer service numbers in its bill inserts and white pages directories.

customers with a particular foreign language are noted, the printed material should also be prepared in that language for distribution to those customers as needs arise.

We will direct the distribution of PSAs by the LECs on the NRF and emerging intraLATA competition resulting therefrom.

We will not require the LECs to conduct the TURN recommended market research activities or validation of penetration, keyed to percentages of the population, by the LECs at this time. We can invoke additional requirements later if we discover that the combination of bill inserts, public participation hearings, white pages directory information, public outreach, and PSAs, in aggregate, are insufficient to explain the emerging intraLATA competition to significant segments of the population at large.

These avenues of information will likely be assisted by the intraLATA message toll marketing activities of the IECs.

The cost of the LECs' public outreach programs will be borne by the LECs, especially in view of the planned surcharge on all California intrastate toll operations to help reduce rate shock to the local service rates of the LECs. Through this statewide toll operations surcharge, the IECs who provide intraLATA services in competition with the LECs will assist the LECs in meeting all expenses including the costs of providing this information during the transition period into intraLATA competition.

9. Discussion of Structural Considerations for IRD Proceedings

We have given consideration to the structure and timing of IRD and the various issues that remain before us in Phase III. We are mindful of the complexity of the rate design process, especially considering the thousands of individual services and rate elements that may be of concern to various parties. We remain committed to a careful consideration of the relationships between

price and cost, although we recognize that such a review may take some time.

On the other hand, parties offered extensive comments regarding the proposed decision's characterization of a desired schedule and structure for the remainder of Phase III and IRD. For example, CA Bankers Clearing House Association and the County of LA declared that the Commission must evaluate the economic viability and overall public benefit of intraLATA competition before permitting it to begin, asserting that the Commission should determine the effect of competition on price levels and consumer benefits. It also contends that the "illustrative" toll discounts advanced in the proposed decision may bias the additional evidentiary hearings.

Pacific Bell views the language of the proposed decision as a violation of due process rights of LECs if the Commission uses it to implement intraLATA competition without first holding hearings to consider necessary changes required by the introduction of competition. Pacific states that competition should be expanded within the LATA only on terms and conditions which result in a level playing field, and submits a list of additional issues which should be addressed in the first phase of any evidentiary hearings. Similarly, BAT, GTEC, and TURN also criticize the PD for finding that allowing increased intraLATA competition is in the public interest without having held evidentiary hearings to address the consequences of allowing intraLATA competition.

DRA supports the notion that "properly defined and implemented intraLATA competition will deliver the anticipated benefits to the telecommunications network, market and ratepayers." However, it "fears that intraLATA competition as proposed in [the proposed decision] may result in continued market erosion of LEC products that are constrained by the ALJ's implementation approach, while interexchange carriers (IEC) without the same limits on

pricing flexibility are able to skim the most competitive markets and the largest volume customers in an open intraLATA marketplace."

In addition, a prehearing conference (PHC) was held July 10, 1991 to address scheduling issues related to a bifurcation of Phase III and IRD as discussed in the proposed decision. At the PHC, parties offered numerous helpful comments and suggestions regarding scheduling and how issues might best be addressed. While we do not base any findings in this decision on the transcript of the July 10, 1991 PHC, we wish to reiterate that we are paying careful attention to the parties and their various expressions of concern and interest in our process.

Based on the comments of the parties we are persuaded to modify the narrative and discussion in the proposed decision regarding the structure of Phase III and IRD. We anticipate that ratepayers may benefit from an early and substantial toll rate reduction and corresponding rate realignment. We are also persuaded that it may be more problematic for us to introduce the full measure of intraLATA competition contemporaneously with that rate realignment and before the completion of IRD. Then again it may not. In any event, we look forward to a full hearing on these issues and will make an objective judgement on the evidence.

Accordingly, we will endorse the ALJ's proposal to make the first matter of business (as we proceed further into Phase III) hearings to consider a substantial cut in intraLATA toll rates, with concomitant increases in other rates to the extent necessary. We believe that such measures are potentially important enough to warrant a further interim decision putting interim rates in place before we hear the other Phase III and IRD issues. With regard to intraLATA competition, we will provide that parties may present evidence and argument regarding the extent to which this rate realignment in and of itself would be good cause to relax further or eliminate current restrictions (such as, for example, those on 800 and virtual private network services as well as for ordinary

intraLATA toll calls). Based on this evidentiary record, we will decide whether and how to realign rates on an interim basis, and to what extent, if any, further immediate competition is appropriate prior to the completion of IRD.

We believe it is appropriate to comment further regarding other observations on this subject contained in the proposed decision. Our monitoring reports regarding the earnings from the intraLATA pooling and settlements process indicate that intraLATA toll rates are above cost. Comparisons with interLATA rates, or intraLATA rates in most other states, support this proposition. Further, price reductions for toll calling have been associated with increases in calling volumes in many jurisdictions. What follows from these observations are the dual hypotheses that (1) intraLATA toll is priced above its cost, and (2) that customers are losing the benefits of additional calling that they would gain if the price were closer to cost. These hypotheses seem to have merit, but we do not adopt them as factual unless and until an adequate debate and evidence is produced in the next round of hearings.

In this regard we would advise the parties to study the concerns expressed in the proposed decision about the level of intraLATA rates and the possible remedies outlined therein. For example, if the facts demonstrate that a rate realignment of the sort described in the proposed decision would advance our goals of cost-based pricing and efficiency and promote greater utilization of the network without harming universal service, then we would be entirely comfortable considering it. If the present intraLATA rate structure amounts to punishing subscribers for using their phones without a public policy benefit of countervailing weight, we will change that rate structure to benefit consumers. If the economy of the state is hampered by unneeded expense to business for using modern telecommunications technology through the public-switched network, then we will reduce that expense or apportion it more

equitably. We are especially concerned about small businesses, because small businesses create many jobs and because they are most likely paying the full rates at all times due to a lack of private network alternatives.

We share the concerns of most parties that rate realignments not unduly harm any particular group of ratepayers. Our hearings will be the forum for parties to make the case for or against a particular degree of interim rate realignment and increased competition. Our further interim decision will be the opportunity to draw conclusions based on the evidence and we will adopt, modify or discard rate change proposals in keeping with the results of the hearings.

But we feel obliged to inform the parties that the provision of the benefits of competition and access to affordable network services is a goal for this Commission. To the extent that the record may demonstrate that the current rate design is burdensome and thwarts these goals, it is a cause of great concern. We intend to discover the extent to which these concerns are true and to adopt remedies that fit the facts and the regulatory goals articulated in the decision that initiated this investigation.

10. Comments: ALJ's Proposed Decision

In accordance with PU Code § 311, the ALJ draft decision prepared by ALJ George Amaroli was issued on May 21, 1991. Timely comments on the proposed decision (PD) were filed by AT&T-C, BAT, CPN et al., Calaveras et al., CBCHA and CLA, California Payphone Association (CPA), Centex, Citizens, Contel, DRA, GTEC, MCI, Pacific, Roseville, TURN, and US Sprint. Reply comments were filed by all of the above parties except AT&T-C, BAT, CBCHA and CLA, and Centex. MCI's reply comments were late-filed by one day due to a reproduction error in its original submittal. Nonetheless, MCI's reply comments, in this instance, were received in sufficient time for consideration herein.

10.1 Arguments on Issues

A number of the comments received centered on arguments about the parties' positions which were previously raised during the course of the evidentiary hearings and in the parties opening and reply briefs in this proceeding. In keeping with Rule 77.3 of the Commission's Rules of Practice and Procedure such arguments are given no weight.

Still other arguments center on DRA's and Pacific's goal of "flashcutting" away GTEC's transition payments that GTEC receives from Pacific under contract since it exited from the settlements pool. DRA goes further to challenge the illustrative rates which employ the transition payments to GTEC and modest increases to basic rates to maintain affordable service for GTEC's customers in the event of a move to intraLATA competition. We remind the parties that this revenue shortfall problem for GTEC has been known and studied for some time. In prior decisions which are cited herein, we made it very clear that our goal was to determine how this transition payment phase out should occur and how the necessary rate increases should be implemented. We maintain that our goal and our illustrative rates herein are developed accordingly. While we agree that the illustrative rates are not intended to preclude some latitude in the phase-out procedure, we are not inclined to accept any flashcut or other proposals which will cause undue rate shock to any class of customers of any utility.

As to the use of a toll and toll-equivalent surcharge to offset revenue shortfalls caused by the LECs exiting from the settlements pool, our plan is to use essentially the same source of funds as is used for toll settlements today. We will expect that the parties will assist us in developing a proper record as to the appropriate intrastate toll services and toll-equivalent services to form the base for this transitional revenue source. This toll and toll-equivalent surcharge is not a necessary part of CHCF since it is intended to be used only for a limited period of time. The

actual period should be determined in the IRD hearings. AT&T-C's and GTEC's five-year phase-out proposal should be given serious consideration.

GTEC's request to consolidate intra and interLATA tariff schedules for access service was not an issue for consideration in this policy proceeding. Accordingly, we will not rule on the reasonableness of that request. GTEC may again present that proposal for consideration as part of its IRD rate design.

CPA did not participate in the recent policy hearings, but it did file comments and requested that:

1. Rates for customer-owned pay telephone (COPT) not be subject to increases in the initial subphase of IRD,
2. Any potential removal of intraLATA service restrictions in the initial subphase of IRD be extended to operator services, and
3. Authorization of new intraLATA service providers be timed so as to avoid disadvantaging those not yet authorized to provide intraLATA service.

It is clear that no evidence was taken on any of CPA's recommendations during the policy hearings. Therefore, we will await the receipt of evidence on CPA's recommendations in the IRD hearings prior to considering them for adoption.

10.2 IntraLATA Competition Concerns

Many of the parties who commented on the PD, expressed concerns that the reasonableness of opening of the LATAs to further competition should not be a foregone conclusion. These parties believe that this issue is a very significant step and is likely irreversible after it is once taken. We agree in principal, even though there is already significant competition and leakage of competing services into the LATAs. Accordingly, we have revised Section 9 of this order and any relevant findings of fact, conclusions of law, and ordering paragraphs to set the proper stage

for thorough consideration of all aspects of this issue in the forthcoming IRD hearings.

10.3 Roseville's Request to Separate its Pooling Exit Plan from NRF, and Other Concerns

Roseville correctly points out that the scope of issues set forth for the recent policy hearings did not prescribe that any plan to exit the toll settlements pool be tied to a LEC's acceptance of NRF.

We will clarify our position that Roseville as a mid-sized LEC may continue its negotiations with Pacific to exit the settlements pool according to the same transitional timeframe being adopted for Citizens and Contel. However, the question of whether Roseville should accept the NRF will be deferred to its next rate proceeding. We caution Roseville that it is our current intention that only NRF companies may participate in any adopted transitional surcharge to make up for reduced settlement revenues or phased transitional contract payments from Pacific after exiting the settlement pools. Roseville will be left with the option of seeking assistance from the CHCF after the one-time contract payment usually offered by Pacific, and to do so it must satisfy the requirements for participation in that fund (per D.91-05-016). With these caveats, we agree that NRF is not a precondition to pool exit.

As to "notices," DRA in its reply comments asserts that Roseville should be required to include references to NRF in its bill inserts to its customers. We agree with DRA that Roseville should be required to provide notices to its customers similar to those required of Pacific and GTEC. To the extent that notices need to include an explanation of the NRF to educate customers of possible rate changes and related positive and negative impacts, such information should be included. Accordingly, Roseville will not be relieved of any applicable notice requirements set forth in this order.

Lastly, Roseville asks that the adoption of a DCP or ORP and a meet point billing arrangement for private line services be considered as separate issues from implementation of a NRF. There is some historical basis for Roseville's request in that GTEC established its own access rates well before this Commission authorized the NRF for GTEC. We will not foreclose Roseville from advancing its position on these matters when it seeks formal authorization to incorporate these plans or arrangements.

10.4 DRA's Illustrative Rate Designs

In its comments, DRA included a nine-page Appendix B containing its version of the rate designs it would recommend to reflect illustrative rates for proposed changes in the following four areas:

- o Intrastate intraLATA message toll rates.
- o Basic Exchange Access Line (BEAL) Service rates.
- o Establishment of a new surcharge applicable to all intrastate billings for all toll and "toll-related" calls billed by any CPUC certificated intrastate telecommunications service provider.
- o Elimination of the Common-Pooled Surcharge pooling mechanism associated with the Commission ordered interLATA SPF to SLU transition.

None of the specific example rate designs contained in Appendix B were introduced in evidence during the recent policy hearings. Therefore, numerous parties object to the introduction of DRA's Appendix B at this time. We agree, however, to the extent that some of these examples remain consistent with this order, and in DRA's opinion are useful to this proceeding, DRA may further develop and introduce them again in the IRD phase.

10.5 GTEC Questions "Significant Concentrations" of Customers Whose Native Language is not English

GTEC asks that the decision clarify the definition of "significant concentrations" of customers whose native language is not English in any community. Such significant concentrations had been referred to as more than 5% of the population of any community in the order. GTEC recommended that a community be defined as an exchange area.

Instead, we will adopt the white pages listings of each directory distributed by the LECs as the appropriate customer base, because of the widely divergent population levels of the varied telephone exchanges. We will also allow the LECs to discuss this requirement with our Public Advisor, and if they can present a superior standard to fully satisfy him, they would be free to use that superior standard.

10.6 EAS Compensation Arrangements Under NRF

The PD did not specifically address how LECs, which elect to participate under the NRF, would continue to contract for EAS settlements. Citizens noted this oversight in its comments and recommended that EAS compensation should not be subject to the transitional phase-down schedule. Citizens also asks that it be permitted to negotiate a new EAS agreement with Pacific, and that its compensation should be allowed to continue, and that the EAS payments not be included in the transitional phase-down schedule.

We concur with Citizens and will revise the conclusions of law in this order to address this issue as it will apply to the three mid-sized LECs.

10.7 The Transitional Phase-Down Schedule Should be Flexible

The PD essentially suggested a five-year phase-down of Pacific's contract payments to LECs which opt to exit the toll settlements pool. Citizens, Contel, and other LECs have suggested

that this phase-down period should be flexible, rather than a specific five-year plan.

We concur that the phase-down period should be open to reasonable negotiations between the parties, as long as it provides sufficient time to allow the participating LECs to adjust to expanded toll usage and the NRF. This should also help reduce any potentially excessive increases in basic rates during the transition period. Accordingly, the schedule for the phase-down period will be flexible. We nonetheless caution the parties that we are not sympathetic to any flashcutting proposals, nor do we welcome phase-out schedules longer than our five-year illustrative example. Therefore, we will specify the five-year time limit with specific dates for GTEC and the mid-sized LECs, respectively, in this order.

Findings of Fact

1. D.90-08-066, dated August 27, 1990, in this proceeding, proposed a number of "Findings of Fact" that also apply to this interim order as follows:

- a. "88. Further information about the availability of 10XXX dialing would better inform customers about their market options for all 10XXX calling."
- b. "89. The white pages are a substantial source of customer information regarding their telephone service."

Based on the record in this proceeding, Findings of Fact 88 and 89 of D.90-08-066 are adopted in this order.

2. In establishing the initial rate structure for any expansion of intraLATA competition, care must be given to consideration of potential rate impacts on all classes of customers.

3. The parties have requested that the following issues be resolved to facilitate the preparation of IRD for this proceeding:

- a. Continuation of Settlements

- b. Statewide Average Toll Rates
- c. Statewide Uniformity of Access Charges, and
- d. Noticing Methods of Information to Customers on [NRF] to coincide with the IRD decision.

4. The long-standing policy of the Commission under rate of return regulation of the LEC's has been to maintain uniform toll rates whenever possible, and pooling of toll revenues was the key to making that policy a reality.

5. The pooling of toll revenues and the cost of service basis of settlement has also been instrumental in allowing the higher cost rural LECs to maintain reasonable and affordable basic service rates and at the same time modernize their facilities and equipment.

6. Modernization of rural LECs facilities allows the telephone industry to quickly and automatically place telephone calls to all telephone subscribers in California.

7. Telephone users statewide have been advantaged because California's highest cost LECs are now modernized and equipped to originate and terminate toll calls readily to and from all parts of the state.

8. AT&T-C, Pacific, and the smaller LECs support the continuation of current pooling and settlements arrangements for those smaller LECs currently in the pooling process.

9. The burden of continuing settlements pooling for the smaller LECs constitutes less than one percent of the 1990 recorded inter-company settlement revenues.

10. The 17 smaller LECs have no immediate plans to change from rate of return regulation to the NRF.

11. Pacific's proposal would allow the smaller LECs to continue to concur in Pacific's intraLATA toll rates and access charges and except for GTE-WC, to continue in the settlement pooling process.

12. It is not necessary to eliminate pooling for the smaller LECs in order to allow introduction of intraLATA competition, and/or NRF regulation for the larger LECs.

13. IntraLATA competition with the promise of lower toll rates will cause a substantial reduction in the level of pooling settlement revenues flowing from Pacific Bell to the smaller LECs.

14. The drop in settlement revenues in combination with the means test provisions, now part of the CHCF, will also encourage the smaller LECs to become more productive and efficient and thereby meet certain of DRA's stated goals.

15. Prior to the commencement of the NRF in 1990, GTEC and Pacific entered into an agreement under which GTEC would withdraw from the intraLATA MTS and toll private line settlement pools. In exchange for GTEC's withdrawal from the pools, Pacific, as the pool administrator, agreed on behalf of the pool members to pay GTEC the sum of \$195.3 million as a transition payment. The payment represents the amount that GTEC was entitled to draw from the pools in 1989 to cover its costs of providing MTS and toll private line services in excess of its direct billings to its end user customers.

16. GTEC and Pacific both agreed that the transition payment would be phased out over a number of years.

17. In D.89-12-048, we specifically took the transition payment of \$195.3 million from Pacific into consideration in establishing GTEC's start-up revenue requirement. We subsequently advised the companies in D.90-08-066 that no change in the transition payment amount should occur without the approval of the Commission.

18. A gradual phase out of the transition payment from Pacific to GTEC is appropriate.

19. DRA's proposal to require GTEC to recover the entire amount of the transition payment on a flash-cut basis through

increases in its end-user rates would likely result in rate shock and could endanger universal service.

20. It is reasonable to obtain the overall transition payment to GTEC from a combination of available sources. These sources would include partial phased payments from Pacific which are obtained from the settlement pool, increases in below-cost and end-user rates, and a modest statewide surcharge on intrastate toll and toll equivalent services of all LECs and IECs.

21. The combination of sources to obtain GTEC's transition payment will allow Pacific to reduce its payment by about 50% from the current level for 1992, and a 25% reduction of the remainder in each of the years 1993, 1994, and 1995, dropping to a zero payment for 1996.

22. GTEC's external funding from intrastate toll and toll equivalent services would also be phased out over an appropriate period of time after the IRD decision is issued. AT&T-C and GTEC believe a five-year phase-out period would be reasonable.

23. The transitional funding mechanism is not a necessary part of the CHCF since the surcharge is for a limited period, and because the rules applicable to the smaller utilities participating in CHCF are not appropriate for GTEC which is now governed by the NRF adopted in D.89-10-031.

24. Pacific has indicated its willingness to serve as the administrator of the transitional surcharge funding mechanism.

25. The three mid-sized LECs (Citizens, Roseville, and Contel) have each agreed to exit the settlement pool.

26. The three mid-sized LECs have all recommended comprehensive, but somewhat different, five-point plans to exit from the settlement pool. However, only Citizens and Contel have included participation in NRF by January 1, 1994, as part of their respective five-point plans.

27. We have determined that it is reasonable to allow Citizens and Contel and require Roseville to exit the settlements

pool on a phase-out basis, consistent with the plan being advanced for GTEC, beginning not later than January 1, 1994.

28. The mid-sized LECs have requested reasonable flexibility in reaching an agreement with Pacific on terms for phase-out from the settlement pool. While we generally concur, we will set timetables for the phase out, or transition period, and establish the rate of phase-down in the IRD.

29. Staggering the mid-sized LECs' phase-down to begin one-year following GTEC's, thus yielding a full equivalent to settlement payment by Pacific for 1992 then reductions beginning in 1993 and dropping to a zero payment by 1997 is reasonable.

30. It is reasonable to require Roseville to accept NRF regulation on or before January 1, 1994, consistent with Citizens' and Contel's proposed plans if it wishes to participate in a similar phase-down transition period.

31. The three mid-sized LECs have agreed to continue concurring in Pacific's toll rates and access charges during calendar years 1992 and 1993, as part of any adopted IRD.

32. Any shortfall of revenues experienced by the mid-sized LECs would be made up by rate increases to basic rates and the surcharge to all intrastate toll and toll-like services as proposed for GTEC when they elect to participate in NRF.

33. The illustrative increases of \$1 per month on ULTS, \$2 on one-party residence service, and \$3 on one-party business service, as well as the 1% to 2% surcharge on all intrastate toll and toll-like services, need further study and modification as necessary in the IRD phase of this proceeding.

34. It has been the long-standing practice of this Commission to establish and maintain uniform statewide toll rates wherever it is practical to do so.

35. With the advent of competition in interLATA toll service, after the breakup of the Bell System, numerous IECs were

certificated to provide interLATA service in California and each has established its own distinct toll rate schedule.

36. As competition within the interLATA market increased, interLATA toll rates became more competitive.

37. Although interLATA toll rates vary among IECs, the Commission requires that they be uniform within each IEC's service area.

38. Today, while a policy of uniform intraLATA toll rates exists, end users actually pay varying prices due to the existence of LEC-specific surcharges and surcredits applicable to toll and access services.

39. The assurance of a specific toll rate ceiling and toll rate uniformity within each LEC protects consumers against excessively deaveraged rates and maintains necessary universal service to individual high-cost routes.

40. Initially, most of the LECs other than GTEC plan to designate Pacific as their toll carrier under a DCP and as such will, until they become part of NRF, concur in Pacific's toll rate schedule.

41. There is no economically sound reason to adopt a different intraLATA MTS structure under NRF than exists for interLATA toll.

42. Under an ORP, the LEC would establish its own toll rate tariff schedule designed to recover appropriate access expenses and other costs of service.

43. As individual LECs opt to participate in the NRF, they may then require the freedom to operate under an ORP to recover their costs of service.

44. At the commencement of IRD, only Pacific and GTEC will be under NRF regulation. GTEC under its ORP will be establishing its own competitive toll rate structure. All other LECs will initially concur in Pacific's toll rate schedules, the mid-sized LECs under

transition agreements with Pacific Bell, and the smaller LECs under settlements.

45. Pre-subscription is not contemplated at the outset of the IRD; therefore, Pacific, GTEC, and all other California LECs will likely remain the dominant carriers of intraLATA MTS in their service areas, at least until pre-subscription is available.

46. Supporting cost data will be needed to assure that the LECs' rates for MTS services are set consistent with their cost and market factors.

47. There is a need to take further evidence in the IRD hearings before moving MTS to a Category II service under the NRF.

48. Today, the small and mid-sized California LECs, other than GTE West Coast Incorporated (GTE-WC), which has its own access rates, all concur in Pacific's intraLATA toll rates and interLATA access charges, and until these utilities either choose to or are directed to change their regulatory posture to NRF, they will likely continue to concur in Pacific's intraLATA toll rates.

49. It is reasonable to assume that all LECs, other than GTE-WC, which are not under the NRF today will continue to concur in Pacific's intraLATA toll rates and Pacific's access charges until they choose to participate in NRF which for Contel and Citizens will be not later than January 1, 1994.

50. GTEC has accepted the NRF, and currently has its own specific access rates and charges.

51. Most of the parties to this proceeding support LEC-specific access rates and charges, when the LECs accept the regulatory flexibility of the NRF.

52. AT&T-C argues for uniformity of intraLATA access rates and charges, although it is clear that AT&T (its parent) does not enjoy that treatment for intrastate access charges among the 50 states, nor does AT&T-C enjoy that treatment as between Pacific and GTEC for interLATA access in California.

53. The authorization of LEC-specific access rates and charges will give the LECs the flexibility to recover some of their costs of operation from the IECs' competitive toll services to help keep basic rates affordable under NRF.

54. LEC specific intraLATA access rates and charges will likely be authorized to GTEC and GTE-WC at the outset of IRD and later to Citizens, Contel, and Roseville when they exit the settlement pools and enter a DCP, or an ORP, or file their next general rate proceeding and elect to enter the NRF.

55. Many of the 17 smaller LECs are likely to continue to concur in Pacific's toll and access rates and remain under rate of return regulation indefinitely.

56. When the effect of falling toll rates results in lower settlements revenues to the 17 smaller LECs, it is expected that at least some of them will opt for the NRF and the freedom to set company specific access charges and rates in keeping with their costs of operation.

57. DRA proposed a four-element customer information program consisting of:

1. Public Participation Hearings (PPHS)
2. Bill Inserts
3. White Pages Directory Information, and
4. Customer Outreach.

58. There is a general consensus among the LECs that a four-element customer information program as recommended by DRA would be effective to inform customers about emerging competition for intraLATA toll services and IRD.

59. The parties agree that the Commission's Public Advisor in cooperation with personnel in the Commission's regional offices can best determine where and how many PPHS should be held to assure reasonably adequate coverage throughout the state.

60. Pacific's suggestion that dates certain be established for the PPHs is reasonable.

61. The parties believe that the PPHs would be most informative to the public if held after the conclusion of evidentiary hearings.

62. The need to fix dates certain for the PPHs may cause them to occur during the evidentiary hearings if such hearings are not yet concluded by those fixed dates.

63. The parties agree that bill inserts are necessary to advise customers and the general public of the nature and extent of NRF, the dates and locations of evidentiary hearings and PPHs, the date of commencement of intraLATA competition, how to reach competitors of LECs and how to access their available services.

64. All LECs support the use of up to three bill inserts to inform customers of pending hearings and the implementation date of intraLATA competition when and if the latter occurs. The LECs would absorb the costs associated with these three bill inserts as part of their regular on-going expenses.

65. Pacific and the majority of the other parties supported the use of a fourth bill insert, to better inform customers about competing IECs who will also provide intraLATA message toll service, and how to access them, if and when the LATA is opened to competition.

66. It is reasonable to require the LECs to employ four bill inserts to inform their customers of the pending IRD hearings and PPHs and to further inform them of the emerging dates for intraLATA competition, as well as how to communicate with competitors and access their services.

67. The modest costs of a fourth bill insert would also be borne by the LECs through the transitional revenue sources intended to support the first year of operation of the LECs under intraLATA competition.

68. Bill inserts and white pages information will be more effective if notations are included, in appropriate foreign languages, directing non-English speaking customers to additional information sources.

69. Comprehensive information about the availability of alternative carriers, services, and instructions on 10XXX dialing will better inform customers about their market options for all 10XXX calling.

70. The LEC directory white pages are a substantial source of customer information regarding their telephone services.

71. LEC directory white page information sections with lists of IEC carrier codes and telephone information numbers for each IEC would be used by and useful to LEC customers seeking competitive providers of intraLATA toll services.

72. LECs would maintain a more level playing field at the outset of intraLATA competition if they are required to list alternative intraLATA carriers in the information or customer guide portions of the preface to their white pages directory listings.

73. It is reasonable to allow the LECs to file tariffs to recover the cost of listing IEC information in the white pages of their directories.

74. White pages listings of IECs included on a random selection basis, rather than alphabetical, following the LECs own information would help reduce any view of preferential bias toward any listing.

75. Since LECs provide comparative example rates for their intraLATA toll services, it is reasonable to require the LECs to include a comparative table with those same rate distances and example rates shown for IECs who desire to have that information displayed in the LECs' directory and would pay the LECs' rates and charges for inclusion of that information.

76. TURN's recommendation for PSAs and customer outreach, including printed materials in foreign languages, where there is a

significant population and demand for such information in a particular foreign language, is reasonable.

77. While there is a need for public outreach, we see no need to conduct costly market research, or validation of information on penetration keyed to percentages of the population at this time.

78. Except for white pages directory listings of IEC access and other directory information regarding the IECs, for which the LECs are entitled to file tariffs to obtain cost recovery, all other proposed customer information and outreach relative to intraLATA competition may be borne by the LECs as regular business expenses.

79. The toll settlements pool for non-NRF LECs and the statewide toll operations surcharge for NRF LECs will help assist the LECs in meeting expenses including the cost of providing information to their customers during the transition period into intraLATA competition.

80. There is no need to determine whether intraLATA toll should be treated as a Category I or Category II service in this order.

Conclusions of Law

1. The policy determinations set forth in this order, on the four pending issues before us, should facilitate the preparation of an IRD to allow the Commission to consider the propriety of authorizing intraLATA competition on a timely basis.

2. The 17 smaller LECs, with the exception of Winterhaven, should be permitted to continue toll pooling and settlements with the Pacific until they choose to file applications to participate in the NRF, or until we complete the full transition of the mid-sized LECs to NRF. At that time the Commission may want to investigate any potential benefits of eliminating toll settlements for the smaller LECs.

3. The smaller LECs should be permitted to concur in adopting Pacific's toll rates and access charges as part of IRD for facilitating intralATA competition.

4. The 17 smaller LECs should not be required to change from a rate of return regulation to NRF at this time, or in the near future.

5. Maintaining the existing regulatory posture of the 17 smaller LECs for the next three to five years should facilitate and greatly simplify the preparation of IRD for consideration of intralATA MTS competition by the Commission.

6. The 17 smaller LECs should be expected to make similar changes to their basic exchange rates, as are adopted for Pacific, to compensate them at least in part, for anticipated reductions in toll settlement revenues that are likely to result from the emergence of intralATA competition in IRD.

7. The transition payment from Pacific to GTEC should be phased-out over a reasonable period of time as part of IRD, rather than terminated at the outset of IRD.

8. Revenues lost by GTEC as the result of the phase-out of Pacific's transition payment should be recovered first, from increases in GTEC's rates for below-cost basic services, and then through a modest surcharge on all intrastate message toll and toll equivalent services.

9. GTEC's external funding from intrastate message toll and toll equivalent services should also be phased-out over a reasonable period of time.

10. The exact amount of the surcharge for GTEC's external funding and the appropriate phase-out period should be determined as part of IRD.

11. The three mid-sized LECs (Citizens, Roseville, and Contel) have agreed to exit the settlement pool in the near future as part of IRD, and they should be allowed to do so on a phase-out

basis consistent with that being advanced for GTEC, but beginning not later than January 1, 1994.

12. The phase-out period from the toll settlements pool and entry into the NRF should be established in IRD in this proceeding.

13. As a practical matter, if any one of the mid-sized LECs fails to file a general rate proceeding for a 1993 test period, a phase-down of its transition payment, in lieu of toll settlements, from Pacific should begin for calendar year 1993.

14. The three mid-sized LECs should elect to participate in the NRF beginning no later than January 1, 1994 if they desire the benefits outlined herein.

15. The three mid-sized LECs should be allowed reasonable flexibility to negotiate the terms of their respective transitions from toll settlements to fixed phase-down payments from Pacific. The phase-down should begin January 1, 1993 and terminate no later than January 1, 1997.

16. The transitional payments from Pacific should help provide a smooth transition for exiting the settlements pool to an access charge structure under the DCP, or ORP, for LECs which elect to participate in the NRF.

17. The three mid-sized LECs should be authorized to adjust their below-cost basic exchange rates upward during IRD, consistent with rate changes that are adopted for Pacific, to compensate them, at least in part, for anticipated reductions in transitional payments.

18. Any further shortfall of revenues experienced by the mid-sized LECs should be recovered from the temporary statewide surcharge to all intrastate toll and toll equivalent services to be developed in IRD for LECs electing to participate in the NRF.

19. EAS compensation to the mid-sized LECs will not be subject to the transitional phase-down. Pacific and the mid-sized LECs shall enter into negotiations for EAS compensation with the understanding that permanent arrangements will be implemented by the end of the transition.

20. GTEC and the mid-sized LECs should be able to make use of the temporary statewide surcharge under the NRF for a transitional period of about five years, and not look to it as a permanent funding source.

21. The determination of who should administer the transitional funding mechanism should await further evidence of the exact nature and extent of the fund, in IRD.

22. We should not require LECs regulated under the NRF to adopt and maintain a single statewide uniform toll rate tariff schedule.

23. All individual LECs and IECs should nonetheless be required to maintain uniform MTS rate schedules within their respective service areas.

24. The majority of LECs that are not yet under the NRF have requested and should be granted authority to implement a DCP with Pacific as the designated carrier. These LECs should, until they implement a DCP and opt for the NRF, concur in Pacific's intralATA toll rate schedules.

25. GTEC under NRF and its ORP should be permitted to establish its own competitive message toll rate schedule, which will be uniformly applied throughout its service area.

26. It is anticipated that the initial level of intralATA toll rates will be lower than existing uniform statewide intralATA MTS rates, at the outset of intralATA competition.

27. Supporting cost studies should be required from GTEC and Pacific under NRF to assure that their competitive rates for MTS are consistent with their cost and market factors.

28. MTS should not be moved to a Category II service without benefit of further evidence in the IRD hearings of this proceeding.

29. All LECs which are not under the NRF today should continue to concur in Pacific's intralATA toll rates and, except for GTE-WC, Pacific's access charges until they choose to participate in the NRF.

30. GTEC has accepted the NRF and accordingly should maintain its own uniform toll rates, specific access rates and charges, and CCLC.

31. The small LECs, currently in toll settlements and access pooling, should be permitted to continue access pooling and settlements with Pacific until the Commission approves their participation in NRF or until the Commission approves their plan to exit the access settlements pool.

32. The DRA recommended four-element customer information program, as modified herein, should be approved.

33. The Commission's Public Advisor should determine where and how many PPHs are necessary to assure adequate coverage throughout the state.

34. The dates for the PPHs should be set to occur during or near the end of the evidentiary hearings.

35. Three LEC bill inserts should be used to advise customers and the general public of the nature and extent of NRF, the dates and extent of evidentiary hearings and PPHs, the date of commencement of intraLATA competition, how to reach competitors of LECs, and how to access their available services.

36. A fourth LEC bill insert should be used to inform customers on the availability (names) of intraLATA competitive carriers, their respective telephone numbers, and how to access their services. This bill insert should be mailed approximately six months after the commencement of intraLATA MTS competition.

37. The cost of the four LEC bill inserts contemplated for this proceeding should be borne by the LECs as part of their ongoing operational costs.

38. All LECs should be required to make space available in their directory white pages to include comprehensive information about the availability of alternative carriers, their telephone information numbers, services, and instructions on 10XXX dialing to better inform customers about their market options for all 10XXX

calling. These listings should appear on a randomly selected basis in the directories.

39. The listing of IEC information in the LECs' directory white pages should be voluntary on the part of the IECs.

40. The LECs should be allowed to file and maintain tariff rates for the white pages directory space made available to IECs who wish to be listed.

41. All LECs should also be required to include the comparative intraLATA MTS rates of those IECs who want to include that information and are willing to pay the LEC for the required space.

42. The appropriate tariff rates, rules, and conditions for white pages information listings of IECs in the LEC directories should be determined in IRD.

43. GTEC's estimated costs of 2.5 mills per page and 2.5 cents per page for white pages in its directories are in conflict, and neither amount should be accepted without further support in IRD.

44. All bill inserts and white pages information developed pursuant to this order, should contain notes in appropriate foreign languages directing non-English speaking customers to additional information sources.

45. PSAs and customer outreach, including printed material, in foreign languages, where there is a significant population and demand for such information in a particular foreign language, should be prepared and used as described in the narrative of this order.

46. Any party who proposes the change of any Category I (monopoly) service to a Category II or Category III service, as a part of IRD, should be prepared to demonstrate that it is truly a competitive or a partially competitive service by naming the other service providers of like services, and providing their respective example free market rates and charges for the like services.

47. This order should be made effective today to allow IRD rate studies to proceed without further delay and thereby permit timely XLR hearings on the potential for intraLATA MTS competition.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Bell (Pacific) and GTE California Incorporated (GTEC) shall prepare their respective implementation rate design (IRD) proposals for potential intraLATA competition under the new regulatory framework (NRF) consistent with the narrative discussion, findings of fact, and conclusions of law of this order. (It is understood that any dollar amounts contained in this order are "illustrative examples" and that the LECs will set forth their specific proposed dollar amounts consistent with the policy guidance of this order).

2. GTE California is hereby authorized to use its own originating responsibility plan (ORP) including its own originating and terminating access rates and charges and carrier common-line charge (CCLC) to develop its proposed rate design.

3. All mid-sized and smaller local exchange telephone companies (LEC) are hereby authorized to concur in Pacific's toll rates and originating and terminating access charges and CCLC for this proceeding and such authorization will extend until any such LEC seeks authority for further flexibility under the NRF, or files a formal request for a designated carrier plan (DCP) of its choice, or an ORP. A formal request for a DCP, or an ORP, may precede the completion of a NRF proceeding for a mid-sized LEC and company-specific access charges may be approved when the mid-sized LEC requests the DCP, or an ORP.

4. As part of IRD (herein) all California LECs shall coordinate their proposed increases in exchange rates for basic services such as universal lifeline telephone service (ULTS),

single and party line business and residence telephone services, PBX business and residence trunks and Centrex and Centrex-like services, so there can be statewide consistency in any increases to these below-cost services. Such basic service increases shall also be reviewed on a demographic basis, along with estimated elasticity due to projected intralATA toll competition, to assure that these basic services remain affordable and viable.

5. The LECs' demographic studies identified above shall include analyses of rate impacts for above average, average, below average, and minimal usage customer groups.

6. Pacific and GTEC may include new competitive intralATA toll rate schedules in their IRD proposals. However, any proposed toll rates shall take into consideration the LECs' costs and market factors.

7. All telecommunications companies whether LECs or Interexchange Carriers (IEC) shall be required to offer any proposed intralATA toll service(s) on a uniform basis, statewide, within their respective service areas. Geographic or route specific-rate deaveraging shall not be permitted in IRD.

8. Pacific is authorized to reduce and eliminate its transition payment to GTEC over a period not to exceed five years in a manner generally consistent with the illustrative example contained in Appendix B and commencing at the emergence of IRD. Pacific and GTEC shall present an exhibit in IRD, providing all details to make this transition as smooth as possible.

9. Pacific shall be authorized to develop similar plans to move away from toll settlements for any mid-sized or smaller LEC that elects to apply for flexibility under the NRF or to exit the settlement pool in the future. Any and all such phase-out agreements between Pacific and individual LECs should be consistent (generally) with the plan proposed in cooperation with GTEC for IRD, excepting for the date of initiation of the phase-down.

10. GTEC and all other LECs shall first recover any revenue deficiency, occasioned by reduced toll settlement pool revenues, by reasonable increases to their below-cost basic services.

11. GTEC and other LECs which elect to exit the settlement pool as part of NRF or plan to participate in NRF may, in their rate design proposals, apply for recovery of revenue deficiency from a modest temporary (circa five-year) surcharge to California intrastate message toll and toll equivalent services.

12. The mid-sized LECs consisting of Citizens Utilities Company of California, Contel of California, and Roseville Telephone Company, are authorized to proceed in their negotiations with Pacific Bell to eventually exit the settlement pool and to file general rate proceedings with this Commission, including their specific rate design proposals and requests for flexibility under the NRF. These mid-sized LECs are expected to file general rate proceedings for a test-year no later than 1994 and, as appropriate, their requests for NRF flexibility effective on January 1, 1994.

13. Pacific Bell is authorized to begin a reasonable phase-down of settlements pool payments to the mid-sized LECs after January 1, 1993 if a formal agreement consistent with this order is not reached with the mid-sized LECs by that date.

14. Each LEC shall use the three bill inserts as proposed in this order to inform its customers of forthcoming evidentiary hearings, public participation hearings, and emerging intraLATA competition when it is authorized. The third bill insert will contain names and access codes of IECs who are authorized to provide intraLATA toll service on the date of open competition when it is authorized.

15. The LECs shall also prepare and issue a fourth bill insert with expanded information similar to Appendix C hereto, six months after the outset of intraLATA competition. Further details regarding this bill insert will be developed during the evidentiary phase of IRD.

16. All LECs shall closely coordinate all elements, including bill inserts and any public service announcements, of the public information program set forth in this order, with the Commission's Public Advisor. The Public Advisor is hereby directed to review, on a timely basis, and approve the texts of the bill inserts and PSA's submitted to him by the utilities pursuant to this order.

17. All LECs shall include, as part of IRD, copies of their sample tariff schedules offering space in the "directory guide" or information section of the white pages of their directories to IECs for specific information about them as discussed herein. Such directory space shall be provided at a reasonable cost to the IECs to not interfere with a level competitive market.

18. Pacific and GTEC shall prepare exhibits for IRD, setting forth their respective estimated costs of preparing and publishing the information white pages in the front part of their directories. Such information should be based on recorded data for existing published directories.

19. No Category I (monopoly) service shall be moved to a partially competitive or fully competitive Category II or III, respectively, at this time. Any such authorization will follow evidence in IRD.

20. Any party recommending the change of any Category I service to a Category II (partially competitive) or Category III (fully competitive) service, as a part of IRD, shall be required to demonstrate that it is truly a partially or fully competitive service by naming the other service providers of like services and

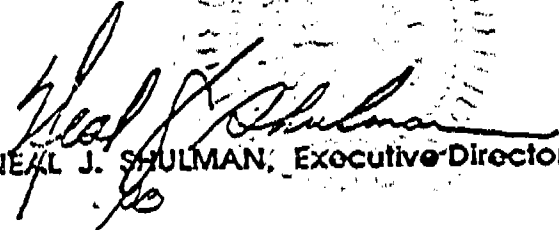
providing their respective example rates and charges for the like services expected on the onset of intraLATA competition.

This order is effective today.

Dated July 24, 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

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I.87-03-078/OII.84/C.86-11-028
I.87-02-025/C.87-07-024//REV: 07/18/91
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Appendix B
ILLUSTRATIVE PHASE-OUT * OF TOLL LEC PAYMENT
 (000)

Year	GTEC	Mid-Sized LECs			From Settlements
		Contel	Citizens	Roseville	
1990	\$215,000	\$74,000	\$32,000	\$16,000	\$337,000
1991	215,000	74,000	32,000	16,000	337,000
1992 **	115,625	74,000	32,000	16,000	237,625
1993	86,719	37,000	16,000	8,000	147,719
1994	57,813	27,750	12,000	6,000	103,563
1995	28,906	18,500	8,000	4,000	59,406
1996	0	9,250	4,000	2,000	15,250
1997		0	0	0	0

* 50% reduction in first year of phaseout, balance phased out in 4 equal decrements.

** 1992 detail:

1st Qtr. 1992	\$53,750	\$18,500	\$8,000	\$4,000	\$84,250
Bal. of 1992	<u>61,875</u>	<u>55,500</u>	<u>24,000</u>	<u>12,000</u>	<u>153,375</u>
Total	\$115,625	\$74,000	\$32,000	\$16,000	\$237,625

"Bal. of 1992" fig. for GTEC = (\$215,000 /yr. - 50,000/yr. from ORP) x 3/4 yr. x .5

Source of 1990 data: Ex. 501a, except for GTEC which was from Ex. 518, p.15.

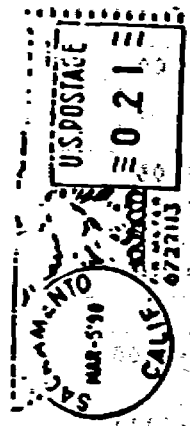
(END OF APPENDIX B)

1187211033 al. ALJ/GAA/tcg

00-11-78.1

APPENDIX C
Page 1

SAMPLE BILL INSERT AND
CUSTOMER INFORMATION
ON INTEREXCHANGE CARRIERS



07-11-1978
07-11-1978

PACIFIC BELL
A Pacific Telephone Company

P.O. Box T
Sacramento, California 95813

IMPORTANT:
See Enclosed Bill Insert

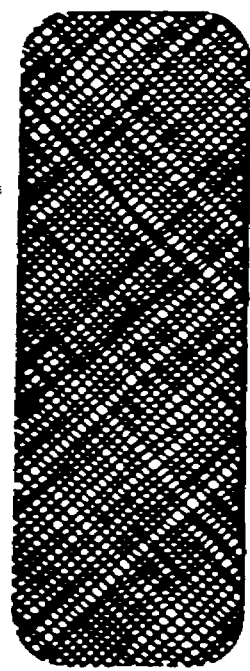


Table with multiple columns and rows, containing various data points and text, possibly a list of carriers or customer information. The text is mostly illegible due to the quality of the scan.

APPENDIX C
Page 2

Account Number 415 623- Please Save For Your Records Page 1
Statement Date May 4, 1989 Check No:
Date:
Amount:

Account Summary	Previous bill	.00
	Payments applied through May 5, 1989	.00
	Balance *** Thank You for Your Payment ***	.00-
	Current charges:	
	Pacific Bell (Page 2)	68.05
	CURRENT CHARGES DUE BY Jun 4, 1989	68.05
Total Due		68.05
Late Charge Reminder	A late charge may apply on Jun 6 if your payment has not been received, however, your bill must still be paid before the DUE BY date to avoid any other penalties. (See Reverse)	
Whom to call	For billing questions call:	
	Pacific Bell	No Charge 811-8000
	When moving or placing an order call:	
	Pacific Bell	No Charge 811-8111
The NEW 811 NUMBERS may not be available in your area. Call the Business office number on your bill or call Directory Assistance for an alternate number.		

Let Your Phone Give You More Freedom To Do The Things You Want To Do

IMPORTANT:
See Enclosed Bill Insert

PLEASE DETACH AND RETURN THIS PORTION WITH YOUR PAYMENT

Total Amount Due By Jun 4, 1989		468.05
Make Check Payable To Pacific Bell	Enter Amount Enclosed	\$
May 4, 1989 159	415 623-	

SJ/HV 1 0Z
**CR55
FREMONT CA 94538

167
PACIFIC BELL
PAYMENT CENTER
SAC CA 95887 0001

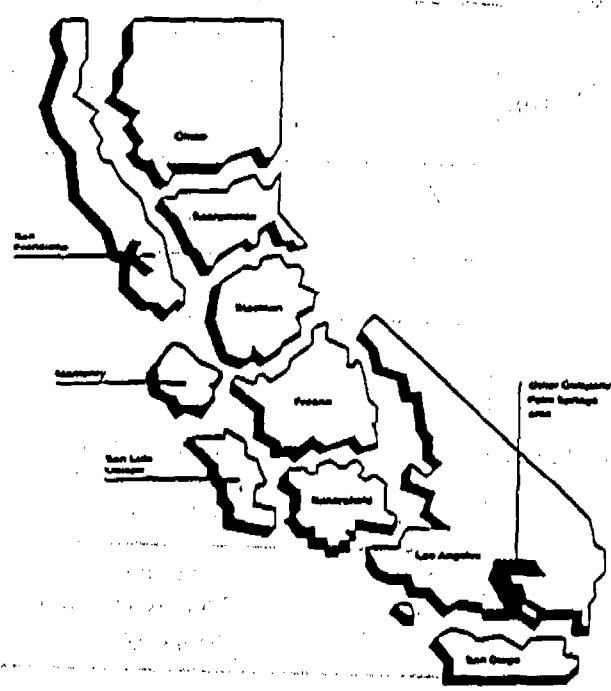
000 623 159
00 167 89068 6805

NEW CALLING OPTIONS WITHIN
YOUR SERVICE AREA

Effective _____, 1992, the California Public Utilities Commission (CPUC) will allow other companies besides Pacific Bell to handle long-distance calls within your Service Area. This change is designed to increase the options available to you as a telecommunications consumer and promote competition within California.

Current Calling Options

California is divided into ten Service Areas. A Service Area may include one or more Area Codes and some Service Areas may have the same Area Code. This map shows the ten California Service Areas. The Customer Guide Section of your Pacific Bell White Pages lists the Area Codes, prefixes and telephone exchanges which are part of your individual Service Area.



Currently, Pacific Bell and other independent telephone companies offer local, nearby and long-distance telephone service within your Service Area. Pacific Bell cannot provide telephone service between Service Areas or to other states or countries.

Long-distance companies provide calling between Service Areas and to other states and countries. Most customers have selected a primary or EASY ACCESS long-distance company to carry these types of calls.

Future Calling Options

You will now be able to select other companies in addition to Pacific Bell to handle long-distance calls within your Service Area. Long-distance calls are those outside your local and Zone Usage Measurement (ZUM) calling areas, or usually in excess of sixteen miles from your "rate center."

You can place these calls on a per-call basis with another long-distance company, by using company-code dialing. This is done by dialing the Company's 5-digit company code before the telephone number. Pacific Bell will handle these calls, as we do today, if you do not dial a company code.

Pacific Bell will continue to be the sole provider of basic telephone service, including local and ZUM calling. Local and ZUM calls are usually those within sixteen miles of your "rate center". For more information about your local and ZUM calling areas, consult your Customer Guide.

Long-distance companies will continue to be the sole providers of long-distance calls outside your Service Area and to other states and countries. Your EASY ACCESS long-distance company will continue to handle these calls, or you may use company-code dialing to change your long-distance carrier on a per-call basis.

The introduction of new calling options may mean changes to the way you dial some telephone calls. Listed below are instructions for each of the calling options you will have on _____, 1992:

TYPE OF CALL	WITHIN AREA CODE	OUTSIDE AREA CODE	TO PLACE A CALL WITH	HOW TO DIAL
Local & Zone Usage Measurement (ZUM) calling	X		Pacific Bell	Telephone number
		X	Pacific Bell	1+Area Code+telephone number
Long-distance calling within your Service Area	X		Pacific Bell	Telephone number (1+number in some areas)
	X		Long-distance company	5-digit company code* + telephone number
		X	Pacific Bell	1+Area Code+telephone number
		X	Long-distance company	5-digit company code* + 1+Area Code+telephone number
Long-distance calling outside your Service Area	X		Easy Access long-distance company	Telephone Number
	X		Different long-distance company	5-digit company code* + telephone number
		X	Easy Access long-distance company	1+Area Code+telephone number
		X	Different long-distance company	5-digit company code* + 1+Area Code+telephone number

*Company codes are listed on page ____.

Choosing a calling option to meet your needs

You now have many choices when it comes to placing all your long-distance calls. Here are some of the things to consider when making a choice:

- What companies serve your area?
- What are the company's rates? Are there any special rate periods?
- Does the company offer special calling plans, such as discounts to frequently called places, or usage discounts?
- What special services such as directory assistance, collect or credit card calls does the company offer? What are the charges?
- How are you billed? Are charges itemized?
- Are there any monthly fees, minimum charges or start-up costs?
- How is the quality of transmission and speed of connection?

The right company for you depends on your individual calling needs.

Rates and services for Pacific Bell calling are listed in the Customer Guide section of your White Pages directory. You may get additional information from your Pacific Bell Business Office. The number is listed on your bill or on page A3 of the Customer Guide.

The following companies provide long-distance service in California and have requested to be listed. Not all companies are available in all areas. Some companies accept company code dialing without a previously arranged account. Others may require you to set up an account before you use their company code. You may contact them directly for information on the areas they cover and services they offer:

<u>COMPANY NAME</u>	<u>COMPANY CODE</u>		<u>FOR INFORMATION CALL</u>
Allnet Dial 1 Service	10444	All	1-800-783-2020
Americall Corporation	10099	All	1-800-399-1234
American Express Expressphone Easy Dialing	**	All	1-800-444-2639
American Network Exchange, Inc.	10370	Business	1-800-366-2850
AT&T Long Distance	10288	Business	1-800-222-0400
		Residence	1-800-222-0300
Cable and Wireless	10223	Business	1-800-486-8686
Call America Riverside	10351	Business	1-800-433-2771
Call America Business Communications	10344	All	805-541-6316
Call Savers	10291	All	1-800-288-5233
COM Systems	10266	All	1-800-266-2273
Escondido Telephone	10441	All	619-741-5550
Execuline of Sacramento	10511	All	1-800-655-0000
Expresstel	10700	Business	1-800-748-6200
La Conexion Familiar	10926	All	1-800-545-7033
Logically by Communique	10810	All	1-800-594-9000

COMPANY NAME	COMPANY CODE	FOR INFORMATION CALL
MCI	10222	Business: 1-800-888-0800 Residence 1-800-444-3333
Metromedia/ITT Long Distance	10488	All 1-800-275-2273
Mid American Communications Corp.	10001	Business 1-800-279-2929
Napa Valley Telecom	10794	All 1-800-366-3313
Northwest Network Communications	10831	All 916-246-7577
One-2-One Communications	10390	All 1-800-293-4121
Opticom	10880	Business 1-800-876-1300
Telecom USA	10835	All 1-800-728-7000
Telenational Communications	10621	All 1-800-736-8233
Teltrust	10485	Business 801-484-0050
TMC Long Distance	10019	All 619-237-5050
US Sprint Dial 1 Service	10333	Business 1-800-366-1900 Residence 1-800-366-4700
Westcom Long Distance	10459	All 1-800-377-1459
Westel Communications, Inc.	10007	All 1-800-858-7758

At the time of this printing, rates for long-distance calling within your Service Area vary by approximately ___%.

**Only available to pre-approved customers

Additional help

- The Customer Guide Section of your Pacific Bell White Pages directory has complete information on local calling areas, Service Areas and Area Codes.
- (The Teleconsumer Hotline 1-800-332-1124 is an independent, non-profit consumer hotline jointly sponsored by Pacific Bell and other telephone companies. They can help answer your questions about long-distance services, telephone equipment, pay telephones and alternative operator services. They are available to help you, in English and Spanish, from 9:00 a.m. to 5:00 p.m. Monday through Friday.)

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GLOSSARY OF TELECOMMUNICATIONS
AND OTHER TERMS AND ACRONYMS

0+	Dial "0" plus a telephone number for charge card, third-party charge, and collect calls
1+	Dial "1" plus a telephone number for direct-dial long distance service
10XXX	A dialed access code to connect to an interexchange carrier. Each carrier has an unique three-digit code represented here as XXX.
1MB Service	Measured business service (one party)
411	Dials local directory assistance
800 READYLINE	An AT&T custom network service that offers inward calls within the state. The service may be restricted to selected area codes and the 800 number can be moved to a different location at the customer's request. The service is targeted to small and mid-size businesses and residence customers who would not benefit from regular 800 service.
800 Service	A wide area calling service that allows receipt of incoming calls from a preset calling area at no charge to the calling party. Subscribers pay on a bulk rate basis.
900 Service	A mass calling service that permits simultaneous connections by a large number of callers to a sponsored program or polling programs. There is a fee per call for which the utility provides billing and collection on behalf of the information provider.
A.	Application
Access Charges	A tariff charge imposed on either customers (end users) or interexchange carriers to compensate the local exchange company for connection to local network facilities
ACR	Assigned Commissioner's Ruling
AL	Advice Letter

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ALJ	Administrative Law Judge
ASP	Alternative Service Provider
AT&T	AT&T Corporation (Parent of AT&T-C)
AT&T-C	AT&T Communications of California, Inc.
BEALS	Basic Exchange Access Line Service
BETRS	Basic Exchange Telephone Radio Service
C.	Case
Calaveras	Calaveras Telephone Company (a California LEC)
CACD	Commission Advisory and Compliance Division of the California Public Utilities Commission
CBCHA	California Bankers Clearing House Association
CCLC	Carrier Common Line Charge. An access charge to recover a portion of the non-traffic sensitive (non-usage sensitive) costs of the local loop, the drop, and associated equipment between end office and the end user.
CCTA	California Community Television Association
Centrex	A service for customers with many stations that permits station-to-station dialing, one listed directory number for the customer, direct inward dialing to a particular station, and station identification on outgoing calls. The switching functions are performed in a central office.
CHCF	California High Cost Fund. A fund derived from an increment of the CCLC that supports high cost telephone companies (usually small rural companies) against changes in revenues due to Commission or FCC actions.
Citizens	Citizens Utilities Company of California (a California LEC)
CLA	County of Los Angeles
Cl. Br.	Closing Brief

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Page 3

COL	Conclusion of Law
Contel	Contel of California, Incorporated (a California LEC)
CPCN	Certificate of Public Convenience and Necessity
CPN	CP National (a California LEC)
CPUC	California Public Utilities Commission
D.	Decision
DCP	Designated Carrier Plan. A compensation arrangement, whereby an LEC would select either Pacific, GTEC or any other Commission certificated intrastate telecommunications carrier to be its designated intralATA toll carrier. For originating traffic, the LEC will bill its customers at the designated carrier's tariffed rates, but would remit all billings to the designated carrier. The LEC would bill the designated carrier for the originating traffic under the LEC's originating access tariffs and would perform billing and collection under separate contract with the designated carrier. For operator services, the LEC can contract with any Commission certificated carrier. For traffic terminating in the LEC's territory, the LEC will bill the designated carrier for terminating access charges under the LEC's terminating access tariffs.
DDD	Direct Distance Dialing
Direct Embedded Costs	Historical costs of a utility that can be attributed to a specific service on the basis of direct cost causation.
DRA	Division of Ratepayer Advocates of the California Public Utilities Commission
EAD	Expedited Application Docket
EAS	Extended Area Service
ESL	English as a Second Language
FGA, FGB, FGD	Feature Group A, B, D

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ELCA	Expanded Local Calling Area	100
Equal Access	The MFJ requires that access to the local network provided to all carriers for interstate and interLATA services must be equal in quality and type to the access provided to AT&T. Equal access also allows presubscription by the customer to any carrier without special dialing.	100
Exh.	Exhibit	100
FCC	Federal Communications Commission	100
FX Service	Foreign Exchange Service, also FEX. A service that provides a circuit and dial tone between a customer's main station and a central office other than the one that normally serves the exchange area in which the customer is located.	100
Fully Allocated Costs	Costs that include both direct and indirect costs. (Indirect costs include the overhead costs that cannot be directly assigned to any one specific project or service, but rather apply to the company as a whole.)	100
Fully Allocated Embedded Costs	See Fully Allocated Costs.	100
G.O.	General Order	100
GTEC	GTE California Incorporated (a California LEC)	100
High Speed Private Line	A dedicated leased circuit suitable for transmission of digital signals at relatively high speeds or capacity. For example, a common high capacity service is 1.544 Mbps; this is equivalent to 24 voice circuits.	100
Holding Out Restrictions	Interexchange carriers are not permitted to offer or advertise intraLATA services they are not authorized to provide, even though they may be technically able to provide the services.	100
IEC (also (IXC)	Interexchange carrier. A company (such as AT&T-C, Allnet, Execulines, Inc., MCI, Starnet, US Sprint, Western Union, and others) engaged in the provision of interLATA, interstate, or international telecommunications for hire over its own or leased facilities.	100

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- Incremental Costs Additional costs of supplying a discrete increase in output.
- InterLATA Between LATAs. Descriptive of the services restricted to interexchange carriers by the Modified Final Judgment. See LATA.
- IntraLATA Within a LATA. Descriptive of the service area in which the Bell Operating Companies are permitted to operate. See LATA.
- IRD Implementation Rate Design
- Kbps Kilobits per second
- LANs Local Area Networks. Privately owned networks offering high speed communications channels for connection of information processing equipment (and telephones) in a limited geographic area.
- LATA Local Access and Transport Area. Service or market areas of the Bell Operating Companies which were established by order of the Modified Final Judgment for the divestiture of the Bell Operating Companies from AT&T. California is divided into ten LATAs.
- LEC Local Exchange Carrier. One of the 22 telephone companies who provide local exchange and intraLATA telephone service in California. The term LECs represents all 22 of these companies.
- LRIA Long Run Incremental Analysis
(A means, based on microeconomic theory, of assessing the effects of possible near-term decisions on the total revenues and costs of the firm over the long run. Decisions to introduce a new service at a particular price; to change the price of an existing service; or to eliminate an offering are the ones most commonly analyzed. Of course, others, such as the decision to launch a new advertising campaign, can also be subjected to this type of analysis. LRIA looks at the difference between revenues and costs that would occur, if the decision were decided one way versus another. All other influences (e.g., time, and economic conditions on costs and revenues) are held constant. A management decision with respect

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to one service--such as a price change--may affect the quantities sold and therefore, the costs and revenues of other services, which may be cross-elastic with the service in question.)

LRIC

Long Run Incremental Costs
(The cost portion of LRIA. It is the difference in costs, over the long run, between two alternative courses of action. These cost differences are due to the difference in the quantity provided of the service affected directly by the decision, (e.g., price change), and the differences in the quantities provided by cross-elastic services. It is the net differences in long run costs and revenues--the opportunity costs and revenues--that are included in the Long Run Incremental Costs of the decision being assessed in a full LRIA. The time frame used in developing LRIC must be long enough to permit complete adaptation of facilities, plant, and expenses to the particular change in output, which is under consideration.)

LRIR

Long Run Incremental Revenues
(The revenue portion of LRIA. It is the difference in revenues from specific service between what would be, if a decision directly affecting that service, (e.g., a price change) were decided one way versus what would be if it were decided another. This revenue difference is due to the differences in quantity of the service demanded by and provided to consumers and to any differences in rates charged for that service. The time (frame used in developing LRIR must be long enough to permit full and complete market reaction.)

MANS

Metropolitan Area Networks. See LANs.

Mbps

Megabits per second

MCI

MCI telecommunications Corporation

MEGACOM 800 Service An 800 service offered by AT&T for customers receiving high volumes of incoming calls.

MFJ

Modified Final Judgment. An agreement reached between the Bell System and the Department of Justice, approved by the Federal District Court

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Page 7

- on August 24, 1982. It required that AT&T divest itself of exchange telecommunications services.
- MPB Meet Point Billing, a billing method that allows each LEC to bill for its portion of a co-provided interexchange private line circuit at its own rates and charges.
- MTS Message Toll [Communications] Service. A long distance switched telephone service for calls exceeding 12 miles or the given EAS route whichever is longer.
- NDIEC Nondominant interexchange carrier. AT&T is the dominant IEC with a majority market share among the carriers. All other IECs are NDIECs.
- NIEA National Interstate Expense Adjustment
- NRF New Regulatory Framework
- NTS Non-Traffic Sensitive
- OCC Other Common Carrier
- OCF Optional Calling Plan
- OII (also I.) Order Instituting Investigation
- Op. Br. Opening Brief
- ORP Originating Responsibility Plan. An arrangement for compensation among local exchange carriers (LECs) involved in joint provisioning of intraLATA toll service. It is an access charge-based intraLATA toll intercompany compensation plan for intrastate intraLATA MTS and WATS/800 services. Under ORP, each exchange carrier compensates the other exchange carrier for (1) transport and termination of originating intrastate intraLATA MTS and WATS traffic, and (2) transport and origination of intraLATA 800 traffic for calls from one exchange carrier to an intrastate intraLATA toll location in the serving area of the other exchange carrier. (See Appendix E for a detailed description of the GTEC/Pacific ORP arrangement.)

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Pacific	Pacific Bell (a California LEC)
PBX	Private Branch Exchange. A switching device, usually located on the customer's premises.
PCN	Personal Communications Network. PCNs include cellular, wireless, and cordless communication systems.
PHC	Prehearing conference
PPH	Public Participation Hearing
Presubscription	A process which allows an end user served by an equal access end central office to select an IEC to automatically provide interLATA communications.
Private Line	A circuit leased by customers for their exclusive use. It is independent of the public switched network.
Pooling	An informal name for a settlements process in which all participating companies first receive their costs and then earn the same rate of return.
POP	Point of presence. The physical location of an interexchange carrier established to obtain access to the local exchange carrier's network.
PSA	Public Service Announcement
PU Code	The California Public Utilities Code (Reference is usually followed by a section number)
R&D	Research and Development
RD&D	Research, Development and Demonstration
Roseville	Roseville Telephone Company (a California LEC)
SDN	Software Defined Network. A virtual private line service by AT&T.
Settlements	An accounting procedure to define how revenues of a single call are split among different companies involved in that connection.
SPF to SLU	A transition in cost allocation factors (from Subscriber Plant Factor to Subscriber Line

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	Usage) that allocates fixed loop costs among local, intraLATA, and interLATA jurisdictions.
Special Access	Non-switched access provided via private lines.
Switched 56	An AT&T offering which provides 56 kilobits per second switched digital service.
Switched Toll	Toll traffic carried on the switched network i.e., not private line.
Tandems	A switching system (central office) that establishes trunk to trunk connections.
Tariffs	The published rates, charges, rules, and conditions of service governing the provision of communications service by common carriers, which are filed with the Commission.
TICM	Transport Incremental Cost Model (a complex AT&T incremental cost computer model)
Toll Private Line	A dedicated line that provides long-distance communications.
TPT&T	The Pacific Telephone and Telegraph Company (Predivestiture predecessor of Pacific Bell)
Tr.	Transcript
TT	Touch Tone
TURN	Toward Utility Rate Normalization (a consumer group, intervenor)
ULTS	Universal Lifeline Telephone Service
Universal Service	The goal of establishing affordable and available statewide telephone service.
USF	Universal Service Fund. A "high cost fund" established at the federal level to maintain the basic service rates of high cost telephone companies at reasonable levels.
US Sprint	US Sprint Communications Company, Limited Partnership

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Virtual Private Line Services A software defined network that gives the functionality of a private, dedicated network while using the switched network on an as-needed basis.

VPN Virtual Private Network.

WATS Wide Area Telephone Service. A service designed to meet the needs of customers having substantial volumes of long distance calls over a wide area. It bills on a bulk basis rather than by individual calls.

ZUM Zone Usage Measurement. A discount toll plan especially designed for metropolitan areas. The plan includes calls within mileage bands up to 16 miles.

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ORIGINATING RESPONSIBILITY PLAN (ORP)
INTERCOMPANY COMPENSATION ARRANGEMENT TO BE
IMPLEMENTED BETWEEN GTEC AND PACIFIC

INTRODUCTION

GTEC and Pacific are in the process of developing and implementing an ORP arrangement for intralATA message toll services. The purpose of this document is not intended to be an all encompassing description of all aspects of the ORP process; rather, it provides a brief overview of the ORP process and the compensation mechanics.

OVERVIEW

The ORP provides an arrangement for compensation among local exchange carriers (LECs) involved in joint provisioning of intralATA toll service. It is an access charge-based intralATA toll intercompany compensation plan for intrastate intralATA MTS and WATS/800 services.

Under ORP, each exchange carrier compensates the other exchange carrier for (1) transport and termination of originating intrastate intralATA MTS and WATS traffic, and (2) transport and origination of intralATA 800 traffic for calls from one exchange carrier to an intrastate intralATA toll location in the serving area of the other exchange carrier.

When initially implemented, ORP will apply to all California intralATA traffic between GTEC and all other California LECs. Pacific will act on behalf of all other California LECs who are members of the present intralATA MTS/WATS/800 pooling process, providing a "clearing house" function for all intralATA traffic of intralATA pooling LECs to and from GTEC. All such intralATA access revenues and associated costs for LECs other than GTEC will be included in the present intralATA pool.

The exchange carrier in whose territory an intralATA MTS or WATS call originates will be entitled to the toll revenue for that call, regardless of who bills the call. The exchange carrier who terminates an intercompany intralATA call is entitled to terminating access for handling the call. For an intralATA 800 call, the exchange carrier with the 800 number is entitled to all 800 billed revenues. The exchange carrier originating an inter-LEC intralATA 800 call will be compensated for originating access.

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Each exchange carrier originating inter-LEC intraLATA toll messages will provide summarized usage information, and necessary summarized billing information for non-sent paid calls, from its end user billing system to the terminating exchange carrier. Terminating exchange carriers are presently unable to identify terminating usage because intraLATA traffic is not terminated on Feature Group D trunks.

COMPENSATION

Each company will receive compensation for the transport and termination of originating interchanged toll MTS and WATS traffic, from the other company, and originating compensation for 800 traffic. Compensation to a company shall be based on premium access rates from its intrastate interLATA access tariff, approved and adopted by the CPUC, i.e., for Pacific - Schedule CAL.P.U.C. No. 175-T, and for GTE California - Schedule CAL.P.U.C. No. C-1. The use of the intrastate interLATA access tariff of each party will continue unless either company shall have filed, and had approved and adopted by the CPUC, an intrastate intraLATA access tariff. In that event, the monthly compensation amount for such company shall be calculated based upon that company's intrastate intraLATA access tariff beginning with the effective date of such tariff.

The following premium access charge elements, using rates as specified in each company's access tariff, will be used in determining the ORP intercompany compensation amounts for intraLATA message toll traffic:

1. Transport Service
2. End Office Service
3. Information Surcharge
4. Carrier Common Line

As one of its recommendations in this proceeding, GTEC is proposing that the Commission adopt the same tariff rates and rate structures for both intraLATA and intrastate interLATA access services.

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