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Decision 92-01-023 January 10, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of Pacific Bell, a corporation,
for authority to increase certain
intrastate rates and charges to
telephone service furnished within
the State of California.

And Related Matters.

ORIGINAL
Application 85-01-034
(Filed January 15, 1985)

I.85-03-078
OII 84
I.87-11-033
Application 87-01-002
I.87-02-024

OPINION

This decision addresses several outstanding matters on the subject of inside wire which is generally the wiring connecting customer telephone equipment to utility telephone wires. We adopt the provisions of a settlement filed in this proceeding with two minor exceptions. The settlement proposes certain rate design principles and "demarcation points" for inside wire facilities. The adopted provisions of the settlement resolve a petition to modify filed by Pacific Bell (Pacific). This decision also responds to a joint motion filed by Utility Consumers Action Network (UCAN) and Toward Utility Rate Normalization (TURN) seeking an independent study of inside wire policy in California. Finally, the decision finds UCAN eligible for compensation in this part of this proceeding.

I. Background

Issues relating to local exchange company (LEC) inside wire have been the subject of numerous Commission decisions over

the years. Generally, the Commission has sought to promote competition for inside wire maintenance and installation. As part of this effort, Decision (D.) 90-10-064 established policy for setting "demarcation points." A demarcation point is the place in or about a customer's premise where the utility's inside wire stops and the customer's inside wire begins. The demarcation point therefore defines the relative responsibilities of customers and utilities for repair and maintenance of inside wire.

In D.91-02-018, we responded to an emergency petition filed by Pacific. In its petition, Pacific stated it required substantially more time to develop tariffs for setting demarcation points than provided in D.90-10-064. The petition stated Pacific needed this time in order to "unbundle" riser cable charges. Unbundling riser cable means that Pacific would charge customers separate tariffed rates for the installation and maintenance of riser cable and for each product and service associated with riser cable. D.91-02-018 concurred with Pacific's move toward unbundling charges for riser cable products and services but found that Pacific had no authority to undertake such a major rate design change without specific Commission authority. We directed Pacific and other LECs to comment on the advisability of unbundling riser cable. We also sought clarification regarding whether and how the LECs could treat private branch exchange (PBX) and Centrex customers "alike" as they were required to by D.90-10-064.

On March 28, 1991, Pacific filed a petition to modify D.91-02-018. Pacific states D.91-02-018 erroneously precluded discussion of the unbundling of riser cable charges for residential buildings and in existing buildings, and believes unbundling riser cable charges in residential and existing buildings should be addressed by the Commission. It also states D.91-02-018 confuses the terms "riser cable" and "inside wire" and asks for formal recognition of the differences between these terms.

II. Pacific's Petition to Modify D.91-02-018

Pacific filed a petition to modify D.91-02-018 stating that the decision confused riser cable with inside wire and in so doing erred in its finding that the riser cable charges in existing and (multiunit) residential buildings should not be unbundled. Pacific first states that riser cable is more appropriately referred to as intrabuilding network cable (INC), which is the term designated in the Uniform System of Accounts.

Pacific distinguishes INC from inside wire by commenting that INC is located on the utility's side of the demarcation point and is a regulated product. Inside wire, on the other hand, is located on the customer's side of the demarcation point and is detariffed. Complex inside wire is not part of the utility's revenue requirement (although simple inside wire remains "above-the-line" for intrastate ratemaking purposes pursuant to Public Utilities Code Section 461.2). Pacific also states that INC and inside wire are physically distinguishable in that INC consists of several pairs of wire encased in a sheathed cable. Inside wire consists of wire pairs which are few in number (in the case of simple inside wire) or which merely connect station equipment to each other or to the common equipment (in the case of complex inside wire).

Pacific comments that unbundling INC charges would not change the demarcation points set forth in D.90-10-064 or change policy in that decision which requires the utilities to install and maintain INC in new and fully renovated buildings except where customers or building owners provide their own cable.

Pacific states that D.91-02-018 is inconsistent with D.90-10-064. D.90-10-064 directs the LECs to treat residential and commercial buildings alike whereas D.91-02-018 directs the utilities to treat them differently. Pacific believes distinguishing between residential and commercial buildings would

be impractical, because many buildings are both residential and commercial. Pacific believes the distinction may also be discriminatory. Pacific believes if charges for maintenance of new INC for new and fully renovated buildings are unbundled, it will also be necessary to unbundle maintenance of embedded INC in existing buildings. This is because of the practical difficulties associated with ascertaining the installation date of INC for the purpose of knowing whether maintenance would be provided at no charge or according to unbundled tariffed rates.

DRA supports Pacific's petition. GTE California, Inc. (GTEC) generally supports Pacific's petition but suggests the Commission resolve the petition in conjunction with resolution of other technical matters to be considered in this proceeding.

We concur with Pacific that D.91-02-018 confused "riser cable," or INC, and inside wire. Both this Commission and Federal Communications Commission (FCC) rules treat INC and inside wire differently at this time. We did not intend to change the regulatory treatment of INC. Nor did we intend that residential and commercial buildings be treated differently for purposes of INC regulation. We will make the modifications to D.91-02-018 which Pacific suggests and consistent with related provisions of the settlement filed in this proceeding.

III. The Settlement on Issues Related to Unbundling INC, Demarcation Points, and Related Matters

On October 16, 1991, several parties to this proceeding filed a settlement on numerous outstanding issues in this proceeding. The signatories to the settlement are Pacific, GTEC, Division of Ratepayer Advocates (DRA), AT&T Communications of California, Inc., the County of Los Angeles, Contel of California, Inc., General Services Administration of the State of California, Pinnacles Telephone Company, and several small LECs (Roseville Telephone Company, Calaveras Telephone Company, California-Oregon

Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Happy Valley Telephone Company, Hornitos Telephone Company, Ponderosa Telephone Company, Volcano Telephone Company, and Winterhaven Telephone Company).

The settlement is attached as Appendix A of this decision.

A. Description of the Settlement

In general, the settlement explains that its provisions will promote competition in the market for customer-provided INC by requiring the utilities to unbundle INC charges rather than offer the products at no charge, which is the current practice. The settlement's provisions are consistent with proposals set forth in Pacific's petition to modify D.91-02-018. The settlement also states that Centrex and PBX customers will be treated alike, consistent with D.90-10-064.

The following summarizes major elements of the settlement, which includes proposed tariff sheets:

1. INC will be "unbundled" to provide separate charges for installation, design, and maintenance. INC will be priced using Category II principles described in D.89-10-031.
2. Building owners (or designated agents) may opt to have nonutility providers install, design, or maintain INC. Building owners will be required to purchase INC and telephone companies will reduce rates to reflect decreased costs once ownership of INC, if currently in rates, is transferred to building owners.
3. The utilities will install or maintain INC as "vendor of last resort" where no alternatives exist, and utilities will also provide tariffed installation and maintenance services in competition with other providers where options do exist.
4. Recovery of embedded INC investment may be accomplished either by way of standard

depreciation expense recovery over the remaining life of the investment, or by way of accelerated depreciation over five years. At the end of the recovery period, the utility will relinquish ownership of the embedded INC to the building owner and will retire the investment from its books of account.

5. Comparability of treatment between PBX and Centrex customers is accomplished by moving the current demarcation points from the jack to the local loop demarcation point which is to be located at the point of entry to the facility.
6. Recovery of certain costs associated with implementation of settlement provisions, including accelerated depreciation expenses, would be accomplished by way of surcharge on all intrastate services.
7. New tariffs will go into effect 18 months after the issuance of a Commission decision and following consideration of costs and rates in Investigation (I.) 87-11-033 ("implementation rate design" for LECs). The 18-month period is needed to incorporate procedural changes and permit the building industry, building owners, and customers time to adjust to new policies and practices.
8. Revenues associated with the newly unbundled INC products will be credited to ratepayers by way of a billing surcredit on all intrastate services.
9. Utilities will notify the building industry, building owners, and customers regarding changes to current practices and policies. Notices will be made at several specified junctures between the time a Commission decision is issued and the implementation of the changes.
10. Pacific and GTEC will track marketing and financial activity for INC and inside wire services and provide the information to the Commission through 1995.

The parties to the settlement filed comments in support of the settlement. In their comments, the parties noted enactment of Senate Bill (SB) 841. SB 841 requires the lessor of a residential building to be responsible for installing and maintaining jacks and inside wiring. The law also requires each LEC to notify its residential customers of the legal changes enacted under the bill. In order to make the settlement consistent with SB 841, the parties amended the settlement to provide that the utilities will notify customers of the effects of SB 841. The amendment to the settlement, filed November 22, 1991, does not change other settlement provisions.

B. Comments of Parties Who Did Not Join in the Settlement

The Department of Defense and other Federal Executive Agencies (DOD/FEA) and several small LECs filed comments in opposition to certain elements of the settlement.

Citizens Utilities Company of California (Citizens) generally supports the settlement but objects to portions of the customer notification requirements as burdensome and unnecessary. Rather than requiring all LECs to notify customers and individual building owners and industry members, Citizens suggests LECs other than Pacific and GTEC be required to notify only their customers.

Similar comments on notification requirements were submitted jointly by several other small LECs (CP National, Evans Telephone Company, GTE West Coast Incorporated, Kerman Telephone Company, Sierra Telephone Company, Inc., The Siskiyou Telephone Company, and Tuolumne Telephone Company). These small LECs also object to the reporting and tracking requirements proposed by the settlement. They state providing such information would place an unreasonable burden on their resources and that the requirements are outside the scope of this proceeding.

DOD/FEA generally supports the settlement but objects to provisions which require that (1) there be a single local loop demarcation point for new continuous property, and (2) that no new

local loop demarcation points will be provided on existing continuous property unless the property owner pays for the necessary additional network cable and network facilities. DOD/FEA comments that a single demarcation point is not appropriate for a facility such as a military base which has such a diversity and number of customers. DOD/FEA urges the Commission to retain its previously stated policy that customers on military bases be treated as any other customers.

C. Discussion

We are generally pleased with the settlement presented in this proceeding. Outstanding issues on subjects relating to rate unbundling and demarcation points were particularly well suited to the settlement process because of their highly technical nature and because the parties to the proceeding agreed on the conceptual framework for developing new rules and tariffs.

The settlement promotes our objective of increased competition in the inside wire industry by clarifying technical definitions of utility facilities and by further unbundling utility services. Revenues derived from new charges for INC services are credited to ratepayers as a whole, thereby avoiding a windfall for the utilities. The settlement also includes an aggressive customer notification program.

Although most parties to the proceeding signed the settlement, several parties oppose certain of its elements. The small LECs object to the reporting and notification requirements on the basis that the requirements may be burdensome for them.

Information provided pursuant to the settlement's reporting requirements will assist us in monitoring the progress of existing policy. However, we do not believe such information from small LECs will prove very useful because those companies have small customer bases and are less likely than the large companies to face competition in providing inside wire services. We will

not adopt provisions of the settlement which establish new reporting requirements for LECs other than Pacific and GTEC.

The notification requirements may also prove unnecessarily burdensome for the small LECs. We believe it is unnecessary for the small LECs to notify all building owners and members of the construction industry. It is reasonable that they be required to notify their customers of changes in regulatory and pricing policies adopted in this decision. In order to facilitate the spread of information among property owners and the construction industry, we will also require the small LECs to notify local building trade associations and property management associations in their territories of these changes.

Finally, we address the concerns of DOD/FEA. DOD/FEA requests that customers on military bases be considered like other residential customers for purposes of inside wire policy. DRA and Pacific oppose this treatment, arguing that military housing is located on continuous property which requires more complex cabling arrangements. According to DRA and Pacific, ownership and control of the entire property by a single owner create relationships between the owner and the serving telephone company which differ from those in residential neighborhoods. We agree with Pacific and DRA that military housing complexes are comparable to dormitories on college campuses and large apartment complexes. We decline to carve out a special classification for military housing projects at this time. Property with similar characteristics should be subject to the same rules. We will adopt the settlement provisions for continuous property.

By declining to adopt certain notification and reporting requirements proposed in the settlement, we are technically rejecting the settlement as a package. We are, however, adopting all elements of the settlement to which there is no opposition. We are also adopting one settlement provision which is opposed by DOD/FEA. No party has requested hearings on any issues raised by

the settlement, and we therefore believe it reasonable to issue this decision without hearings and on the basis of the parties' comments. We also believe the exceptions we make to the settlement are minor and do not appreciably depart from the basic intent of the settling parties.

With the minor changes noted above for reporting and notification procedures for small LECs, we will adopt the provisions of settlement.

IV. Request of UCAN and TURN for an Independent Study

On July 8, 1991, TURN and UCAN filed a joint statement asking the Commission to undertake an independent study of the effects of inside wire policies on customers. TURN and UCAN believe that detariffing of inside wire has not been successful from the standpoint of small customers and argue that an assessment of Commission policy is appropriate at this time.

Pacific, GTEC, and DRA filed comments to the proposal offered by TURN and UCAN. DRA supports the proposal to undertake a study. Pacific does not object to the study, although it objects to some of the characterizations in the proposal regarding LECs' activities and potential problems. GTEC believes the study would be a waste of time and effort.

We share the concerns of TURN and UCAN about the competitiveness of the market and customer education. At this point, however, we are not sure that an extensive study is necessary. The notification requirements of the settlement adopted today will further inform customers of their rights and obligations. Concerns over the competitiveness of utility inside wire rates and charges will be addressed in the rate design proceeding in I.87-11-033.

On the other hand, several years have passed since inside wire was detariffed, and it is reasonable to undertake some

monitoring of customer response. In order to assure ourselves that customers are reasonably well informed, we will direct the Commission Advisory and Compliance Division (CACD) to manage a limited consultant study, to be funded by Pacific and GTEC, which would explore whether residential and simple business customers are informed about existing inside wire policy. This study may consider similar studies undertaken by other groups, such as UCAN, and should be submitted by December 31, 1992 to the assigned administrative law judge and served on parties in OII 84 who request copies. Following completion of the study, we will consider whether further action is warranted.

V. UCAN's Request for a Finding of Eligibility

Pursuant to Rule 76.51 et seq. of the Commission's Rules of Practice and Procedure, UCAN filed a request for finding of eligibility to receive intervenor funding in this part of this proceeding.

Rule 76.54 sets forth four requirements that must be addressed in an eligibility filing:

1. A showing by the intervenor that participation in the hearing or proceeding would pose a significant financial hardship;
2. A statement of issues that the intervenor would address;
3. An estimate of the compensation that will be sought;
4. A budget for the intervenor's presentation.

UCAN states that it has already been found to have met its burden of showing financial hardship during 1990 in D.90-09-073 and during 1991 in D.91-06-010. It states it has already raised questions about pricing and service policies, including the

propriety of Pacific's maintenance of service charge. UCAN expects to request approximately \$20,000 - \$30,000 for time and costs associated with participating in inside wire workshops, an amount which would increase if further hearings were to be held. Its estimate is based upon attorney time at an hourly rate of \$160 plus travel costs to San Francisco.

UCAN has fulfilled the basic requirements of Rule 76.54. We will find UCAN eligible for intervenor funding in this proceeding for its participation on subjects related to inside wire.

Findings of Fact

1. D.91-02-018 inadvertently failed to distinguish between riser cable, or INC, and inside wire. The two are different from the standpoint of regulatory treatment by the FCC and the Commission.

2. D.91-02-018 is inconsistent with D.90-10-064 insofar as it directs Pacific to treat residential and existing buildings differently from new and commercial buildings for purposes of installing and maintaining riser cable.

3. The settlement filed in this proceeding addresses outstanding issues related to demarcation points and unbundling of riser cable or INC.

4. The settlement filed in this proceeding sets forth rules and policies which promote Commission objectives of increasing competition in markets for inside wire installation and maintenance, and also promotes competition in markets for installing and maintaining INC.

5. The settlement filed in this proceeding sets forth policy which institutes new rates and charges for INC while precluding the opportunity for the LECs to receive a windfall from associated new revenues.

6. The reporting and notification requirements of the settlement, as they apply to LECs other than Pacific and GTEC, would impose an unnecessary burden on small LECs.

7. Military housing projects are comparable to other residential properties, such as college dormitories, from the standpoint of property ownership and facilities arrangements.

8. The Commission has not undertaken any studies of whether residential and simple business customers are well informed about inside wire policy which affects them.

9. UCAN filed a request for finding of eligibility to receive intervenor funding on June 7, 1991.

10. In D.90-09-073, the Commission found that UCAN had demonstrated financial hardship for participation during 1990. In D.91-06-010, the Commission found that UCAN had demonstrated financial hardship for participation during 1991.

Conclusions of Law

1. The Commission should grant Pacific's petition to modify D.91-02-018 as set forth herein.

2. Regulation of riser cable installations and maintenance should be the same for residential and existing buildings, and new and commercial buildings, as set forth in D.90-10-064.

3. D.91-02-018 should be modified to permit consideration of unbundling of riser cable, or INC, for all types of multiunit buildings.

4. The Commission should adopt the provisions of the settlement attached as Appendix A to this decision with the exceptions that (1) LECs other than Pacific and GTEC should be required to notify only their customers and local building trade associations and property management associations of the changes adopted herein, and (2) LECs other than Pacific and GTEC should not be subject to any new reporting requirements listed in the settlement.

5. The Commission should direct CACD to manage a limited consultant study, to be funded by Pacific and GTEC, of whether residential and simple business customers are well informed about changes in inside wire policies which affect them.

6. The Commission should find that UCAN is eligible for intervenor funding in this proceeding on subjects related to inside wire.

ORDER

IT IS ORDERED that:

1. Pacific Bell's (Pacific) petition to modify Decision (D.) 91-02-018 should be granted as set forth herein.

2. Conclusion of Law 2 in D.91-02-018 is modified as follows:

"The Commission should reopen this proceeding for the purpose of determining whether charges for riser cable (intrabuilding network cable) should be unbundled for all types and ages of multiunit buildings and for determining whether the demarcation point for most services in such buildings should be changed."

3. The provisions of the settlement filed in this proceeding and attached as Appendix A to this decision are adopted with the following exceptions:

Local exchange companies other than Pacific and GTE of California, Inc. (GTEC) shall not be subject to new reporting requirements set forth in Section XIV B and Section XIV D of the settlement; and

Local exchange companies other than Pacific and GTEC shall not be required to notify all members of the building industry or all building owners of changes adopted in this decision, as set forth in Section XII of the settlement, but shall notify all customers and local building trade associations and property management associations of changes adopted in this decision. The notification procedures for

these customers and trade associations shall be those set forth in the settlement.

4. Utility Consumers Action Network is eligible for intervenor funding in this proceeding pursuant to Rule 76.51 et seq.

5. The Executive Director shall direct the Commission Advisory and Compliance Division to manage a limited consultant study of whether and the extent to which residential and simple business customers are aware of inside wire policy as it affects them. The study shall be funded by Pacific and GTEC. The study shall be submitted no later than December 31, 1992 to the assigned administrative law judge and served on all parties to OII 84 who request copies.

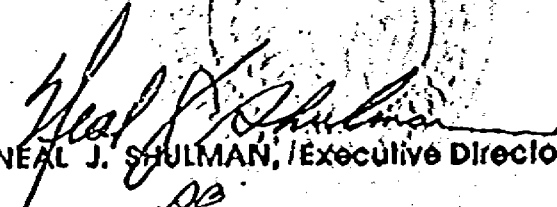
This order becomes effective 30 days from today.

Dated January 10, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President

JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

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


NEAL J. SHULMAN, Executive Director

APPENDIX A
SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT for the Unbundling of Intrabuilding Network Cable and Network Terminating Wire, and setting a Statewide Policy for the Location of Demarcation Points, is entered into this 16th day of October, 1991, between the undersigned parties, and is as follows:

I.A. PROCEDURAL BACKGROUND

A. The FCC Demarcation Point Order

On June 14, 1990, the Federal Communications Commission ("FCC") released a Report and Order and Further Notice of Proposed Rulemaking, in CC Docket No. 88-57 ("FCC Order") which established a new demarcation point definition for telephone companies. Under this definition, telephone companies have two demarcation point options for new and modified multi-unit buildings. Under option one, a telephone utility may adopt a practice of placing the demarcation point at the minimum point of entry. The minimum point of entry may be either (1) the closest practicable point to where the wiring crosses the property line or (2) the closest practicable point to where the wiring enters a multi-unit building or buildings. Under the second option, where the telephone utility does not adopt a practice of placing the demarcation point at the minimum point of entry, the owner of the multi-unit building may determine the location of the demarcation point or points. (47 CFR Sec. 68.3 (Part 68.3))

B. The Commission's October Demarcation Point Policy Decision

In D.90-10-064, the Commission ordered the utilities to amend their tariffs to effect the following demarcation point policies:

1. The minimum point of presence for all new and fully renovated buildings, whether residential or commercial, shall be at the distribution terminal on each floor of any such multi-floor, single and multi-tenant building for all services provided by local exchange companies, except as provided in other rules.
2. The utilities shall install and maintain riser cable or wire in new and fully renovated buildings except where customers or building owners provide their own cable or wire. Customers and building owners who install their own cable will be responsible for its repair and maintenance.
3. For purposes of establishing demarcation points, Centrex customers and PBX customers shall be treated alike.
4. The utilities may negotiate demarcation points with building owners and customers where unusual circumstances exist.
5. The utilities shall be responsible for IWM in cases where the utilities provide customer premises equipment, such as 911 services, coin telephone services, and non-modular services for the disabled.

In effect, D.90-10-064 requires the utilities to adopt a practice of placing the demarcation point for all new and fully renovated multi-floor buildings at the distribution terminal on each floor of such buildings, not at the minimum point of entry as defined by the FCC's Part 68.3. Thus, D.90-10-064 creates a

dilemma by requiring the utilities to adopt a demarcation point practice different from the practice which telephone companies may adopt as option one of the FCC Order. According to the FCC Order, if the telephone companies do not have a practice of placing the demarcation point at the FCC-defined minimum point of entry, the building owner may choose the demarcation point or points, which logically would be further inside the building than the FCC-defined minimum point of entry. In contrast, D.90-10-064 requires the utilities to provide riser cable unless the customers or building owners provide their own. Where the customer or building owner provides their own riser cable, the demarcation point would most likely be at the FCC's minimum point of entry, not further inside the building.

C. Pacific Bell's Emergency Petition

On December 20, 1990, Pacific Bell filed an Emergency Petition for Modification of D.90-10-064 pointing out the dilemma created by the FCC Order and D.90-10-064. Pacific's Petition explained that this dilemma could be resolved if Pacific were allowed to unbundle and tariff, as a Category II service, the installation, design and maintenance of riser cable. Pacific's Petition described many of the benefits which would flow from such unbundling. These include the opening to competition of a broader market for riser cable and the ability to ensure that PBX and Centrex customers are treated alike for demarcation point

purposes. (See Section I.B, below.) The Petition also noted that the unbundling of riser cable would allow Pacific to comply with option one of the FCC Order by designating the point where riser cable begins as the FCC's minimum point of entry.

On December 31, 1990, and January 18, 1991, the Commission's Division of Ratepayer Advocates ("DRA") filed Comments and Further Comments, respectively, in support of Pacific's Petition. No party filed comments in opposition to Pacific's Petition.

D. The Commission's February Demarcation Point Decision

In D.91-02-018, the Commission denied Pacific's Petition (which had also sought an extension of time in which to comply with the tariff filing order in D.90-10-064). However, in that same decision, the Commission recognized an inconsistency within D.90-10-064 regarding the requirement to treat Centrex customers and PBX customers alike. To resolve this inconsistency, the Commission determined it would be appropriate to hold hearings to consider whether riser cable should be unbundled.

On March 19, 1991, a prehearing conference was held to consider testimony and hearing dates on the riser cable proposal. Several parties indicated a desire to hold settlement discussions on this issue. The Administrative Law Judge issued a Ruling on March 21, 1991, suspending testimony and hearing dates

to allow the parties to proceed with settlement discussions regarding the unbundling of riser cable.

E. Pacific's Petition to Modify D.91-02-018

On March 28, 1991, Pacific filed a Petition to Modify D.91-02-018 which (1) explains the difference between riser cable and inside wire, (2) explains that the proposal to unbundle riser cable would apply to all intrabuilding network cable ("INC"), (3) seeks a modification of D.91-02-018 to allow consideration of the unbundling of INC for residential and existing buildings; and (4) explains that the proposal to unbundle INC is not a proposal to either deregulate INC or to change the demarcation point policy set forth in D.90-10-064, i.e., that, where the utility provides the INC, the minimum point of presence should be at the distribution terminal on the floor of multi-floor buildings.

On April 29, 1991, and April 30, 1991, respectively, DRA and GTE California Incorporated ("GTEC") filed comments in general support of Pacific's Petition, but each raised additional points to be considered. These points are addressed in the Settlement Agreement.

F. Settlement Discussions

Since March 27, 1991, thirteen informal settlement meetings and three prehearing conferences have taken place with the final meeting on September 12, 1991. The parties attending

these informal meetings include AT&T; Beck, Young, French & Ackerman, Building Owners and Managers Association of California; Citizens Utilities Company of California; Contel Telephone Company, County of Los Angeles; Division of Ratepayer Advocates of the CPUC; FEA/DOD; GTEC; Graham & James representing California Payphone Association; Moss Adams attending on behalf of certain smaller local exchange carriers; TURN; Roseville Telephone Company and Pacific Bell.

In addition to these informal meetings, there have been numerous conference calls between the parties to clarify and discuss concerns and ad hoc subcommittee meetings to discuss issues around technical standards and COPT services. During this period of time, Pacific also conducted several tours to inspect its current demarcation location in mixed-use buildings, commercial buildings and at payphone locations (both utility public and semi-public services and COPT).

During these meetings, there were extensive and in-depth discussions on the demarcation point policy as well as Pacific's proposal to unbundle INC and NTW. The parties have addressed and agreed to the treatment of embedded and new INC and NTW, the treatment of PBX and Centrex, a statewide policy for the location of the demarcation point, changes in customer services and the equitable treatment of customers making those changes, a statewide definition of continuous property, standards for INC that will become the building owner's responsibility and a myriad

of implementation problems. Notification of these changes to three separate customers bases have been discussed and agreed to. The parties have also agreed that the utilities will need 18 months to fully implement these changes.

This document reflects the consensus reached at these meetings.

I.B. THE BENEFITS OF UNBUNDLING INTRABUILDING NETWORK CABLE

The parties agree that the following benefits will flow from the proposal to unbundle intrabuilding network cable ("INC"), as such unbundling is described in this Settlement Agreement.

A. Promote Competition in the Market for Customer-Provided INC.

Today, the telephone utilities will design and install INC for no separate charge in most buildings. However, there are certain situations where the building owners provide their own telephone building cable. This is the case for multi-floor, multi-unit residential buildings in Pacific's territory, as Pacific had not been providing INC in such buildings based on Pacific's interpretation of the Commission's decisions relating to simple inside wire. This is also the case for single-tenant multi-floor buildings in GTEC's territory, since GTEC does not install INC in such buildings. Also, many building owners, for various reasons, prefer to install their own building cable. One reason may be the efficiency of installing the telephone cable at

the same time the electrical wire is installed. Another reason may be the desire to install facilities different from what the telephone company would normally install, such as fiber, rather than copper, or facilities to support a PBX installation.

Thus, today there are and have been opportunities for other vendors to offer services to building owners to design and install riser and lateral telephone cable in buildings. However, the parties recognize that it is not truly a competitive situation when the utility installs such cable for no extra charge.

This situation would clearly change if the utilities were allowed to charge separately to install and maintain INC. Vendors would have a greater opportunity to compete, and building owners will have more options available to them. The parties agree that one reason it is appropriate to unbundle and tariff services for the installation, design and maintenance of INC is to encourage the development of competition in this area.

B. Residential and Commercial Building Owners Will Be Given The Same Opportunities to Choose INC Vendors.

In D.91-02-018, the Commission stated it would not consider the unbundling of riser cable for multi-unit residential buildings. As Pacific explained in its Petition to Modify D.91-02-018, such a result would create inequities and would be inconsistent with D.90-10-064. The parties agree that it does not make sense to distinguish between owners of residential buildings and commercial buildings for the purposes of providing

riser cable. So long as the building owner is willing to pay the utilities for the installation and/or maintenance of riser cable, the utilities will provide and/or maintain the riser cable and thus, in a sense, be the vendors of "last resort."

Thus, an essential component of the unbundling proposal agreed to by the parties in this Settlement Agreement is that the unbundled offering of installation, design and maintenance of INC would apply to all types of buildings where INC is required.

C. PBX Customers and Centrex Customers Will Be Treated Alike for Demarcation Point Purposes.

The parties agree that to implement the proposal to unbundle INC, it is necessary to define three demarcation point locations: the Local Loop Demarcation Point ("LLDP"), the INC Demarcation Point and the Inside Wire Demarcation Point. (These Points are more fully described in Section IV, below.) The Local Loop Demarcation Point and the INC Demarcation Point define the beginning and end of the INC and are applicable to both Centrex and PBX services. The wire pairs in INC can be used for both PBX intrasystem wire and Centrex line purposes. Thus, for demarcation point purposes, customers of these services would be treated alike.

II. CURRENT DEFINITIONS OF INTRABUILDING NETWORK CABLE, NETWORK TERMINATION WIRE, SIMPLE INSIDE WIRE AND COMPLEX INSIDE WIRE

The parties agree that the following definitions of intrabuilding network cable, network terminating wire, simple

inside wire and complex inside wire accurately describe the current status of the cable and wire addressed, directly or indirectly, by this Settlement Agreement.

A. Utility-owned Intrabuilding Network Cable ("INC")

1. Definition and Function: INC consists of sheathed cables located on utility's side of the current demarcation point inside buildings or between buildings on one customer's continuous property. INC may be vertical (riser) or horizontal (lateral). INC is not service specific.
2. Accounting Treatment: INC is booked to Part 32 capital account 2426 and expense account 6426.
3. Current Regulatory Treatment: INC is regulated, but there is no specific tariff offering. Thus, it is considered "bundled" with other regulated services.
4. How Offered Today: Maintenance and installation of INC are provided by the utilities for no specific additional charge. The utility owns the investment.
5. Other Commonly Used Names for INC: Riser, Black sheath, lateral, C-6, 32C, "just cable"

B. Utility-owned Network Terminating Wire ("NTW")

1. Definition and Function: NTW is the wire between the distribution terminal on the floor and the network interface (utility-provided jack), and serves Centrex, PBX and private line services. NTW also includes wire that connects the building entrance terminal to the utility-placed network access termination. This wire connection is called a "cross-connect".
2. Accounting Treatment: NTW is booked to Part 32 expense account 6362.
3. Current Regulatory Treatment: NTW is regulated, but there is no specific tariff offering, except as may be found in some utility's Centrex (or Centranet) tariffs. Thus, it is considered "bundled" with certain other regulated services.

4. How Offered Today: Except for Pacific's Centrex service, there is no additional charge to install and maintain NTW. The utilities currently own NTW.

5. Other Commonly Used Names for NTW: grey cable

C. Simple Inside Wire (IW)

1. Definition and Function: Simple inside wire (IW) refers to all non-system premises telephone wiring, as defined in Part 68*, including the associated jacks, on the customer's side of the current demarcation point, whether owned and installed by the customer or premises owner, or their agent, or previously installed and maintained by the utility under tariff. Simple IW does not include customer premises equipment.
2. Accounting Treatment: Simple IW is booked to Part 32 expense account 6362.
3. Current Regulatory Treatment: The maintenance of simple IW is tariffed and priced as a Category II service pursuant to D.90-06-069. The installation of simple IW is not tariffed and is priced as a Category III service. (D.89-10-031) Both installation and maintenance of simple IW are treated above-the-line for intrastate ratemaking purposes pursuant to D.86-12-099 and Publ.Util.Code Section 461.2.
4. How Offered Today: Maintenance is offered pursuant to tariff with two payment options (monthly or per visit). Installation is not tariffed and is offered on a time and materials basis. The utility does not retain ownership. Customers may provide and maintain simple IW.
5. Other Commonly Used Names for Simple IW: grey cable

* All references to Part 68 are to the FCC's Rules and Regulations contained in 47 CFR Sec. 68 et seq.

D. Complex Inside Wire (Intrasystem Wire)

1. Definition and Function: Complex inside wire or intrasystem wire connects station components to each other or to common equipment of a PBX or key system. Part 68.215 governs connection of complex wire to the telephone network.
2. Accounting Treatment: Complex inside wire is booked to Part 32 expense account 6362.
3. Current Regulatory Treatment: Complex inside wire is deregulated and detariffed. It is treated below-the-line for both intra- and interstate purposes.
4. How Offered Today: The maintenance and installation of complex inside wire is offered by the utilities as a deregulated, detariffed activity. The utility does not retain ownership. Customers may provide and maintain their own complex inside wire.
5. Other Commonly Used Names for Complex Inside Wire: intrasystem wiring

III. DESCRIPTIONS OF BUILDING TYPES, CONTINUOUS PROPERTY AND OWNERSHIP

The parties agree that the following descriptions of Building Types, Building Usage, Continuous Property and Ownership are applicable to the proposal to unbundle INC and NTW as described in Section V, below. The parties further agree that the unbundling of INC does not apply to buildings that do not contain INC.

The parties also agree that the date which determines whether a building is new, existing or fully renovated will be the effective date of the implementation of the unbundling of INC and NTW, which date shall not be earlier than the effective date

of the tariffs ordered to be filed in connection with the Implementation Rate Design proceeding in I.87-11-033. (See Section X, below).

"Fully Renovated Buildings" are those buildings in which internal wall coverings and existing telephone wiring and/or cable are removed in connection with renovations requiring a building permit. The effective date for determining "fully renovated" status is the date of the Notice of Occupancy issued by the appropriate local agencies.

A. Building Types

1. Single story: A building with one floor or level.
2. Multi-story: A building with more than one floor or level.
3. Multi-unit: A building that has multiple tenants.

B. Building Usage

1. Residential

- (a) Single Family: Multi-story or Single Story, but not Multi-unit. A dwelling entirely occupied by one family or individuals functioning as one domestic household. Private garages, caretakers' quarters, and other locations such as private laundries, patios, garden houses, and private swimming pools that are part of the family's domestic establishment and used as part of the single family residence are considered part of the premises where located on the same continuous property.
- (b) Multi-Family: Multi-unit and Multi-story or Single Story. A dwelling occupied by more than one family or more than one individual functioning as one domestic household.

Examples include apartments, condominiums, town houses, and duplexes.

2. Commercial

(a) Single Tenant Commercial: Multi-story or Single Story, but not Multi-unit. A building entirely occupied by one business customer.

(b) Multi-Tenant Commercial: Multi-unit and Multi-story or Single Story. A building occupied by more than one business customer.

3. Mixed Residential and Commercial: Multi-unit and Multi-story or Single Story. A building occupied by both residential and business customers.

C. Continuous Property is a property wholly owned or leased by a single entity which contains or will contain multiple buildings where all portions of the property may be served without crossing a public thoroughfare or the property of another. There are three basic types of Continuous Properties.

1. Single-tenant commercial in which one owner or tenant occupies all buildings.
2. Commercial and residential (e.g., colleges, military installations) in which a mixture of business and residential uses exists.
3. Multi-tenant commercial and/or residential in which several tenants occupy building individually on a per-floor or per-section basis.

D. Ownership

1. Building Owner/Landlord/Agent: Individual or entity that holds legal title to a property and/or the agent of either.
2. Tenant: One who rents, leases, or subleases from a Building Owner/Landlord.

IV. PROPOSED LOCATIONS OF DEMARCATION POINTS

The parties agree that a critical element of the unbundling of INC and NTW is an understanding of the location of the different points of demarcation for various purposes. The parties agree to the following definitions of these different points of demarcation. Illustrative diagrams of the demarcation points are appended as Attachment A to this Agreement. The utilities agree to reflect these demarcation point concepts in their proposed tariffs as appropriate. The proposed tariffs of Pacific and GTEC are appended as Attachment B to the Settlement Agreement.* The other utilities will file similar tariffs within 15 months after the effective date of the Commission's order approving the Settlement Agreement. Such tariffs shall only become effective upon approval by Commission resolution action. For the purposes of this Settlement Agreement, the reference to the local loop is to the utility's network facilities.

* No party, other than DRA, discussed or shared with respective utilities the development of the terms and conditions and prices in these tariffs prior to the conference convened pursuant to the Commissions' Rules of Practice and Procedure, Section 51.1.(b).

A. The Local Loop Demarcation Point

1. The purpose of the Local Loop Demarcation Point is to separate the responsibility of the utility from the responsibility of the building owner/customer by
 - a. designating the end of the local loop or end of the network facility and by
 - b. defining the beginning of the INC, if any, provided by the building owner.
2. The Local Loop Demarcation Point may also be referred to as the Minimum Point of Entry ("MPOE") or Minimum Point of Presence ("MPOP") for the purpose of defining the end of the network facilities provided by the utility.
3. The Local Loop Demarcation Point will be located at the point of entry at the entrance facility, except as set forth in Section VIII, below. Utilities will not be required to place LLDPs on more than one floor in a multi-story building.

B. The INC Demarcation Point

1. The purpose of the INC Demarcation Point is to separate the responsibility of the commercial building owner for providing INC from the responsibility of the end user (subscriber's) in commercial buildings for providing IW, jacks, and customer premises equipment by
 - a. designating the end of the INC provided by the building owner and by
 - b. defining the beginning of simple or complex IW.
 - c. Where there is no INC, the demarcation point is at the Local Loop Demarcation Point.
2. The INC Demarcation Point will be located at the distribution terminal(s) on each floor, except as set forth in Section IV.B.1.c., above and in Section VIII, below.
3. In residential buildings the building owner is responsible for providing INC. Additionally, the building owner is responsible for complying with Section 1941.4 of the Civil Code, including the installing of at least one usable jack and for placing and maintaining the inside wiring in compliance with National Electrical Code standards.

- C. The Inside Wire Demarcation Point is located at the point where customer premises equipment ("CPE") is connected to the inside wire.

1. The purpose of the Inside Wire Demarcation Point is to separate the responsibility of the IW vendor from the responsibility of the CPE vendor by
 - a. designating the end of the IW and by
 - b. defining the beginning of the CPE facility.

D. Location of Demarcation Points on Continuous Property.

1. For new continuous property, regardless of type of use, the location of the Local Loop Demarcation Point will be at the appropriate main distribution terminal as determined by negotiations between the utility and the property owner. Where no agreement can be reached, the utility will designate the location of the Local Loop Demarcation Point. The customer must provide adequate termination facilities in accordance with the tariff. The tariff will set forth the utility's rights in the event the property owner does not provide such adequate termination facilities.
2. For existing continuous property, the utility will designate the main distribution terminal which is the Local Loop Demarcation Point, for each local loop serving the property, for purposes of the unbundling of INC in each building.
3. If a continuous property owner desires additional Local Loop Demarcation Points or changes in existing Local Loop Demarcation Points, the owner will be required to pay for the additional network cable and network facilities required to install the additional Local Loop Demarcation Points through special construction agreements in accordance with the utility's special construction rules in the utility's exchange tariffs, except as provided in Section VIII.C.3, below. The utilities' tariffs will specify under what conditions additional Local Loop Demarcation Points will be allowed. In particular, additional Local Loop Demarcation Points cannot be used to extend any cable pairs served from any LLDP from one location to another location.
4. The INC Demarcation Points and Inside Wire Demarcation Points are as described in Section IV.B and C, above.

V. DESCRIPTION OF HOW INC WOULD BE UNBUNDLED**A. Tariffs**

The parties agree that the utilities shall file tariffs which reflect the "unbundling" of the installation, design and maintenance of INC. These tariffs will not become effective until the effective date described in Section X, below.

The INC tariffs will be priced using Category II pricing principles as described in D.89-10-031. The tariffs will offer options for either utility-provided INC or customer-owned/provided cable as follows: Installation, design and maintenance of INC will be available for all types of buildings; the utilities agree they will not charge recurring rates to recover costs of embedded INC in existing buildings. (See Section V.B., below); the customer under the INC tariffs will be the building owner/landlord/agent who is not necessarily the subscriber to any particular utility network service.

For new INC installed by the utility in all types of buildings, the utility's tariffs shall require the purchase of INC by the building owner. In addition, where there are no other vendors available for the installation and/or maintenance of INC, such as may be the case in rural areas, the utility will install and/or maintain INC as the "vendor of last resort," provided the building owner pays for such installation and/or maintenance in accordance with the tariff provisions. The tariffs will set

forth explicit enforcement mechanisms to ensure collection by the utility for INC from the building owner.

The INC tariffs will specify that the INC owned by the building owner is subject to the following: (1) the utility is granted the right of access to such cable and the right to use pairs in such cable without charge to enable the utility to provide and maintain those utility network services where the Local Loop Demarcation point is at the INC Demarcation Point or the CPE. (See Sections IV, above, and VIII, below), and (2) such cable conforms to specified technical standards, set forth in Attachment C to this Agreement, for installation, type of cable, equipment, maintenance and design. If the building owner does not allow the utility to use sufficient pairs in customer-owned/provided cable without charge, or does not request that the utility install the necessary cable to serve the utility's subscribers, the utility will not provide network services over the building owner's INC to reach such subscribers. The INC tariffs will set forth the notice requirements between the utility and the building owner/property manager regarding the utility's need to access the customer-owned/provided cable and the availability of pairs in such cable.

The INC tariffs will also state that building owners will be responsible for maintenance of INC in new, fully renovated and existing buildings and that the INC must be

maintained to ensure that the INC meets tariffed technical standards.

The INC tariffs will clearly set out the limits of the utility's liability so that building owners may clarify their scope of liability to their tenants.

B. Recovery of Embedded INC Investment

The parties agree that there are two elements of costs to be unbundled from the local loop. They are (1) the embedded INC investment and (2) INC expense. The parties further agree that recovery of the embedded INC investment as of the implementation date of the INC tariffs can be accomplished either via a continuation of standard depreciation expense recovery over the remaining life of the investment, or via an accelerated recovery of the embedded investment over five years (the amortization). The purpose of the amortization is to accelerate equivalent treatment between building owners with embedded INC and building owners with new INC.

The utility will relinquish ownership of the embedded INC to the building owner upon full recovery of the utility's capital investment. The building owner will assume responsibility for all maintenance of the INC in accordance with the utility's INC tariffs and technical standards immediately upon the implementation date of the utility's INC tariffs. (See Section V.A., above).

The utility will provide to the building owner, upon request and for a tariffed charge, INC charts or diagrams as may be in existence. The utility will not be required to engage in any extraordinary efforts to create or locate charts or diagrams that cannot be readily identified from presently existing records.

The parties agree that the amortization expense associated with the embedded INC investment will be recorded in Account 6561, Depreciation Expense and Account 3100.47, Depreciation Reserve. When the INC is fully amortized, the utility shall retire the investment from its books of account in accordance with the utility's normal accounting procedures.

VI. DESCRIPTION OF HOW NTW WOULD BE UNBUNDLED

The creation of the INC Demarcation Point means that certain NTW must be treated as IW. NTW which becomes IW must also be unbundled from the local loop. The parties agree to expand the unbundling of the NTW to existing buildings, as well as new and fully-renovated buildings. Such IW expense will also be booked into Account 6362.

All other wire accounted for as NTW is not affected by the INC Demarcation Point and will remain the utility's responsibility. This NTW is that wire referred to in Section 11.B.1. as "cross-connects" at a building entrance terminal.

Such NTW will remain in Account 6362 and continue to be treated as part of the utility's network.

The utilities agree to amend their tariffs as appropriate to reflect that the unbundled NTW (including existing NTW) will become inside wire (IW), either simple IW or complex IW. The implementation date of the unbundling of NTW will be the same date as the implementation date of the unbundling INC for all building types: new, fully renovated and existing. Services affected by the unbundling of NTW due to the move of the demarcation point from the jack to the INC Demarcation Point (see Section IV, above) will be provided and maintained, as of the implementation date, by treating the wire that was formerly NTW as IW. Thus, where the NTW becomes simple IW, maintenance is covered by the simple IWM Category II tariffs and is treated above-the-line. Installation of simple IW is not tariffed and is treated above-the-line, Category III. Where the NTW becomes complex IW, installation and maintenance are not tariffed and are treated below-the-line, Category III. As currently the case with respect to IW, customers may provide and maintain their own IW.

VII. ACCESS TO THE NETWORK

The parties agree that the utility's tariffs should address the customer's and/or building owner's rights and

obligations regarding access to the network in accordance with the policies set forth in various orders of the Federal Communications Commission. The following is a summary of such policies.

- A. Responsibility for the protector (and its associated grounding) on the network side of the Local Loop Demarcation Point rests with the utility. The customer or building owner is responsible for consequences resulting from erroneous wiring or cabling procedures conducted under his or her direction on the INC or IW.
- B. Connection of wiring and terminal equipment to the telephone network for both simple and complex wire shall be in accordance with FCC Section 68.215 and shall be through a telephone company provided jack or its equivalent conforming to Subpart F, in such a manner as to allow for easy installation and disconnection.

VIII. EFFECT ON SPECIFIC SERVICES

The parties agree that INC is neutral with respect to the type of network service which is delivered over the pairs of wire within the INC cable sheath. Thus, for all buildings and continuous property, INC may be used for most wireline telecommunications services. The following is a brief description of how certain services will be affected by the unbundling of INC and NTW and where the Demarcation Points will be located for these services.

- A. Centrex - The current demarcation point moves from the RJ11 or RJ21 jack (or equivalent) to the Local Loop Demarcation Point, as defined in Section IV, above. (See Attachment A)

B. PBX - The current demarcation point moves from the RJ21 Jack (or equivalent) to the Local Loop Demarcation Point, as defined in Section IV, above. (See Attachment A)

1. This new rule requires an interpretation of Part 68 so that "50 foot rule" does not apply.
2. A PBX customer may arrange with the building owner to use INC for intrasystem wiring.

C. Coin Phones

1. Public, Semi-Public: The Local Loop Demarcation Point will remain at the set. This rule recognizes the fact that currently public phones and semi-public phones are explicitly not covered by Part 68 rules and thus are considered to be part of the network. Should this classification of public phones and/or semi-public phones change, the location of the demarcation points for the purposes of the treatment of the wire and cable to these phones will be revisited by the utilities within a reasonable time after such change is ordered by the FCC.
2. Customer-Owned Pay Phones (COPT): The current demarcation point moves to the Local Loop Demarcation Point, as defined in Section IV, above. However, this Settlement Agreement would neither bar nor require development of a different demarcation point in connection with a "Coin-COPT line service", if such a service is introduced.
3. Aerial Drops to Perimeter of Property: An aerial drop from an existing pole to serve a payphone located at or near the perimeter of a property shall be permitted as an additional Local Loop Demarcation Point. For private payphones, the cost for such an aerial drop shall be covered by the non-recurring installation charge.

D. Private Lines/Special Access - The current demarcation point moves from the FCC registered jack to the Local Loop Demarcation Point, as defined in Section IV, above.

E. Exchange Services - Business/Residence (including Universal Lifeline Telephone Service (ULTS)) - The

demarcation point is at the Local Loop Demarcation Point, as defined in Section IV, above.

- F. 911 - The Local Loop Demarcation Point will remain at the equipment for all new and existing E911/911 services.
- G. Non-Modular Disabled Services - Where non-modular CPE is provided by utility in accordance with FCC rules, the CPE is the Local Loop Demarcation Point.
- H. Emergency Service to Government Facilities: Nothing in this Settlement Agreement shall be construed as a restriction on the provision of service to government entities under emergency conditions as authorized by General Order 96-A.

IX. IMPLEMENTATION COSTS

The parties agree that certain costs to implement this Settlement Agreement and the Commission's Decision in this matter should be recovered through the tariffed prices for the Intrabuilding Network Cable and the Simple Inside Wire products. However, certain other costs of implementation are generated by regulatory requirements. These costs should be recovered as described in Section X, G.

These implementation costs will be incurred to make internal changes to the utilities' normal business procedures as well as prepare the utilities' customers for the changes. Product specific costs will be borne by the product. Implementation costs directly related to the change in regulatory requirements will be recovered through the surcharge/surcredit mechanism described in Section X following.

The following is a general description of the various activities that must be undertaken to accomplish this Settlement Agreement. This list is not exhaustive of all activities. It defines five categories of activities directly related to implementation activities resulting from a change in regulatory requirements.

Operations is responsible for field forces which install and maintain the utilities' investments and products. This category includes costs for revising methods and procedures, printing of job aides and training employees. Many of these employees have direct customer contact and must be fully aware of these changes.

Engineering is responsible for the technical design of all services including INC and IW. Costs in this category include changes to methods and procedures, training and the publishing of technical specifications and requirements. These employees also have direct customer contact and must be able to respond to our customers when asked about changes in the demarcation point location.

Marketing is responsible for developing products and services and ensuring these are delivered to customers. Included in Marketing are the service representatives who deal with customers' questions and concerns. These costs include revisions to methods and procedures as well as training of all marketing employees. Marketing employees must be trained on the new

demarcation point policies which affect all loop based services. These are costs directly related to the change in regulatory requirements, and are separate from product marketing costs, which will be recovered through established ratemaking processes for Category II products and services.

Communications is responsible for customer notification and education. The implementation costs in this category include those associated with both end user customer and building owner education, directory white page customer guide and other instructional materials.

Systems is responsible for customer records and billing functions, systems related to maintenance, service representatives/customer interface and revenue accounting. Costs will be incurred to redesign and program these systems to reflect the new demarcation point policies.

X. RATE ADJUSTMENTS AS A RESULT OF CHANGING THE DEMARCATION POINT POLICY AND THE UNBUNDLING OF INC AND NTW

The changes to demarcation point policy and the unbundling of INC and NTW will go into effect eighteen (18) months after the effective date of a Commission decision adopting this Settlement Agreement.

The parties agree that the following steps are necessary in order to accomplish the rate adjustments that are required if this Settlement Agreement is approved by the Commission. The references to the "IRD proceeding", or "IRD",

are to the Implementation Rate Design Phase of I.87-11-033. "New IRD rates" shall refer to those rates which reflect the unbundling of INC and NTW from loop-based products. The references to NTW are to NTW which becomes IW.

A. The utilities have determined the amount of INC costs which must be removed from the costs associated with the local loop. The INC costs are comprised of all of the embedded INC investment, as of December 31, 1990, and all of the recurring INC expenses, determined as of December 31, 1990. These amounts are included in the annual revenue requirement adjustments in Attachment D to this Settlement Agreement.

1. It is not necessary to remove INC costs from the settlement pools with the independent telephone companies.

B. The utilities have determined the amount of NTW costs which must be removed from the costs associated with the local loop. The NTW costs are the appropriate recurring NTW expenses, determined as of December 31, 1990. This amount is included in the annual revenue requirement adjustments in Attachment D to this Settlement Agreement.

1. It is not necessary to remove NTW costs from the settlement pools with the independent telephone companies.

C. The utilities will recover the expense portions of the INC and NTW costs through new tariffed pricing structures for INC and IW. The tariffs containing these new pricing structures will require 18 months to implement from the effective date of the Commission order authorizing this Settlement Agreement. This 18-month implementation period will allow sufficient time for the utilities to incorporate necessary changes to existing procedures and to allow the building industry, building owners, and end user customers sufficient lead time to adjust to the changes.

D.1 The following will apply if the Commission issues an order regarding this Settlement Agreement anytime before the beginning of evidentiary hearings on rate design in the IRD proceeding. Hearings on IRD rate

design issues have been scheduled to begin on January 6, 1992.

The cost studies, if any, submitted by the utilities in IRD may be updated, based on a Commission order regarding this Settlement Agreement, at the discretion of each utility. The updating of cost studies shall be permitted only to the extent necessary to reflect the unbundling of INC and NTW. The utilities will submit revisions to proposed rate designs in the IRD proceeding to reflect any change which may be required as a result of a Commission order regarding this Settlement Agreement. If the Commission approves this Settlement Agreement without any modification whatsoever, the utilities will have 15 days from the effective date of the Commission decision approving this Settlement Agreement to submit these revisions in IRD. If the Commission orders any modifications to this Settlement Agreement, the utilities will have 30 days from the effective date of such Commission order to submit these revisions in IRD.

D.2 If the Commission issues an order regarding this Settlement Agreement after the beginning of evidentiary hearings in IRD, the utilities will not be required to revise their rate design testimony or cost studies, if any, submitted in IRD if the revisions would be submitted after the close of evidentiary hearings, pursuant to Section X.D.1 above.

E. If the new IRD rates go into effect before the implementation of this Settlement Agreement and before the new pricing structures for INC and IW become effective, the utilities will be allowed to establish transitional rates. These transitional rates will be in the form of tariffed customer billing surcharges on a bill and keep basis as set forth in Attachment D. These customer billing surcharge increments are to be applied to total intrastate customer billing and will cease when the new pricing structures become effective.

F.1 The utilities will establish a surcredit to offset the revenue requirement impacts due to the new INC and IW tariffs. This customer billing surcredit is to be applied to total intrastate customer billing as set forth in Attachment D.

F.2 If the implementation of this Settlement Agreement and the new pricing structures for INC and IW become effective before the new IRD rates become effective,

the utilities will be allowed to establish a surcredit to offset the impact of the new INC and IW rates. The purpose of the surcredit is to eliminate double recovery of the INC and IW since new IRD rates reflecting the changes in the loop-based product rates will not have become effective. This customer billing surcredit is to be applied to total intrastate customer billing as set forth in Attachment D and will cease upon the effective date of new IRD rates.

- G. The utilities will be allowed to recover the estimated expenses resulting from the implementation of the Settlement Agreement, as described in Section IX above. This one-time revenue requirement will be set forth in Attachment D of this Settlement Agreement, as an incremental change of limited duration in the customer billing surcharges on a bill and keep basis.
- H.1 In order to recover the revenue requirement associated with the INC amortization, the utility will be authorized to apply a customer billing surcharge increment, on a bill and keep basis, for the duration of the five-year amortization schedule. These customer billing surcharge amortization increments are to be applied to total intrastate customer billing as set forth in Attachment D.
- H.2 Ad Valorem taxes (also referred to as Property Tax) associated with the INC investment will be reflected through a customer bill and keep surcharge/surcredit by the Utilities over the timeframe of the 5-year amortization period. These ad valorem taxes are reflected in the surcharge/surcredits established in paragraphs E. and F.2 above. At the end of the 5-year amortization, when the Utilities relinquish ownership of the INC investment, the Utilities will no longer recover the ad valorem taxes associated with this investment. The Utilities will establish a customer bill and keep surcredit applied to the total intrastate customer billing as set forth in Attachment D.
- I. If the new IRD rates go into effect before the Settlement Agreement implementation, the surcharges/surcredits for the transitional rates (item E), the revenue requirement (item F.1), implementation (item G), amortization (item H.1), and property tax (H.2) will combined. If the new pricing structures for INC and NTW go into effect before the new IRD rates become effective, the surcredits in items F.1 revenues, F.2 transitional rates, and H.2 property tax will be

combined with the implementation surcharge (item G), and the amortization surcharge (item H.1). These bill and keep customer billing surcharge/surcredit increments are set forth in Attachment D to this Settlement Agreement. At the end of the recovery of the INC amortization, Pacific and GTEC will incorporate the recurring surcharges into rates via the price cap filing.

The parties agree that the procedure set forth above in this Section X, particularly the agreements regarding the application of the customer billing surcharge/surcredits, shall not be deemed to require a similar application in connection with any other customer billing surcharge/surcredit application in this proceeding, in the IRD proceeding or in any other proceeding.

XI. PRICING STRUCTURES

The parties agree that the utilities need not agree to uniform pricing structures. The parties agree to the following general principle regarding tariffed prices for INC and simple IWM services: The prices for the unbundled, tariffed, INC and simple IWM services will be based on Category II pricing principles including flexible pricing. The parties agree that Category II is appropriate since the market for INC and simple IW maintenance services is competitive or potentially competitive.

XII. NOTIFICATION PLAN

The parties agree that there are three distinct customer bases that will be notified of the changes to the utility's demarcation point due to this Settlement Agreement, as appropriate, and to the extent possible. They are the Building Industry as a whole, the individual Building Owner who will now assume responsibility for the INC, and the End User Customer who is responsible for inside wire, jacks and customer provided equipment. The parties further agree these customers should be notified as follows:

The Building Industry and the Building Owner:

The Utility will provide notification that informs both the industry and the individual building owner of the changes in demarcation point policy, identifies the responsibilities and liabilities of building owners for INC, includes technical specifications for industry standards, and outlines options available for INC services. This notification will be informational and will not detail the Utility's service offerings. Notification will be in the form of a brochure. The brochures will be distributed to the building industry 1 year prior to the demarcation point effective date, and mailed to building owners at least 180 days prior to the effective date. The brochure will provide a contact within the Utility for additional information and questions. In addition to the brochure, the Utility will provide press releases for local newspapers and trade journals. This Agreement neither precludes nor requires LECs other than GTEC and Pacific Bell from providing local news releases.

Two months before the effective date, Pacific and GTEC will follow-up with a separate letter to the Building Owners in their respective service territories, reminding them of the changes. The notification will also be distributed to property developers, architects, contractors, local building inspectors, and related building organizations in the respective service territories of Pacific Bell and GTEC.

Pacific and GTEC will collaborate and jointly fund the building industry/building owner notification, based upon their proportionate share of all access lines at the effective date of the decision adopting this Settlement Agreement. This will ensure a consistent message, be more cost effective, and the building industry/owners will not receive multiple mailings.

End User Customers:

Pacific Bell and GTEC will notify its customers of the changes in the demarcation point policy and how it will impact their telecommunications services. The notification will also outline the responsibilities of the End User Customer and educate them on their options for wire and cable services. This notification will take the form of a letter mailed first class with a follow-up bill insert. The letter will be mailed at least 120 days before the effective date, and the bill inserts will be sent out in the bill round at least 60 days before the effective date. The utilities other than Pacific Bell and GTEC shall notify their customers of the changes in the demarcation point by bill insert within 30 days following the date the utilities file their respective advice letters and revised tariffs. Utility employees will reinforce the message in their customer contacts.

Pacific and GTEC will also provide news releases for local newspapers and journals that would reach the target audiences in a timely manner. This Agreement does not preclude or require other utilities from providing news releases.

The above notices shall be subject to review and approval of the Public Advisor's Office.

XIII. MATERIAL CHANGES TO PRIOR RULINGS

This Settlement Agreement shall supersede any portions of D.87-01-063, D.90-10-064, D.91-02-018, the Interim Opinion of May 2, 1990, and other Commission decisions which are inconsistent with this Agreement.

XIV. REQUIREMENT FOR TRACKING INC AND IW SERVICE OFFERINGS

Pacific Bell and GTEC agree to track financial data for their INC and IW service offerings. They will provide the INC and IW tracking reports to the Commission within 90 days following each quarter ending March 31, June 30, September 30, and December 31 beginning three months after the implementation date of the new INC and IW tariffs. They will provide the INC

and IW tracking reports for a period of 1993 (portion of year), 1994, and 1995.

All other Local Exchange Companies will provide an annual tracking report within 90 days after December 31, for the years 1993 (portion of year), 1994, and 1995.

A. Pacific Bell and GTEC will track the following financial data for their INC Service Offerings:

1. INC Volume/Demand
 - a. Number of Consultation and Design Services
 - b. Number of Installation and Rearrangement Jobs
 - c. Number of repairs for subscribers to the INC Service Agreement/Insurance Plan
 - d. Inward and outward movement for the INC Service Agreement/Insurance Plan
 - e. Number of INC Service Agreement/Insurance Plan Customers
 - f. Number of repairs on a per visit basis
2. INC Expenses
 - a. Total expenses for installation activities (Consultation and Design, Installation, and Rearrangement)
 - b. Total expenses for maintenance and repair for INC Service Agreement/Insurance Plan
 - c. Total expenses for repair on time and materials basis
3. INC Revenues
 - a. Total revenues for Consultation and Design Services
 - b. Total revenues for Installation and Rearrangement
 - c. Total revenues for INC Service Agreement/Insurance Plan
 - d. Total revenues for per visit repair
4. INC Average Repair Time
 - a. Average repair time for repair for INC Service Agreement/Insurance Plan
 - b. Average repair time for per visit service

B. All other Local Exchange Companies will provide the following INC financial data:

1. Total Volume/Demand
Number of INC services installed or repaired
2. Total INC Expenses
Total of installation and repair expenses for INC services
3. Total Revenues
Total of installation and repair revenues for INC services
4. Average Repair Time
Average repair time for INC repair services

C. Pacific Bell and GTEC will track the following financial data for their IW Service Offerings:

1. IW Volume/Demand
 - a. Total number of subscribers to the IW residence, business, and private line per month plans, respectively
 - b. Total number of IW repairs on the IW residence, business, and private line per month plans, respectively
 - c. Total number of IW repairs on the per visit basis for residence, business, and private line, respectively
 - d. Inward and outward movement on the IW residence, business, and private line per month plans, respectively
 - e. Total number of repairs for CPE trouble isolation only, inside wire repair only, and combination of CPE and inside wire
2. IW Expenses and Revenues
 - a. For the residence, business, and private line IW per month plans, respectively
 - b. For the residence, business, and private line per visit IW service, respectively, detailed by the first time increment and subsequent time increments
3. IW Average Repair Time
 - a. Average repair time for the IW residence, business, and private line per month plans and per visit IW services, respectively

D. All other Local Exchange Companies will provide the following IW financial data:

1. Total Volume/Demand
Number of IW repairs
2. Total IW Expenses
Total of repair expenses for IW services
3. Total Revenues
Total of repair revenues for IW services
4. Average Repair Time
Average repair time for IW repair services.

XV. COUNTERPARTS

This Agreement may be executed in counterparts.

(END OF APPENDIX A)