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Decision 92-06-062 June 17, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of GTE CALIFORNIA INCORPORATED)
(U 1002 C), a corporation, for)
authority to establish a tariff)
schedule for Integrated Services)
Digital Network.)

ORIGINAL

Application 91-04-025
(Filed April 22, 1991)

INTERIM OPINION

Summary of Decision

This decision authorizes GTE California Incorporated (GTEC) to establish a tariff schedule for Integrated Services Digital Network (ISDN), without pricing flexibility, as a Category I¹ service pending review and final determination of appropriate rates and categorization in the Implementation Rate

1 In Decision (D.) 89-10-031, the Commission established three categories of service for local exchange companies (LECs), including GTEC, for pricing purposes and required that the LECs propose the proper categorization for any new service for which it seeks authority. The categories are:

- Category I: Basic monopoly services with rates set or changed only upon Commission approval;
- Category II: Discretionary or partially competitive services for which there could be downward-only pricing flexibility; and
- Category III: Pre-emptively detariffed or fully competitive services including enhanced services, Yellow Pages directory services and inside wire services. These services have the maximum pricing flexibility allowed by law.

Design (IRD) portion of the Commission's Alternative Regulatory Framework proceeding.

The Application

GTEC's application requests authority to establish a tariff schedule for ISDN and to provide ISDN as an additional enhancement of GTEC's centrex service, CentraNet. GTEC intends to offer ISDN as a tariffed Category II service from central offices (COs) equipped to provide such service.

ISDN provides a completely digital connection between the sender's and receiver's customer premise equipment. Completely digital service allows a user to perform more than one function over the same telephone line at the same time and, in particular, to conduct simultaneous voice and data communications. For example, with ISDN a person could talk on the telephone and use a computer modem at the same time using a single line. ISDN would also permit simultaneous use of a facsimile machine and a modem, or fax and a voice conversation, over the same line.

GTEC describes ISDN as a "network platform" for transmitting digital voice and data services through standardized interfaces. Two forms of standardized interfaces exist in the United States. The Basic Rate Interface (BRI) allows two simultaneous functions; the Primary Rate Interface (PRI) allows 23 simultaneous functions.

GTEC's specific request is to offer ISDN using the BRI. The BRI provides for digital transmission and reception between customer premise equipment and GTEC's central office or signal transfer point. Transmission and reception are provided via two bearer or "B" channels at up to 64 kilobits per second (kbps) on each channel and one Delta or "D" channel at 16 kbps. The B channels may be used for voice transmission and circuit- or packet-switched data transmission. The D channel may be used for network control (including conveying the dialed number, instructing the called phone to ring, sending a busy signal, and forwarding the

call to another number) and packet-switched data transmission. The two B channels and the D channel are carried over standard twisted pair telephone wire.

GTEC states that BRI ISDN will permit customers to combine data communications applications such as Local Area Networks (LANs), Wide Area Networks, modem replacement, and data Private Branch Exchange (PBX) replacement with simultaneous voice communications. For example, employees working at home are typically linked via modems for simple file transfers at the 2.4 kbps rate. With BRI ISDN, workers at home can become active users of a corporate LAN, making use of LAN services such as file serving, video graphics, printers, and facsimile machines while carrying on voice communications. GTEC states that its proposed BRI ISDN is superior to existing LANs that are unable to accommodate voice communications.

The application proposes tariffed Category II services without pricing flexibility for seven rate elements:

1. ISDN Access provides exchange access and line termination at the serving central office.
2. ISDN Multipoint Access allows up to eight users to share a single BRI line.
3. B-Voice Channel assigns voice traffic to one of the two B channels.
4. B-Circuit-Switched Data (CSD) Channel assigns circuit-switched data traffic to one of the two B channels.
5. B-Voice/CSD Channel assigns either voice or CSD on an on-demand basis to one of the two B channels.
6. B-Packet Switched Data (PSD) Channel dedicates one B channel to packet-switched data.
7. D-PSD Channel allows the customer to use the D channel for packet-switched data.

The customer may combine these elements in ways that best meet the customer's specific needs. In addition, GTEC will offer ISDN customers several feature packages emphasizing various voice features, circuit-switched data features, or packet-switched data features. Before establishing BRI ISDN Access, a customer must have Basic Exchange Access Line Measured-Rate Business Service.

Among other features, GTEC states that BRI ISDN:

- offers an attractive alternative to dedicated wide area networks;
- permits simultaneous transmission of voice, image, and data;
- allows higher speed data transmission with better quality and fewer errors than analog telephone lines with attached modems;
- has much lower data transmission costs than dedicated data lines;
- uses dial-up rather than dedicated circuits;
- uses ordinary twisted pair wire telephone wire instead of coaxial cable usually used with LAN installations;
- eliminates the need for redundant wiring to the desk top;
- has low maintenance costs; and
- allows new applications, such as calling party identification within the system of a single customer.

Protest

A Limited Protest to the application was filed by the Commission's Division of Ratepayer Advocates (DRA). No other protests were submitted.

DRA objects to GTEC's request to offer ISDN as a Category II service, and to the proposed tariff rates. DRA

recommends that the applicant file an amended application to address the cost issues, and that any Commission approval of the amended application should be on an interim basis pending further review of GTEC's costs in providing ISDN in Phase III of the Alternative Regulatory Framework proceeding, Investigation (I.) 87-11-033 (Phase III).

The assigned administrative law judge ruled on August 13, 1991, after consultation with GTEC and DRA, that evidentiary hearings would be unnecessary, and that the parties would file concurrent briefs on October 7, 1991, at which time the application would stand submitted.

In its brief GTEC states that since the filing of DRA's Limited Protest, representatives from DRA and GTEC have met to try to resolve the matters to which DRA objects. GTEC has provided its latest available annual charge factors to DRA, and has clarified its intent that the proposed ISDN rates are additional to CentraNet rates. GTEC would apply the approved ISDN rates to any revised CentraNet rates that result from the IRD portion of Phase III. GTEC does not intend to have its request for authority to provide ISDN become a part of IRD, and opposes any attempt to consolidate this application with Phase III.

GTEC advises that the parties were unable to agree on the categorization issue. GTEC requests Category II treatment for ISDN, DRA requests Category I.

GTEC professes more specifically with respect to this categorization issue as follows:

1. D.89-10-031 states that centrex and related features, custom calling/vertical services, high-speed digital private line services, current information access services, high-speed special access services, and billing and collection services should be placed in Category II because downward pricing flexibility would allow all local exchange carriers to be more responsive to market conditions for these discretionary and partially competitive services. GTEC's

ISDN is also a discretionary, partially competitive service. It is an addition to Category II centrex services. ISDN should likewise fall within the list of Category II services.

2. GTEC proposes to introduce ISDN into the marketplace as a competitive response to PBX services. GTEC's centrex service, CentraNet, as a Category II service, has heretofore been unable to fully compete with PBX services due to the following:
 - a. PBXs have feature telephone functionality, which allows voice and data integration, and which is not available with centrex;
 - b. PBX vendors now offer voice and data integration. This is not available with centrex.
 - c. PBX requires less outside plant facilities than centrex.

The combination of ISDN and existing CentraNet service would allow GTEC to more fairly compete with current PBX alternatives. ISDN has feature telephone functionality and can be used as a pair-gain device by allowing multiple stations to access the network via a single line.

3. Interexchange carriers (IECs) have the ability to offer Primary Rate Interface to their PBX customers. This allows the integration of voice and circuit-switched data with call-by-call selection. Integration of digital PBXs and packet switching is on the horizon. This advancement would leave CentraNet, without ISDN, even farther behind its competition.
4. The Commission has authorized Category II treatment for Pacific Bell's (Pacific) ISDN equivalent. Within its centrex tariff, Pacific provides ISDN as a Category II offering. Since the competitive aspects of Pacific's and GTEC's ISDN are essentially similar, GTEC's ISDN should

also be classified as Category II. To do otherwise would not only disadvantage GTEC in its competition with IECs and other PBX vendors, but would seriously impair GTEC's ability to competitively offer its customers the same service offered their friends and family in Pacific's areas.

DRA asserts that ISDN can currently only be provided in "island" configurations, i.e., isolated COs; however, with the continuing deployment of Signaling System 7 (SS7) these "islands" will be interconnected. Thus, DRA states, as the network is currently configured, GTEC's contention that other service will compete with its ISDN service may be true; however, the evolution of the network will cause potential competitors to be eliminated, creating a problem because the lack of competition will compel the Commission to recategorize the service back to Category I. Further, since GTEC has not asked for pricing flexibility in its application, it is unnecessary to authorize Category II treatment at this time.

DRA further states that Pacific, in its Advice Letter No. 15820 requesting Commission authority to offer PRI ISDN, had initially categorized the service under Category II, but changed its request to Category I classification after DRA protested. The application was approved by the Commission in Resolution T-14188, dated November 21, 1990.

Moreover, DRA asserts that recategorizing a new service from Category II to Category I would create several problems for the Commission. First, as noted by the Commission in D.89-10-031, faulty classification of a service may harm customers and/or the competitive market requiring careful Commission review and evaluation of market conditions affecting proper classification. Second, DRA is concerned that classification of a new service as Category II when it is about to undergo noncompetitive changes significantly departs from the holding in D.89-10-031 and may set bad precedent for future service applications. Finally, the

Commission's Alternative Regulatory Framework proceeding, I.87-11-033, is still underway. In the next several months, DRA contends, the Commission will be receiving evidence in the IRD portion of its investigation. GTEC's proposed tariff rates for ISDN will be considered more fully in IRD. Thus, DRA urges that any order the Commission issues should be interim pending a review of costs for ISDN rate elements in IRD. DRA requests that such interim authority requires GTEC to revise its tariffs to make them consistent with the Commission's final decision in IRD.

Discussion

After consideration, we concur with DRA. Since GTEC has not requested pricing flexibility, but has included in its application only fixed rates, the applicant will not be disadvantaged by our classifying its proposed services as Category I. Furthermore, if there is any possibility of harm to competitors and potential competitors, it is better to tread cautiously in this area of developing services. In light of our determination that the comparable Pacific ISDN service should be placed in Category I, it would be inconsistent to place GTEC's ISDN service in Category II at this time. And finally, because rates and appropriate categorization for ISDN are to be considered in the IRD phase of the Alternative Regulatory Framework proceeding, it will be more appropriate to place this service in Category I pending a final determination of those issues in that proceeding.

Findings of Fact

1. GTEC requests authority to establish a tariff schedule for ISDN, as Category II services, without pricing flexibility.
2. Currently, ISDN can only be provided in "island" configurations, i.e., at isolated COs or CO switches. However, with the continuing deployment of SS7 these "islands" will be interconnected, resulting in the substantial elimination of existing and potential competitors.

3. ISDN costs and appropriate categorization are to be considered in the IRD phase of the Commission's Alternative Regulatory Framework proceeding.

4. By Resolution T-14188, dated November 21, 1990, the Commission approved Pacific's PRI ISDN as a Category I service.

Conclusions of Law

1. The rates set forth in GTEC's application should be authorized, on an interim basis, pending a final determination of appropriate costs for ISDN services in the IRD phase of the Commission's Alternative Regulatory Framework proceeding.

2. GTEC's ISDN should be authorized as a Category I service pending final determination of appropriate categorization in the IRD phase of the Commission's Alternative Regulatory Framework proceeding.

3. Because there is an immediate opportunity for deployment of GTEC's ISDN services and a benefit to customers of these services, this decision should be effective today.

INTERIM ORDER

IT IS ORDERED that:

1. GTE California Incorporated (GTEC) is authorized to provide Integrated Services Digital Network (ISDN) as described in the application, and at the rates set forth therein, on five days' notice to the Commission and the public.

2. The services and rates authorized here are granted on an interim basis. Appropriate categorization and rates will be reviewed in Phase III of Investigation (I.) 87-10-031, and based upon that review may be modified as deemed appropriate by the Commission.

3. GTEC's ISDN service is authorized as a Category I service, pending a final determination thereof by the Commission in Phase III of I. 87-10-031.

4. GTEC shall recover all copies of its sealed cost support data within 30 days of the effective date of this order. If the sealed data is not retrieved within this time period, it shall be discarded in the Commission's recycled paper bin.

5. The application is granted, subject to the conditions set forth above.

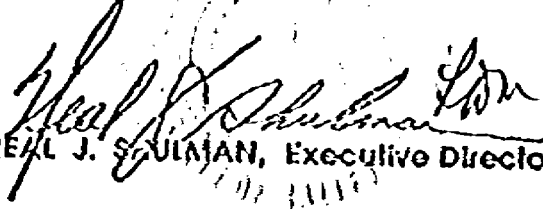
This order is effective today.

Dated June 17, 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

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NEAL J. SQUITMAN, Executive Director