

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 to Executive Director

RESOLUTION NO. T-11000

EVALUATION AND COMPLIANCE
 DIVISION

DATE: March 19, 1986

R E S O L U T I O N

- Director
- Numerical File
- Alphabetical File
- Accounting Officer

SUBJECT: AT&T Communications/Pacific Bell. Order denying protest by AT&T Communications to Pacific Bell's Advice Letter No. 15009 establishing High Capacity Transport Service (HiCap) bulk discounts. Resolution No. T-11000.

WHEREAS: PACIFIC BELL, by Advice Letter No. 15009 filed November 8, 1985, and Supplements filed December 6, 1985, January 8, 1986, January 31, 1986 and March 3, 1986 under Section 491 of the Public Utilities Code seeks to offer bulk discounts to customers requiring Type A Local Distribution Channel (LDC) HiCap Service. On November 20, 1985 AT&T protested Pacific's Advice Letter No. 15009 pursuant to the rules included in General Order No. 96-A. Pacific Bell responded to AT&T's protest on December 6, 1985. AT&T then filed additional protests on December 16, 1985 and March 4, 1986. Pacific's responses to AT&T's additional protests were filed December 23, 1985 and March 7, 1986 respectively.

Type A LDC is a full duplex 1.544 Mbps digital channel between the customer premises location and the serving central office. It is suitable for bulk data transport, video teleconferencing, bulk transport of multiple derived voice/data when terminated at the customer's premises on either customer provided channelization equipment or a suitably equipped customer provided communications system.

High Capacity Transport Service is a tariffed dedicated private line channel service suitable for the transmission of digital signals at a speed of up to 1.544 Mbps. Pacific proposes to discount HiCap monthly rates for customer requiring two or more Type A Local Distribution Channels from one customer location and terminating in the same wire center. With bulk discounts, the first channel is billed at a full months rate with the second, third, fourth and each addition channel discounted 31.0%, 58.6% and 72.4% respectively.

AT&T asserts that Pacific's bulk discount filing should be rejected for the following reasons:

1. Advice Letter No. 15009 violates G.O. 96A
2. Advice Letter No. 15009 fails to give 40-day notice of the effective date of the filing.
3. The bulk discount advice letter attempts to initiate an entirely new pricing policy for Private Line Service without adequate review.
4. HiCap discounting will have a significant and detrimental impact on competition in the provision of Private Line Service.

A. Advice Letter No. 15009 - Violates G.O. 96A

G.O. 96A states "if tariff schedules as filed will result in an increase or decrease in revenues, the advice letter should give an estimate of the annual revenue effect thereof".

Pacific in it's initial advice letter filing states that the long term effect of bulk discounting will increase overall revenues. Pacific in its supplement to the advice letter, filed December 6, 1985, estimated that the proposed bulk discount offering will make a positive annual revenue contribution of approximately \$70,000. Pacific has since revised its estimate upward to \$308,000.

B. Advice Letter No. 15009 fails to give 40-day notice of the effective date of the filing.

The Commission's tariff administrative procedure requires that the effective date of tariff schedules associated with controversial advice letters will be not less than 40 days after the advice letter filing date.

The revised HiCap rates were scheduled to become effective 30 days after the advice letter filing. When the advice letter was filed Pacific had no reason to believe this advice letter would be controversial. Pacific has filed similar advice letters reducing rates (e.g., CALL BONUS wide area plans) which were not contested.

Pacific continues to believe the original proposed effective date is appropriate. Nevertheless, Pacific revised the effective date of the tariff changes to meet the 40 day minimum requirement in a supplement to the advice letter dated December 6, 1985.

C. The bulk discount plan attempts to initiate an entirely new pricing policy for private line service without adequate review.

Pacific's HiCap Service is not a new offering. The revised rates will only affect a small percentage of Pacific's private line customers. Furthermore, a Revenue/Cost comparison shows that HiCap service will be compensatory at each discounted level.

D. HiCap discounting will have a significant and detrimental impact on competition in the provision of Private Line Services

AT&T argues that discounting HiCap service will encourage large customers to reconfigure their interstate or interLATA high capacity networks to "hub" or aggregate as many circuits intraLATA as possible thus reducing their numbers of interLATA or interstate links.

Bulk discounts will only be offered on point-to-point Type A HiCap Service over dedicated non-switched access lines. Although it may be possible for customers to "hub" or aggregate intraLATA circuits without Pacific's knowledge, a rate comparison (assuming a distance of 10 miles) indicates that such action does not make economic sense. For customers with 2, 3 or 4 circuits the interLATA charges (175-T Access Tariff) are actually lower than the intraLATA charges (B9 Tariff) with the proposed discounts. Ninety (90) percent of Pacific's existing customers who would qualify for the proposed discounts have less than 5 circuits. For customers with 5 circuits the nonrecurring (installation) charge for intraLATA is so much higher that even though the monthly charge is 4% lower it takes 56 months to break even with the interLATA charges.

We concluded that Pacific's proposed bulk discounting will result in lower rates for some of its HiCap customers. Lower rates will stimulate demand for additional HiCap circuits and also encourage customers of private line analog services to switch to HiCap Service. Offering bulk compensatory rates will lessen the threat of customers bypassing the local network.

Lower rates will also allow Pacific to better meet its competitor's challenge now that limited intraLATA competition is permitted for high speed private line data services.

The Commission has considered AT&T's protest to Pacific's proposed bulk discounting of HiCap Services. We find that the proposed discount plan is priced above cost at each discount level, is an intraLATA offering, is non-discriminatory and is similar to other discount plan offerings (i.e. Pacific's Call Bonus Wide Area Plans). We therefore deny AT&T Communications protest to Pacific Bell's Advice Letter No. 15009.

The Commission finds that the rates, charges and conditions authorized in this Resolution are just and reasonable and present rates, charges and conditions, as they differ from the rates, charges and conditions authorized in this Resolution are for the future unjust and unreasonable; and good cause appearing,

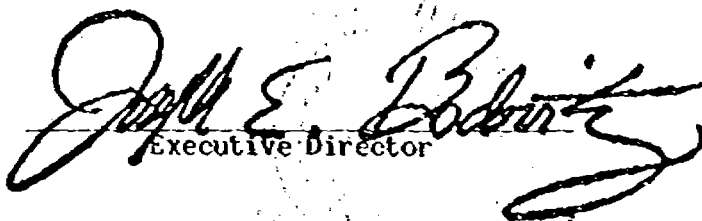
IT IS ORDERED that:

- (1) AT&T's protest is denied.
- (2) Authority is granted to make the above revisions effective on March 20, 1986.

(3) Schedule Cal. P.U.C. No. B9, 1st Revised Sheets 15, 15.1, 16 and 16.1 shall be marked to show that such sheets were authorized by Resolution of the Public Utilities Commission No. T-11000.

The effective date of this Resolution is today.

I hereby certify that the foregoing Resolution was duly introduced, passed and adopted at a regular meeting of the Public Utilities Commission of the State of California, held on March 19, 1986 the following Commissioners voting favorably thereon:


Executive Director

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREY
WILLIAM T. BAGLEY
FREDERICK R. DUDA
Commissioners