Copy for: RESOLUTION NO. T-11084
✓ Orig. and Copy to Executive Director

EVALUATION AND COMPLIANCE DIVISION
DATE: December 3, 1986

R E S O L U T I O N

_______Director
_______Numerical File
_______Alphabetical File
_______Accounting Officer

SUBJECT: Continental Telephone Company of California (Contel). Order authorizing an agreement to provide Centrex Service to the Kerr-McGee Corporation. Resolution No. T-11084.

WHEREAS: CONTINENTAL TELEPHONE COMPANY OF CALIFORNIA (CONTEL) by Advice Letter No. 747 filed February 4, 1986, pursuant to Section 532 of the Public Utilities Code, General Order No. 96-A and Resolution T-4886, requests authority to enter into an agreement with the Kerr-McGee Corporation.

Under the terms of the agreement, Contel will provide Centrex Service to the Kerr-McGee Corporation for a period of 60 months at a monthly rate of $9,480 and a nonrecurring charge of $45,000, and this amount will be added to the depreciation reserve.

Kerr-McGee Corporation, the major customer in Contel's Trona Exchange, requested the utility to provide a central office based Centrex communications system. The existing step-by-step mechanical switch at the Trona central office is not capable of providing the centrex features requested by Kerr-McGee. Since the existing switch is 29 years old and is scheduled for retirement sometime prior to 1992, Contel proposed to retire the existing switch and replace it with a digital switch in order to meet Kerr-McGee's service request. This proposal is contingent on Kerr-McGee paying for the undepreciated portion of the existing switch, a sum of $45,000.

Existing Switch

The 29-year-old mechanical switch is expected to reach its capacity of 1600 lines in 1992. More significant is the fact that replacement parts for these mechanical switches are scarce and in some cases, no longer available except by special order. An equipment failure could result in long delays and an unacceptable level of service. High maintenance cost and functional obsolescence are other significant drawbacks of this existing switch.

Economic Logic

There is no question that Kerr-McGee will pay for its share of the switch replacement. A more important question however, is whether the incremental annual revenue from this investment will at least offset the incremental cost so that the new digital switch will not be a burden to the general ratepayers even though they will benefit with better service. The staff finds that over the 5-year life of the contract the incremental revenue to incremental cost ratio is 1.19. This means that there will be a revenue contribution of 19% over the incremental cost. The utility's cost includes a return of 13.75%, which is actually higher than its authorized return of 13.22 %. After the 5-year contract period, the cost to ratepayers will be lower than if the present switch were replaced in 1992 as originally planned. This is because the new switch will be approximately 20% depreciated by 1992.

Contract vs Tariff

Commission orders and decisions, such as D.88465 and General Order No. 96-A, require all services to be offered under tariff to satisfy CPUC statutory codes prohibiting discrimination. One exception to this is service or equipment which is unique or exceptional enough that it cannot practically be dealt with by tariffs. For these services the Commission allows the utility to use G.O. 96-A contracts or Special Assembly Tariff contracts. Contel believes that this offering is unique and should be provided by contract for the following reasons:

1. In order to provide the service as requested, a special facility arrangement is required.

2. The pricing arrangement is unconventional in that Kerr-McGee is willing to pay a substantial nonrecurring charge to facilitate the placement of a new digital switch. Furthermore, the outside plant portion of the new investment will be recovered through the proposed contract rates after "five years" by credits to the depreciation reserve, substantially less than the normal recovery period of 20 to 30 years. The new outside plant investment will will therefore not be a burden on other ratepayers.

3. Due to the rural nature of its serving area, Contel does not anticipate a requirement for a similar service offering in the foreseeable future.

4. The proposed offering does not fit Contel's currently tariffed centrex offering to business customers with two to twenty access lines. Kerr-McGee has requested 400 lines.

The Commission finds that the rates, charges and conditions authorized in this Resolution are just and reasonable and good cause appearing,

appearing,

IT IS ORDERED that:

(1) Authority is granted to make the above agreement effective on December 4, 1986.

(2) The non-recurring charge of $45,000 shall be credited to the central office equipment depreciation reserve and the 5 years of outside plant capital recovery under the contract rates shall be credited to the outside plant depreciation reserve(s). Within 30 days after the payment of the $45,000 nonrecurring charge, Continental shall file with the Commission's E&C Division, the journal entries recording the $45,000 to the appropriate depreciation reserve account.

(3) The agreement authorized herein shall be marked to show that such agreement was authorized under Resolution of the Public Utilities Commission of the State of California No. T-11084.

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 December 3, 1986, the following Commissioners voting favorably thereon:

DONALD VIAL
President
VICTOR CALVO
FREDERICK R. DUDA
STANLEY W. HULETT
Commissioners

Victor Weisser

Executive Director