PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA C-5

Copy for:
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RESOLUTION NO. T-11091

EVALUATION AND COMPLIANCE DIVISION

R E S O L U T I O N

DATE: December 22, 1986

_____Director
_____Numerical File
_____Alphabetical File
_____Accounting Officer

SUBJECT: Protest of AT&T Advice Letter No. 76, Pacific Bell Advice Letter No. 15190, and General Telephone Advice Letter No. 5052 -- Filings to Implement Rates Adopted in D.86-11-079 and for the Direct Assignment of WATS Lines and the Accompanying Access Charge Reduction Flow-Through. Resolution No. T-11091.

WHEREAS: AT&T COMMUNICATIONS OF CALIFORNIA, INC., by Advice Letter No. 76 filed November 26, 1986, requests authority under Section 454 of the Public Utilities Code to make effective the following:

To use forecasted 1987 demand volumes in the revenue reduction flow through resulting from local exchange utilities' advice letter filings. These filings reduce local access charges associated with the direct assignment of closed end WATS (subscriber's end).

In Advice Letter No. 76, AT&T proposes to implement the rate design authorized in D.86-11-079, dated November 14, 1986, and to flow through to service rates, $77.2 million annual revenue reduction due to changes associated with the direct assignment of closed end WATS. The $77.2 million annual revenue reduction flow through was calculated by AT&T based on the changes shown in Pacific Bell's Advice Letter No. 15190, filed November 21, 1986, and General Telephone Company of California's Advice Letter No. 5052, filed November 20, 1986. AT&T's flow through of access charge changes reduces usage revenues for its Long Distance Service, WATS and 800 Services by about 1.9%, 14.6% and 16.6%, respectively. AT&T also proposes to increase the percentage surcharge on switched services granted by D.86-11-079 from 2.379% to 2.583% to reflect the change in the billing base.

In response to Evaluation and Compliance Division's (Staff) verbal data request, AT&T stated that the use of 1986 demand volumes adopted in D.86-11-079 would result in an over reduction of $20 million caused by a substantial shortfall of WATS volumes that is

being experienced in 1986. Specifically, 1986 actual WATS minutes are expected to be about 330 million minutes below the rate case adopted forecast. Actual 1986 WATS revenues are expected to be about $64 million lower than the rate case adopted WATS revenues.

In further support of its use of forecasted 1987 demand volumes, AT&T indicated that the $77.2 million seems reasonable in proportion to the $92.7 million industry total access charge reductions claimed by Pacific Bell ($85.3 million) and General ($7.4 million). The use of AT&T's adopted 1986 demand volumes would cause a $97.2 million flow through. This amount exceeds the claimed $92.7 million industry total, with no reductions attributable to other interexchange carriers.

In addition, AT&T stated that it is standard utility cost and rate making practice to use the demand volumes for the year in which service is to be rendered and the rates are to be in effect. AT&T stated the forecasted 1986 volumes were used in the calculation of its March 1986 flow through of access reduction. Therefore, forecasted 1987 demand volumes should be used in the 1987 flow through.

In compliance with D.85-06-115, dated June 12, 1986, Pacific Bell filed Advice Letter No. 15190 on November 21, 1986, to implement a reduction of common carrier line charges (CCLC) and line termination rates resulting from the direct assignment of closed end WATS with revised rates to become effective January 1, 1987. The estimated access revenue reduction for Pacific is about $79.6M and $5.7M for independent companies concurring with Pacific's Access Tariff 175-T. The CCLC access revenue reduction will be offset by a corresponding increase to the current intraLATA billing surcharge by 1.65 percentage points. The development of the access revenue reduction was based on the 1986 demand volumes adopted in interim D.86-01-026 (dated January 10, 1986) of Pacific's current rate application, A.85-01-034. The intrastate access billing surcharge is adjusted from -2.35% to -2.52% reflecting the reduction in the intrastate access billing base.

General Telephone filed its Advice Letter No. 5052 on November 20, 1986. The amount of access revenue reduction is estimated to be about $7.4M. General did not request a corresponding increase to its intraLATA billing surcharge to offset the access revenue reduction. The $7.4M access revenue reduction is predicated upon the demand volumes used in General's 1986 attrition filing and the 1986 SPF to SLU advice letter filing.

A copy of these Advice Letters and related tariff sheets were mailed by the utilities to competing and adjacent utilities and/or other utilities as requested. Protests against Advice Letter 76 were filed by US Sprint and MCI on December 11 and 12, 1986, respectively. AT&T-C responded to the protestants by letters

dated December 18 and 16, 1986. The protests and responses are attached to this Resolution as Appendices A and B respectively. Protests were also filed by Sprint on December 11, 1986; MCI, December 12; and AT&T, December 9, against Pacific Bell's Advice Letter No. 15190. AT&T filed on December 9 a protest against General Telephone's Advice Letter No. 5052. MCI filed a protest on December 15 as they did not receive the Advice Letter until December 8. Protests and responses by the utilities are shown as Appendices C through F of this Resolution.

The protestants generally address the following issues:

Protest Issues Against AT&T

1. Proposed WATS rate reduction reflects usage-sensitive (Common Carrier Line) costs only; non-usage sensitive charges are not recovered.

2. AT&T's rates vary from those approved in D.86-11-079.

3. D.86-11-079 does not authorized AT&T to combine Appendix D rate design and the access charge reduction into one filing.

4. Rate changes necessitated by flow-through should be considered in future hearings as WATS and 800 services have been given a higher proportion of reduction than long distance service.

5. AT&T's rate reductions could stifle alternative carriers' ability to compete.

6. Rate changes of the magnitude proposed are not proper for consideration through the advice letter process.

7. The California Business Plan is shown as being restricted to customers on or before November 14, 1987.

Protest Issues Against Pacific Bell and General Telephone

8. Methodology used by Pacific Bell and General is inconsistent with the Commission's intention to achieve cost-based access rates.

9. Pacific and General erred in not computing the CCLC using 1987 estimated access volumes.

10. Inside wiring maintenance expense was not removed from non-traffic sensitive costs.

11. Proposed tariff language does not explicitly state the closed end WATS line is exempt from CCLC.

12. Tariff language regarding Pacific's new special access charge for WATS access line is unclear, and General's new terms and conditions are unreasonable.

13. Resellers' MOUs were not used in the CCLC calculation.

14. Implementation of direct assignment of closed end WATS should be delayed until unrestricted WATS access lines are available to all IECs.

15. The 1987 CCLC should be subject to refund, and hearings should be scheduled on proper SPF to SLU phase down methodology.

On December 16, 17 and 18, AT&T, Pacific Bell and General Telephone provided Commission Staff and the protestants their responses.

DISCUSSION OF PROTEST ISSUES

1. Non-Sensitive Charges Not Being Recovered

MCI states a non-usage sensitive line charge should be added to recover some of the revenues that would have been generated by the CCLC and that AT&T's proposed tariff does not recover the non-usage sensitive charge shown in Pacific Bell's proposed Schedule 175-T.

AT&T's December 16 response to MCI states that a non-usage sensitive charge is stated on Schedule Cal. PUC No. A7, 6th Revised Sheet 12, Note 2: "...Access lines arranged for interLATA only usage is subject to a special access surcharge of $25 and an end user line charge of $4.78."

2 & 3. Rates Vary

US Sprint contends that D.86-11-079 ordered rate levels to be revised as shown in Appendix D and did not authorize combining those rates with the access charge flow-through. Combining the rates makes it difficult to analyze the proposed rates.

AT&T proposes to make a concurrent reduction in its rates to be effective on January 1, 1987, the very same day that the local exchange company access rates are scheduled to be reduced. They indicate the only need to segregate access reduction flow-through from the change in rates ordered in AT&T's rate case, would be if there were such controversy over local exchange companies' proposed reductions, that the CCLC reduction would be delayed. This contingency was addressed in Advice Letter No. 76:

"The implementation of Advice Letter No. 76 is dependent upon Pacific Bell's Advice Letter No. 15190 and General Telephone's Advice Letter No. 15190 going into effect on January 1, 1987."

In event that Pacific's and General's advice letters do not go into effect January 1, 1987, AT&T has prepared Advice Letter No. 75 to be filed on December 22, 1986 addressing only the rate schedule and rate levels authorized in the interim AT&T rate order, D.86-11-079.

4. Flow-Through Rates Should Be Considered in Future Hearings

It is Sprint's position that WATS and 800 services have been given a higher proportion of reduction than long distance and the benefits of the access cost reduction are not shared equally to all classes of customers. Therefore, these reductions should be considered in the further hearings discussed in D.86-11-079.

In response, AT&T states Advice Letter No. 76 is consistent with Decisions 85-03-056 and 85-06-113. In compliance with these orders, A.L. No. 76 proposes to flow through 100% of the estimated access charge reductions that AT&T will realize during 1987. AT&T will decrease its individual service rate schedules to yield a total revenue reduction equal to the projected 1987 total access saving.

Individual switched rates (AT&T Long Distance, AT&T WATS, AT&T 800 Service) will be reduced by the explicit amount of access reduction which will accrue to each service in 1987. For that component of 1987 access savings arising from the direct assignment of WATS/800 access lines, AT&T has proposed to flow reductions through to its WATS/800 customers. CPE and inside wire reductions will be uniformly spread across all switched services. Thus, AT&T will continue to align its rates with its access expense.

As a result of reduction in access charges proposed by Pacific Bell and General, AT&T says it will save about $0.05 in access charges for every WATS and 800 Service minute sold in 1987. By contrast, AT&T will save only about $0.005 in access expenses for every conversation minute of use for AT&T's Long Distance Service in 1987. Therefore, the bulk of the access reductions for 1987 are properly attributed to WATS/800 services.

5. Reductions Stifle Competition

US Sprint states that alternative interexchange carriers have recently begun to attempt to compete with AT&T on WATS and 800 services. This reduction stifles that competition as AT&T will be the only interexchange carrier to benefit from these access cost reduction. To be competitive, other interexchange carriers would

be forced to reduce their rates for these services by 10 to 60 percent.

AT&T responds that US Sprint is only seeking to advance its own private interests and retain its own marketing advantages. They point out that US Sprint and other long distance carriers have been heavily advertising their WATS-like services over the past year. This advertising is a clear and pointed illustration of the self-serving motivation of US Sprint in filing this protest. access cost savings derived from the direct assignment of WATS costs is available to all IECs, including US Sprint. It is clear, according to AT&T, that US Sprint is simply attempting to maintain an artificial pricing advantage in the regulatory arena by raising specious arguments. This approach does not serve the public interest.

6. Advice Letter Process Not Appropriate For Rate Changes of This Magnitude

US Sprint contends that the Commission has an obligation to consider the impact of its rate decisions on various ratepayer groups, as well as the competitive impact of its decisions. Since D.86-11-079 calls for further hearings on other issues, consideration of the access cost reduction charge would be a closely related issue.

7. The California Business Plan

Sprint protests the language in Schedule Cal. PUC A6, Section A6.3.2.A which states the California Business Plan is furnished to customers who subscribe on or before November 14, 1987.

Decision 86-11-079 grandfathered the Business Plan as of the effective date of the decision -- November 14, 1986. The 1987 was a typographical error and has been corrected.

8 & 9. Methodology Inappropriate and CCLC Computation Erroneous

AT&T contends General and Pacific methods do not achieve the cost based reduction as directed by D.83-12-028 and D.85-06-115. They claim General's growth rates are arbitrary and inconsistent with "any type of cost-related development" of CCLC. AT&T also proposes that Pacific's new CCL and line termination rates should reflect 1987 estimated non-traffic sensitive (NTS) costs and 1987 estimated MOUs. Using the 1987 estimated data will result in CCL and line termination rates lower that those proposed.

General states the rates and costs used to determine the 1986 Carrier Common Line Revenue Requirement are based on those in the 1986 Attrition Decision No. 86-12-081, which the Commission adopted. The adopted rates were based on costs which were approved in the 1984 rate case. Growth rates are not arbitrary

as CPE and inside wire have adopted growth rates. Therefore, other categories' growth rates must compensate to achieve the overall adopted revenue growth rate.

Pacific responds its separations-based method is one that maintains consistency with Pacific's most recently adopted results of operation (1986) which are derived from application of Separation Procedures use in the 1986 rate case. Pacific believes that "by maintaining a base reference point to the last adopted results the Commission can assure itself that reasonable reductions are reflected without entering into a full-blown analysis of Pacific's 1987 total results of operations."

Pacific and General used 1986 MOUs to be consistent with 1986 costs. If 1987 volumes were used, 1987 costs would have to be developed. However, no 1987 data has been tested by the Commission.

10. Inside Wiring Maintenance Expense

AT&T objects to Pacific failing to remove the maintenance expenses of inside wire in the NTS cost calculation even though the FCC has directed that all inside wire be "detariffed" on January 1, 1987. AT&T contends that "double recovery" will occur.

Pacific points out that the Commission is presently seeking a stay of the FCC order and hearing on the issue of intrastate accounting treatment for detariffed inside wire. The Commission requests that the intrastate maintenance and installation expense associated with inside wire be continued under regulation.

Therefore, pending the outcome of the Commission's appeal to the FCC, Pacific must continue to reflect their recovery through tariffed rates, including access rates.

General points to CPUC Decision No. 86-07-049, Ordering Paragraph 2, which refers to Finding of Fact 12 (as modified by D84-10-095):

> "12. The basic exchange rates of the respondent telephone utilities should be adjusted to reflect the elimination of the cost of inside wiring maintenance."

General interprets this to mean that the impact of the elimination of inside wiring maintenance would be taken on basic rates only and no other rates of the company would change as a result of it.

There is also uncertainty as to the status of inside wiring due to the Commission's appeal to the FCC to reconsider the inside wiring decision.

11. Tariff Language Does Not Exempt WATS From CCLC

MCI and Sprint contend that Pacific's proposed tariffs do not explicitly state that CCL charges will not apply to the closed end intrastate WATS lines following direct assignment of WATS. This may lead to the possibility of Pacific "double recovering" CCL charges.

Pacific states there is no intention to "double recover" CCL charges by reflecting the removal of WATS minutes from the CCL calculation and then continuing to impose CCL rates at the closed end of WATS or 800 service. To clarify this issue, Pacific is willing to add new tariff language indicating the CCL charges do not apply to WATS access lines.

12. Tariff Language Re Special Access Charge Unclear

MCI complains that tariff language is unclear.

In proposed Schedule Cal. PUC No. 175-T, Section 7.5.4, Pacific cross-referenced the applicable exchange rate for a WATS access line paid by end user customers. Though Pacific believes that its proposed tariffs are clear in specifying that a single $25.00 line charge applies to a WATS access line, it is willing to provide further clarification in its proposed tariffs.

13. 1987 Resellers' MOUs Not Included in Calculations

MCI protests that Pacific failed to include resellers' MOUs in calculation of CCLC.

Pacific has included relevant reseller minutes in its calculation of the new CCL rates. The basis for Pacific's minutes of use is its Carrier Access Billing System (CABS), which includes all Feature Group minutes used by resellers.

14. Implementation of Direct Assignment of Closed End WATS Should Be Delayed

Protestants state that in the spirit of D. 85-06-115, the implementation of direct assignment of WATS should be delayed until the Commission approves a Universal WATS Access Line, an "unscreened and unrestricted WATS access line" that permits the origination and completion of interstate and intrastate calling.

Pacific responds that in connection with the direct assignment of WATS, its obligation is to provide equal access in applicable end offices in order that MCI, US Sprint, and AT&T or any other carrier can utilize a banded, screened WATS access line in conjunction with Feature Group D service, and that has been done. AT&T does not have access to a jurisdictionally mixed and bi-directional WATS access line, and therefore MCI and US Sprint are

in the same position as AT&T. It should be noted that Pacific has presented to the Commission staff for approval a proposal that offers a jurisdictionally mixed and bi-directional WATS access line. For the above reasons, Pacific feels that MCI and US Sprint's concerns are unfounded and their request to delay the implementation of direct assignment of WATS until the Commission approves a UWAL should be denied.

15. CCLC Subject to Refund, and SPF to SLU Phase Down Methodology Reconsidered

AT&T states that in their opinion, a delay in reducing intrastate access is not in the public's interest. Therefore, it is not appropriate to reject Pacific's advice letter and proposed CCLC should go into effect subject to refund. A hearing should also be held to determine the correct CCLC and proper SPF to SLU phase down methodology.

Pacific responds that it is impossible to implement rates proposed in AL 15190 subject to refund because it is not possible for Pacific to retroactively receive any additional amount of shift that may be subsequently determined.

General's Protest Response

General has not filed an answer to MCI's protest due to untimely receipt of protest. However, they indicated in telephone conversations with Staff that they agree with Pacific's response to MCI's protest in those issues which affect General. They are not unwilling to revise the language of its tariff to clarify the problems indicated by MCI.

We have carefully reviewed the protestants' allegations and responses thereto, and as a result, deny the protests to AT&T Advice Letter No. 76, Pacific Bell Advice Letter No. 15190 and General Telephone Advice Letter No. 5052.

The Commission finds as facts that:

1. The use of forecasted 1987 demand volumes to flow through the access charge reduction is reasonable in this instance.

2. There are no further issues that require Commission consideration before the advice letters, filed by AT&T, Pacific Bell and General Telephone to flow through the access charge reduction associated with the direct assignment of close end WATS (subscriber's end), can become effective.

IT IS THEREFORE ORDERED that:

(1) US Sprint's protest, dated December 11, 1986, to AT&T-C's Advice Letter No. 76 is denied.

(2) MCI's protest, dated December 11, 1986, to AT&T-C's Advice Letter No. 76 is denied.

(3) US Sprint's protest, dated December 11, 1986, to Pacific Bell's Advice Letter No. 15190 is denied.

(4) MCI's protest, dated December 11, 1986, to Pacific Bell's Advice Letter No. 15190 is denied.

(5) AT&T's protest, dated December 9, 1986, to Pacific Bell's Advice Letter No. 15190 is denied.

6) AT&T's protest, dated December 9, 1986, to General Telephone of California's Advice Letter No. 5052, is denied.

(7) MCI's protest, dated December 15, 1986, to General Telephone of California's Advice Letter No. 5052 is denied.

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 22, 1986, the following Commissioners voting favorably thereon:

Executive Director

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

US Sprint Communications Company
Pacific Division
900 Airport Boulevard
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APPENDIX A

US Sprint

December 11, 1986

Mr. Victor R. Weisser
Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: AT&T Communications of California, Inc., Advice Letter No. 76

Dear Mr. Weisser:

US Sprint Communications Company ("US Sprint", U-5112-C) hereby protests Advice Letter No. 76 filed by AT&T Communications of California, Inc. ("AT&T") on November 26, 1986.

US Sprint protests this filing on several grounds. First, the rates proposed by AT&T in this advice letter filing vary significantly from the rates approved for AT&T less than one month ago by the Commission in Decision ("D.") 86-11-079, November 14, 1986. Several parties including the Commission staff, TURN, US Sprint, MCI Telecommunications and AT&T, among others, expended considerable efforts during these hearings on rate design issues. Based upon the record developed through these hearings, the Commission adopted the rate design shown in Appendix D of D.86-11-079. It would be a violation of the rights of these parties to permit AT&T to implement, without further hearings, a rate design significantly different from the rates so recently approved by the Commission.

Moreover, the approach adopted in this advice letter is at odds with the Commission's directives in D.86-11-079. In Ordering Paragraph 19 of that decision, the Commission ordered AT&T to submit an advice letter "to revise its rate levels as shown in Appendix D" (at 232). No language of the decision authorized AT&T to incorporate rate changes due to access charge changes into this filing. Admittedly, there is language in the body of the decision suggesting that AT&T could propose rate design changes due to changes in access charges in an advice letter (at 211a). However, the decision does not authorize AT&T to combine the two filings. US Sprint believes that the Commission should not permit AT&T to do so. The combination of rate changes proposed in Advice Letter No. 76 and the short time available for

review make it very difficult for the Commission or other parties to analyze the proposed rate changes. The combination of the filings also is in apparent conflict with the explicit requirement noted above for a filing of Appendix D rates. Therefore, US Sprint urges the Commission to order AT&T to withdraw Advice Letter No. 76, and to submit an advice letter which does set forth rates based upon Appendix D. Other rate changes could be considered through a separate advice letter filing, or during the further hearings approved by the Commission in D.86-11-079.

US Sprint urges the Commission to consider subsequent rate changes in these hearings due to the impact which a new AT&T rate design would have on ratepayers and on the competitive situation in California's interLATA marketplace. US Sprint's preliminary analysis of the changes proposed by AT&T indicates that there is a significant disparity between Appendix D rates and proposed rates, as noted above. A comparison of the advice letter rates with Appendix D rates shows that the benefits of the access cost reduction are not shared or "flowed through" equally to all classes of customers. Instead, AT&T has given a significantly higher proportion of access cost reductions to the WATS and 800 services provided to its business customers than it has to the long distance services used by its residential customers. Thus, under this proposal, the average residential customer will benefit far less from AT&T's cost reductions than business customers.

In addition, the rate changes proposed by AT&T would have a seriously negative effect on interLATA competition in California. Alternative interexchange carriers recently have begun to attempt to compete with these AT&T offerings. In the past year for example, US Sprint and MCI have tariffed with this Commission and other regulatory bodies several WATS-like services. Several alternative carriers also have indicated an intention to provide an 800 service in the near future. The sharp reductions in WATS and 800 rates AT&T proposes here could stifle alternative carriers' attempts to compete with AT&T in these services. This threat is particularly serious because AT&T will be the only interexchange carrier to benefit from the proposed access cost reduction, as described in US Sprint's protest filed today to Pacific Bell's Advice Letter No. 15190.

This Commission is well aware that one of the results of AT&T's continuing market power is that AT&T's rates form a "ceiling" for rates charged by other interexchange carriers. If the rates proposed in Advice Letter No. 76 go into effect, US Sprint and MCI would be forced to reduce the rates for their

WATS-type offerings by approximately 10 to 60 percent in order to have a chance of competing for customers with AT&T. Unfortunately, it is highly unlikely that alternative carriers would be able to implement such a drastic rate change because they are not sharing in the access cost reduction Pacific Bell is proposing for WATS services used by AT&T. Therefore, implementation of the Advice Letter No. 76 WATS and 800 reductions is likely to discourage, if not eliminate completely, alternative carriers' WATS-type offerings and preclude development of alternative 800 services, on the intrastate interLATA level.

US Sprint urges the Commission to consider in its further hearings whether AT&T's new rate design serves the public interest. Rate changes of the magnitude proposed by AT&T in Advice Letter No. 76 simply are not a proper subject for consideration through the advice letter process. This Commission has recognized in D.86-11-079 and in other related proceedings that it has an obligation to consider the impact of its rate decisions on various ratepayer groups, as well as the competitive impact of its decisions. Inclusion of these issues in the further hearings would be in accordance with D.86-11-079, which states that "We will also consider at that time [further hearings] bringing into conformance with our adopted rate design any outstanding effects of the January 1, 1987 access charge reduction..." (Conclusion of Law 26, at 228; Ordering Paragraph 17, at 231). Consideration of these issues also would be closely related to the issue set for these hearings of whether rate changes required by subsequent events should be spread proportionately to long distance, 800, WATS, and private line services.

Finally, US Sprint protests the language in Section A6.3.2.A which states that:

> "AT&T California Business Plan is furnished only to customers who subscribed to the plan on or before November 14, 1987".

D.86-11-079 requires AT&T to restrict its offering of California Business Plan to customers who were subscribers as of the effective date of the decision (at 198). As the decision became effective on its date of issuance, November 14, 1986, US Sprint suspects that the above tariff language may be only a typographical error. In any event, this language should be modified to comply with the requirements of D.86-11-079.

In conclusion, US Sprint respectfully requests the Commission to order AT&T to withdraw Advice Letter No. 76, and file an advice letter implementing the rate design approved in D.86-11-079. US Sprint further requests the Commission to consider in further hearings in Application 85-11-029 the rate changes proposed by AT&T to implement access charge changes. US Sprint also requests the Commission to order AT&T to terminate its offering of California Business Plan as specified above.

Sincerely,

Richard A. Purkey
Manager, Government Affairs

RAP:km

cc: E. V. Forshee - AT&T
Dean Evans - CPUC Staff
Emily Marks - CPUC Staff

APPENDIX A RESPONSE

Hathaway Watson, III
Attorney

795 Folsom Street
San Francisco, CA 94107
Phone (415) 442-3183

December 18, 1986

Mr. Dean Evans
Evaluation and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue, Room 3200
San Francisco, California 94102

Dear Mr. Evans:

AT&T Communications of California, Inc. (AT&T) hereby responds to U S Sprint's December 11, 1986 protest to AT&T's Advice Letter No. 76 (A.L. No. 76). In pertinent part, A.L. No. 76 proposes to flow through access charge reductions to AT&T's customers effective January 1, 1987.

In its protest, U S Sprint alleges two grounds for objecting to AT&T A.L. No. 76*:

1. The rates proposed by AT&T's A.L. No. 76 vary significantly from the rates approved in AT&T's rate case, D.86-11-079.

2. There may be a negative effect on interLATA competition in California if the rates in A.L. No. 76 go into effect.

AT&T's proposed flow through of access expense reductions is consistent with Commission ratemaking policy and should be approved. Moreover, U S Sprint's protest is a transparent attempt to use the regulatory process to retain its present competitive cost advantage in providing WATS-like services. U S Sprint's protest is without merit and should be rejected.

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* In addition, U S Sprint points out that there is a typographical error contained in the proposed changes to Section A6.3.2.A of AT&T's Schedule Cal. P.U.C. A6. In that section, AT&T's Advice Letter stated that the California Business Plan would be furnished to customers who subscribe to the plan on or before November 14, 1987. AT&T detected the same error and submitted a correction to make the date read November 14, 1986 in a letter submitted to the Commission and all California telephone utilities on December 16, 1986. Therefore, U S Sprint's protest of A.L. No. 76 on this ground is moot.

A.L. No. 76 is consistent with Decisions 85-03-056 and 85-06-113, which order AT&T to flow through access charge reductions. In compliance with these orders, A.L. No. 76 proposes to flow through 100% of the estimated access charge reductions that AT&T will realize during 1987. AT&T thus proposes to decrease its individual service rate schedules to yield a total revenue reduction equal to the projected 1987 total access saving.

Furthermore, A.L. No. 76 proposes to decrease the rates for individual switched services (AT&T Long Distance, AT&T WATS, AT&T 800 Service) by the explicit amount of access reduction which will accrue to each service in 1987. For that component of 1987 access savings arising from the direct assignment of WATS/800 access lines, AT&T has proposed to flow reductions through to its WATS/800 customers. For the CPE and Inside Wire components of the 1987 access charge reductions, AT&T has uniformly spread its access savings across all its switched services. By this action, AT&T will continue to align its rates with its access expenses -- the very ratemaking principle traditionally applied by the Commission and advocated in Application 85-11-029 by US Sprint itself.

It should come as no surprise to U S Sprint that the bulk of the access reductions in 1987 are properly attributed to WATS and 800 Service.* The carrier common line charge will no longer be assessed on the closed end of dedicated access lines for those services. As a result of the reduction in access charges proposed by Pacific Bell and General Telephone, AT&T will save about 5¢ in access charges for every WATS and 800 Service minute sold in 1987. By comparison, AT&T will save only about 0.5¢ in access expenses for every conversation minute of use for AT&T's Long Distance Service in 1987. AT&T proposes to flow through penny for penny the total savings on those services and has prepared its rate schedules in A.L. No. 76 to accomplish that objective. AT&T believes this direct service flow through is consistent with the Commission's policy.

U S Sprint further argues that AT&T should not be authorized to integrate these access reductions with the rate schedule authorized in Appendix D of D.86-11-079. The procedure which U S Sprint proposes is contrary to the Commission's express intent for reductions in AT&T rates to be implemented within 14 days of any prospective access expense savings. (Decision 85-06-113). AT&T, in fact, proposes to make a concurrent reduction in its rates to be effective on January 1, 1987, the very same day that the local exchange company access rates

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* U S Sprint was a participant in the Access Phase II proceedings that led to the direct assignment policy decision by the Commission in D.85-06-115.

are scheduled to be reduced. Therefore, A.L. No. 76 is entirely consistent with Commission policy and intent.*

U S Sprint alleges there would be a "seriously negative effect on interLATA competition in California" if AT&T's reduced rates contained in A.L. No. 76 are permitted to go into effect. U S Sprint points out that AT&T's HATS and 800 services are subject to competition and urges the Commission to consider whether the public interest is served by AT&T's proposed rate reductions. However, US Sprint in fact is only seeking to advance its own private interests and retain its competitive marketing advantages.

U S Sprint and other long distance carriers have been heavily advertising their HATS-like services over the past year. Examples of U S Sprint's and MCI's advertisements promoting their HATS-like services are attached. U S Sprint's advertisement, published in the Wall Street Journal on September 9, 1986, states an offer of a one year long sale on HATS-like services, claiming prices 18-26% lower than AT&T's. These advertisements are clear and pointed illustrations of the self-serving motivation of U S Sprint in filing this protest.

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* The only legitimate argument for segregating the access reduction flow through from the change in rates ordered in AT&T's rate case would be that there is a clear controversy over the access reductions proposed by the local exchange companies. AT&T has anticipated this eventuality and has developed a contingency plan to implement only the rate schedule contained in the interim rate order D.86-11-079, if the access reductions do not go into effect on January 1, 1987. That plan was stated on Page 3 of A.L. No. 76 as follows:

> "The implementation of this Advice Letter No. 76 is dependent upon Pacific Bell's Advice Letter No. 15190 and General Telephone's Advice Letter No. 5052 going into effect on January 1, 1987.
>
> If, for any reason, those Advice Letters have not been approved in time to become effective on January 1, 1987, AT&T has prepared Advice Letter No. 75, which would implement only the rate schedule and rate levels authorized in the interim AT&T rate order, D.86-11-079. In compliance with Ordering Paragraph 19 of D.86-11-079, Advice Letter No. 75 would be filed on December 22, 1986 and would go into effect on January 1, 1987, in lieu of AT&T's Advice Letter No. 76, if necessary."

U S Sprint argues that "AT&T will be the only interexchange carrier to benefit from the proposed access cost reduction." There is no basis for this statement. The Commission has properly found that the provision of equal access under the schedule provided in the Modification of Final Judgment negates any alleged preexisting AT&T advantage. The provision of equal access is accompanied by equal costs. The access cost savings derived from the direct assignment of WATS costs is available to all IXCs including U S Sprint. It is clear that Sprint is simply attempting to maintain an artificial pricing advantage in the regulatory arena by raising specious arguments. This approach does not serve the public interest. U S Sprint's attempt by this protest to retain its competitive advantage in WATS-like services should be rejected.

For all the foregoing reasons, AT&T respectfully requests that U S Sprint's protest be rejected and that A.L. No. 76 be approved.

Sincerely,

Hathaway Watson III

Hathaway Watson, III
Attorney

Attachment

cc: Bryan Chang, CPUC
Richard A. Purkey, U S Sprint
James L. Lewis, MCI
M. J. Miller, Pacific Bell
John M. Jensik, General Telephone

THE NEXT 2 DOCUMENTS ARE POOR ORIGINALS

MICROFILMING SERVICES WILL NOT ASSUME RESPONSIBILITY FOR THE IMAGE QUALITY

APPENDIX A RESPONSE

US SPRINT ANNOUNCES AN INCREDIBLY RADICAL NEW CONCEPT IN THE TELECOMMUNICATIONS INDUSTRY:

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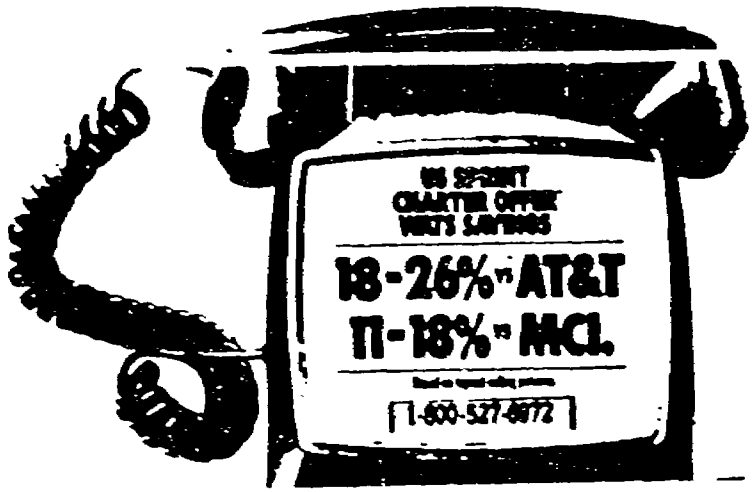

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Here's how it works. When you sign up for any major US Sprint business service between now and September 30th, you'll get an extra bonus discount of 10% on that new service.

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US Sprint

THE NEW YORK TIMES, WEDNESDAY, SEPTEMBER 14, 1988

APPENDIX B

MCI Telecommunications Corporation
201 Spear Street
Ninth Floor
San Francisco, CA 94105
415 978 1121

James L. Lewis
Senior Regulatory Counsel
Pacific Division

December 11, 1986

James M. McCraney
Deputy Director
Evaluation and Compliance Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Re: AT&T Advice Letter No. 76

Dear Mr. McCraney:

MCI Telecommunications Corporation hereby protests AT&T Communications Corporation of California's Advice Letter No. 76. This advice letter was filed on November 26, 1986 with a proposed effective date of January 1, 1987.

AT&T's Advice Letter proposes to pass through the access charge rate reductions proposed by Pacific Bell and General Telephone of California in their Advice Letters 15190 and 5052, respectively, as well as implement the rate changes ordered in D. 86-11-079, AT&T's General Rate Case proceeding. MCI's instant protest is limited to AT&T's proposal to pass through the access charge rate reductions. MCI does not take issue with AT&T's proposed treatment of the rates ordered by D. 86-11-079.

MCI's review of AT&T's rate reduction proposal indicates that it has proposed an across the board reduction to its MTS rates. The new MTS rates AT&T proposes appear to reflect the CCLC reduction requested by Pacific Bell in its Advice Letter 15190. Therefore MCI does not protest this aspect of Advice Letter 76. However, MCI does take issue with AT&T's proposed method of passing the access rate reductions to its WATS rates.

MCI believes that AT&T's proposed WATS rate reductions do not accurately reflect the underlying access cost changes that result from the direct assignment of WATS access lines. As MCI points out in its protest to Pacific Bell's Advice Letter 15190, which is attached hereto and incorporated herein by reference, the direct assignment of WATS lines exempts the closed ends of those lines from the CCLC. A non-usage sensitive line charge is, or should be, added to recover some of the revenues that would have been generated by the CCLC. In California the remaining revenue requirement is recovered from a surcharge on Pacific Bell's intraLATA services.

AT&T's usage sensitive hourly WATS rate reductions (Schedule Cal. P.U.C. No. A7, section 7.1.1.C.3) approximate the per minute cost reductions brought about by the removal of the CCLC from the closed end minutes of use. However, AT&T's proposed tariff does not propose to recover the additional cost of the non-usage sensitive charge shown in Pacific Bell's proposed Schedule Cal. P.U.C. No. 175-T, sheets 453 and 453-A filed with Advice Letter 15190. The effect of this omission is to reduce AT&T's WATS rates and revenues by an amount far in excess of the amount warranted by the access charge reductions proposed by Pacific Bell and General Telephone. For this reason, MCI protests AT&T's Advice Letter No. 76.

Sincerely,

James L. Lewis

cc: Dean Evans, CPUC
Hathaway Watson III, AT&T Communications of California
E.V. Forshee, AT&T Communications of California

Enclosure

APPENDIX B RESPONSE

Hathaway Watson, III
Attorney

795 Folsom Street
San Francisco, CA 94107
Phone (415) 442-3183

December 16, 1986

Mr. Dean Evans
Evaluation and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue, Room 3200
San Francisco, California 94102

Dear Mr. Evans:

AT&T Communications of California (AT&T) hereby responds to MCI's December 11, 1986 protest to AT&T Advice Letter No. 76. MCI's protest is based upon a misunderstanding of the tariff provisions for AT&T's WATS and 800 Service, as well as related Local Exchange Companies' tariff provisions. Accordingly, MCI's protest has no merit and should be dismissed.

MCI argues in its protest letter that AT&T's proposed tariff rates, contained in Advice Letter No. 76, do not recover the additional cost of the non-usage sensitive charge shown in Pacific Bell's proposed Schedule Cal. P.U.C. No. 175-T, Sheets 453 and 453-A filed with Advice Letter 15190. (MCI protest letter, page 2.) MCI's reading of the AT&T tariff pages is incorrect.

For interLATA only service, a non-usage sensitive charge is, in fact, explicitly stated on AT&T's Schedule Cal. P.U.C. No. A7, 6th Revised Sheet 12, which was contained in Advice Letter No. 76. Note 2, at the bottom of the page, reads in relevant part:

> "Access lines arranged for interLATA only usage are subject to a special access surcharge of $25.00 (USOC SR8AP) and an end user line charge of $4.78."

The very same provision is contained in the existing tariff page, 5th Revised Sheet 12. A copy of the 5th and 6th Revised Sheet 12, from AT&T's Schedule Cal. P.U.C. No. A7, as filed in Advice Letters No. 61 and 76, is enclosed for reference.

For WATS and 800 Service lines which have both an interLATA and intraLATA calling capability, the applicable surcharge is handled entirely through Local Exchange Company tariffs. As shown in Note 1 on AT&T's Revised Sheet 12, such lines are provided by Local Exchange Companies. Those companies billed the $25 surcharge directly to the end users and subscribers of the WATS/800 lines prior to the Access Phase II decision in June 1985. Thus, the $25 surcharge for those lines was not an access expense incurred by AT&T, and AT&T did not need to recover it from its customers. Similarly, AT&T does not anticipate that the Local Exchange Companies will bill the $25 surcharge, or its equivalent, for combined usage lines to AT&T when the new WATS direct assignment tariff provision goes into effect. Thus, AT&T will have no need to levy any such charge to its customers who purchase combined interLATA and intraLATA WATS/800 service.

MCI's protest to AT&T's Advice Letter No. 76 is unfounded and without merit. AT&T requests that the Commission dismiss the protest with prejudice.

Sincerely,

Hathaway Watson III

Hathaway Watson III
Attorney

Enclosure

cc: Bryan Chang, CPUC
James L. Lewis, MCI
M. J. Miller, Pacific Bell
John M. Jensik, General Telephone

AT&T Communications of California, Inc.
San Francisco, California

SCHEDULE CAL.P.U.C. NO. A7,
5th Revised Sheet 12
Cancels 4th Revised Sheet 12

Network Services Tariff

A7. WIDE AREA TELECOMMUNICATIONS SERVICE

7.1 AT&T WATS AND AT&T 800 SERVICE (Cont'd)
7.1.1 AT&T WATS (Cont'd)

C. RATES AND CHARGES

1. Access Line

a. Access line arranged for combined intra and interLATA usage[1]
b. Access line arranged for interLATA only usage

	Installation Charge	Monthly Rate	USOC
Northern Calif., per line[2]			
- first line, per customer order	$ 514.00	$ 25.00	W1XNC
- each additional line	223.00	25.00	W1XNC
Southern Calif., per line[2]			
- first line, per customer order	514.00	25.00	W1XSC
- each additional line	223.00	25.00	W1XSC
Statewide, per line[2]			
- first line, per customer order	514.00	25.00	W1XFC
- each additional line	223.00	25.00	W1XFC
4 Wire service terminating arrangements			
- installed coincident with interLATA only AT&T WATS Access Line with which associated	-	-	4WA

2. Set-up Charge

	Charge
- Per completed message	$ .15

3. Monthly Usage Rate

The hourly rates apply to the average use per access line within a service group rounded to the nearest tenth of an hour.

	Average Hours of Use Per Line			
Service Area	0-15	15.1-40	40.1-80	Over 80
- No. or So. Cal.	$12.25 (R)	$10.45 (R)	$ 9.55 (R)	$ 8.20 (R)
- Statewide	16.35 (R)	15.45 (R)	14.10 (R)	12.75 (R)

NOTE 1: Provided by the Local Exchange Utility.
NOTE 2: Access lines are furnished with a 2 wire arrangement unless a 4 wire arrangement is requested by the customer. Access lines arranged for interLATA only usage are subject to a special access surcharge of $25.00 (USOC SRBAP) and an end user line charge of $4.78.

Issued by

Advice Letter No. 61
Decision No. 85-03-056

Kenneth R. Parker
Area Manager

Date Filed: MAR 1 4 1986
Effective: MAR 2 4 1986
Resolution No.

AT&T Communications Of California, Inc.
San Francisco, California

SCHEDULE CAL.P.U.C.NO. A7.
6th Revised Sheet 12
Cancels 5th Revised Sheet 12

Network Services Tariff

A7. WIDE AREA TELECOMMUNICATIONS SERVICE

7.1 AT&T WATS AND AT&T 800 SERVICE (Cont'd)
7.1.1 AT&T WATS (Cont'd)

C. RATES AND CHARGES

1. Access Line

a. Access line arranged for combined intra and interLATA usage[1]
b. Access line arranged for interLATA only usage

	Installation Charge	Monthly Rate	USOC
Northern Calif., per line[2]			
- first line, per customer order	$ 514.00	$ 25.00	WIXNC
- each additional line	223.00	25.00	WIXNC
Southern Calif., per line[2]			
- first line, per customer order	514.00	25.00	WIXSC
- each additional line	223.00	25.00	WIXSC
Statewide, per line[2]			
- first line, per customer order	514.00	25.00	WIXFC
- each additional line	223.00	25.00	WIXFC
4 Wire service terminating arrangements - installed coincident with interLATA only AT&T WATS Access Line with which associated	-	-	4WA

2. Set-up Charge

	Charge
- Per completed message	$ .15

3. Monthly Usage Rate

The hourly rates apply to the average use per access line within a service group rounded to the nearest tenth of an hour.

	Average Hours of Use Per Line			
Service Area	0-15	15.1-40	40.1-80	Over 80
- No. or So. Cal.	$ 9.90 (R)	$ 8.60 (R)	$ 7.80 (R)	$ 7.20 (R)
Statewide	11.25 (R)	10.55 (R)	9.35 (R)	8.15 (R)

NOTE 1: Provided by the Local Exchange Utility.
NOTE 2: Access lines are furnished with a 2 wire arrangement unless a 4 wire arrangement is requested by the customer. Access lines arranged for interLATA only usage are subject to a special access surcharge of $25.00 (USOC SRBAP) and an end user line charge of $4.78.

Advice Letter No. 76
Decision No. 86 11 079
85 06 110

Issued by
Kenneth R. Parker
Regional Director

Date Filed: NOV 26 1986
Effective:
Resolution No.

US Sprint
Communications
Company

Pacific Division
900 Airport Blvd., 4B-1
Burlingame, CA 94010
415 375-2229

APPENDIX C

US Sprint

December 11, 1986

Mr. Victor R. Weisser
Executive Director
California Public Utilities
Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: Pacific Bell Advice Letter No. 15190

Dear Mr. Weisser:

US Sprint Communications Company ("US Sprint", U-5112-C) hereby protests Advice Letter No. 15190 filed by Pacific Bell ("Pacific", U-1001-C) on November 21, 1986.

Pacific represents that it filed Advice Letter No. 15190 in compliance with Decision No. ("D.) 85-06-115 dated June 12, 1985 to implement the direct assignment of closed end of WATS ordered in that decision. US Sprint believes this advice letter fails to fully implement the Commission's intent in D.85-06-115 in several respects.

First, in at least one area, the tariff language proposed by Pacific fails to convey clearly the changes in closed end of WATS pricing ordered by the Commission. Ordering Paragraph 6 of D.85-06-115 directs LECs to implement a flash-cut conversion to direct assignment of closed end WATS line costs and the dedicated line pricing of WATS service. An essential component of dedicated pricing of WATS services is the elimination of the application of the Common Carrier Line Charge ("CCLC") to the closed end of WATS lines as is currently prescribed in Pacific's tariff.

Pacific's implementation of the ordered change in its WATS Access Line Service ("WALS"), of necessity, involves changes to numerous tariff pages. Generally, these changes eliminate all references to WALS in the current Switched Access section of the tariff and moves all reference to WALS to the Special Access section of Pacific's tariff. The proposed change to Section 3.4(c) directs application of the CCLC as follows:

> "(c) All Switched Access service except for an IRL...will be subject to Carrier Common Line Access charges." (Underline added for emphasis.)

This language, together with other changes which remove WALS from the "Switched Access" portion of Pacific's tariff, presumably were intended to convey that Pacific does not intend to apply the CCLC to minutes of use ("MOU") on WALS.

However, in light of the past application of the CCLC to WALS and the potential for confusion created by this history, Pacific should be required to incorporate into its tariff a clearer statement that CCLC will not be applied to the closed end of WATS. US Sprint suggests that Pacific utilize language already existing in the Exchange Carrier Association ("ECA") Tariff FCC No. 1, Section 3.2(G) which is included by reference in Pacific's own Tariff FCC No. 128. To implement the direct assignment of the closed end of WATS, Section 3.2(G) states:

> "(G) Where Switched Access Services are connected with Special Access Services at Telephone Company Designated WATS Serving Offices for the provision of WATS or WATS-type Services, Switched Access Service minutes which are carried on that end of the service (i.e., originating minutes for outward WATS and WATS-type services and terminating minutes for inward WATS and WATS-type services) shall not be assessed Carrier Common Line Access per minute charges."

Pacific's proposed tariff language should be amended to include a statement similar to that contained in ECA Tariff FCC No. 1 regarding the application of CCLC to the closed end of WATS.

Second, Pacific's use of 1986 MOU to calculate the proposed CCLC and line termination rates is inappropriate and fails to implement the full access rate reduction ordered by the Commission in D.85-06-115. Pacific describes its method used to calculate CCLC and line termination rates on page 2 of its advice letter. Pacific developed revenue objectives "using the 1986 'adopted' results" and then used 1986 "adopted" MOUs to calculate the proposed rates. Evidence presented in numerous proceedings before the Commission projects continued growth in toll and access MOU in coming years especially given the continuing phased

declines in access rates ordered by the Commission. Use of 1986 MOU to calculate rates which will be collected in 1987 overstates rates to the degree it understates expected MOUs. If the proposed rates are adopted, Pacific will most certainly over-recover CCLC revenues in 1987. Pacific's proposed CCLC and line termination rates should be rejected and Pacific should be required to refile rates based upon projected 1987 MOU.

Finally, Pacific's request for an effective date of January 1, 1987 complies with the date ordered for implementation by the Commission in June of 1985, but violates the Commission's clear intent that implementation of the direct assignment of closed end of WATS be delayed until the ordered reductions in WATS access rates are available equally to all interexchange carriers ("IXCs").

The Commission's order in D.85-06-115 to delay implementation of the direct assignment of the closed end of WATS for a full-year-and-a-half was based upon the Commission's concern regarding the differential effect such pricing changes would have upon different IXCs. The Commission noted that "The record indicates that the hybrid private line/switched services to which OCCs must resort to offer WATS-like services in competition with AT&T-C WATS suffer substantial disadvantages in terms of cost and efficiency of operation.". (Page 70.) Due to the unavailability of equal access for OCCs, the Commission found that "Prior to widespread availability of equal access, only AT&T-C stands to benefit directly from advantageous pricing of WATS access" (page 222). The timing of the implementation of direct assignment was set in the order with a concern for how implementation would effect the development of competition in the interLATA jurisdiction. The Commission clearly deferred implementation of direct assignment until Pacific completed its planned conversions of offices to Feature Group D ("FGD"), based on an assumption that at that time any WATS access reductions would therefore be available to all IXCs equally.

While Pacific's scheduled conversion of end offices has brought a number of improvements in switched access where FGD is available, equality in the provisioning of WATS access has not yet occurred as anticipated in the Commission's order of June 12, 1985. The FCC ordered that exchange carriers including Pacific make available to all IXCs WATS access lines which are unrestricted as to directionality and jurisdiction (Common Carrier Bureau May 20 Order in CC Docket No. 86-181, Midyear 1986 Access Tariff Filings, Memorandum Opinion and Order, Mimeo No. 4621 released

May 20, 1986). The provision of restricted WALS conforms to AT&T historic WATS rate structure and is therefore utilized by AT&T in the provision of WATS service. Unrestricted WALS would be necessary to replace special and switched access arrangements currently used by US Sprint to provide its WATS-like offerings which provide the customer an unrestricted WATS line. The Bureau's May 20 order has been followed by procedural delays to clarify and implement the order. The Commission has, as recently as December 4, issued an order upholding the May 20 order requiring that exchange carriers provide universal WALS. The order, however, is not as yet available for review. Pacific filed revisions to its interstate access tariff, Tariff FCC No. 128, effective September 1986 to implement the May 20 order. However, the terms of its intrastate tariff continue to provide only restricted WATS access lines in conjunction with FGD service.

During this period of FCC and state actions affecting the fate of universal WATS access lines, a viable WATS access service alternative is still not yet available to the OCCs. Further, it is not at all clear that federal and state actions have as yet resolved the issue of whether universal WALS will be provided by Pacific. In the meantime, US Sprint and other OCCs continue to use the same "hybrid private line/switched services" solutions to provide WATS-like services which justified a delay in direct assignment at the time of the Commission's June 12, 1985 decision.

If direct assignment is implemented effective January 1, 1987, AT&T-C continues to be the only interLATA carrier who will benefit from the access reductions. The conditions which led the Commission to defer implementation until January 1, 1987 continue to exist at this time and justify a further delay in implementation. US Sprint believes that, to comply with the Commission's intent in D.85-06-115, this advice filing should be suspended until a viable unrestricted WATS access line is made available to OCCs by Pacific.

Sincerely,

Richard A. Purkey

Richard A. Purkey
Manager, Government Affairs

RAP:km
cc: M. J. Miller, Pacific Bell
Dean Evans - CPUC Staff
Emily Marks - CPUC Staff

APPENDICES C, D & E RESPONSE

M. J. Miller
Executive Director
State Regulatory

140 New Montgomery Street, Room 1709
San Francisco, California 94105
(415) 542-1266

PACIFIC BELL
A Pacific Telesis Company

(U 1001 C)

RECD
PUBLIC UTILITIES COMM.
STATE OF CALIF.
DEC 16 4 29 PM '86

December 16, 1986

James M. McCraney
Deputy Director
Evaluation and Compliance Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear Mr. McCraney:

Re: Pacific Bell Advice Letter No. 15190

As you and the Commission are well aware, on June 12, 1985 the Commission adopted Decision No. 85-06-115 and ordered the commencement of its "SPF to SLU" plan calling for gradual and moderate reductions (over several years) in the assignment of non-traffic sensitive ("NTS") costs to interLATA switched access services with offsetting increases in rates for intraLATA services. The clear intent of this plan is to reduce the burden of cost recovery borne by interLATA services while increasing the burden for other services in order that the Commission could arrive at

> " a reasonable balance, requiring an appropriate contribution toward NTS costs from access services while helping to maintain fair exchange rates." Decision No. 85-06-115, mimeo, p. 61.

For year 1987, the SPF to SLU plan requires implementation of the direct assignment of the costs of intrastate WATS lines to intraLATA services and removal of WATS minutes from determination of the "SPF allocator" for that year. These combined factors (removal of both WATS minutes from determination of SPF and WATS line costs from application of SPF for calculation of total NTS costs) produces the intended reduction in NTS cost assignment (and, therefore Carrier Common

Line ("CCL") rates and revenues) contemplated by Decision No. 85-06-115.

On November 21, 1986, Pacific Bell ("Pacific") submitted for Commission approval Advice Letter No. 15190 setting forth Pacific's proposed implementation of the direct assignment of intrastate WATS. On December 9, 1986 AT&T Communications of California, Inc. ("AT&T") protested Pacific's Advice Letter contending that Pacific had understated the amount of revenue that should be shifted off the CCL to intraLATA services. On December 11, 1986 MCI Telecommunications Corporation ("MCI") and US Sprint Communications Company (US Sprint) also filed protests to Pacific's Advice Letter, though the bent of their comments is decidedly in the opposite direction--- essentially, they both request that no shift occur until a "Universal WATS Access line" (UWAL) is tariffed on an intrastate basis. In addition, MCI has filed with the Commission a document entitled "Petition for Modification of Decision No. 85-06-115" and has asked that the Commission delay implementation of the direct assignment of WATS until this Commission approves an "unscreened and unrestricted WATS access line" that permits the origination and completion of interstate and intrastate calling.

Pacific respectfully submits that none of these positions is well founded, and that its Advice Letter No. 15190 should be approved, without modification, to become effective on January 1, 1987. Set forth below is Pacific's specific response to each of the three protests it has received. In a separate pleading, Pacific will respond to MCI's request for a sweeping and unnecessary change and/or delay in the Commission's SPF to SLU plan, which the Commission should not approve.

PROTESTS OF MCI AND US SPRINT

Since these protests are nearly a mirror of each other, presenting essentially identical claims and arguments, Pacific's response to each is the same. The objections raised by these protests fall into two general categories. First, that technical errors allegedly reside in Pacific's Advice Letter because it is not clear (a) that CCL charges will not apply to the closed end of intrastate WATS lines following the direct assignment of WATS, (b) that it is not clear what line (end user) charges apply for the WATS access line following direct assignment, and (c) that Pacific did not use a correct estimate of minutes in arriving at new CCL rates for 1987. Second, as mentioned above, both interexchange carriers complain that the direct assignment of WATS should be delayed until a jurisdictionally mixed UWAL is made available.

1. Technical Considerations. The technical issues raised by these parties do not in themselves present any basis for rejecting Pacific's proposal, though their concerns over tariff clarity can, to some extent, be addressed. First, Pacific has never intended to "double recover" CCL charges by reflecting the removal of WATS minutes from the CCL calculation and then continuing to impose CCL rates at the closed end of WATS or 800 service. The fact that Pacific did not, in Section 3.4 (c) of its intrastate access tariff, specifically exempt WATS access lines from CCL charges does not compel the interpretation US Sprint and MCI suggest might arise in that the line is provisioned as "special access" out of Section 7 of Pacific's access tariffs. However, Pacific does not oppose a clarification indicating that CCL charges do not apply to WATS access lines.

MCI's complaint about what relevant charges apply to the WATS access line is itself extremely unclear to Pacific (see, p. 2 of its protest and proposed Section 7.5.4 of Pacific's intrastate access tariffs, Sheets 453 and 453-A). What MCI appears to be stating is that it does not understand whether the $25 per month line charge found in Pacific's exchange tariffs will apply to the WATS access line, or whether an additional $25 per month charge is contemplated by this provision. Obviously, no such "extra charge" has ever been approved by the Commission, and no such charge was or is intended. In proposed Section 7.5.4, Pacific has merely cross-referenced the applicable exchange rate for a WATS access line paid by end user customers, and, therefore, Pacific will not be recovering an additional $25 per month that would require an additional reduction in CCL charges, as MCI suggests. It was clearly the intention of the Commission that a single, dedicated line charge apply to WATS lines upon the direct assignment of WATS (see, Decision No. 85-06-115, mimeo, p. 71), and that is precisely what Pacific has provided. MCI's unexplained and unsubstantiated conclusion that this arrangement somehow "fails to comply with" the direct assignment of WATS is wrong, as well as lacking in meaning. Again, however, Pacific does not oppose a simple clarification that a single $25 line charge applies to a WATS access line, though under its proposed tariffs it does not believe that such a clarification is necessary.

MCI's and US Sprint's other complaint about use of 1986 minutes to determine new CCL rates upon the direct assignment of WATS requires no clarification, and Pacific respectfully submits that its use of 1986 minutes is entirely correct and proper. AT&T has raised the same concern in its protest, and Pacific's response to this contention is discussed in greater detail

below. Pacific's use of 1986 costs and 1986 projected usage is fully consistent with the most recent results of operation adopted by the Commission for Pacific (see, Decision No. 86-01-026, dated January 10, 1986, as modified by Decision No. 86-03-049, dated March 5, 1986) and is designed to recover for 1987 no more or no less revenue for CCL service than the Commission determined was appropriate on a 1986 test year basis. In Decision No. 86-01-026 the Commission specifically recognized and adopted a revenue objective for access services predicated on estimated 1986 NTS costs and usage (revenues). Pacific's method of calculation is consistent with these results, and does not require an independent redetermination of 1987 costs and revenues. Application of 1987 usage projections to 1986 NTS costs would not reflect changing 1987 NTS costs. The calculation of 1987 CCL rates most consistent with adopted results is performed in the manner Pacific has employed, and Pacific has correctly used 1986 usage data in performing this calculation.[1]

2. UWAL. MCI and US Sprint's second major objection is directed at the availability of UWALs in California, and here it is urged that the Commission delay implementation of the direct assignment of WATS until an intrastate UWAL is approved by the

---

[1] MCI also said it was "unclear" whether reseller usage was included in the minutes used to determine the new CCL rates (see, MCI's protest, pp. 2-3). MCI's concern that such an omission would cause an understatement of minutes is difficult to fathom, in that the total of reseller minutes (a relatively small number) to all CCL minutes (a base of over 10 billion minutes) is such that a complete inclusion or omission would likely not cause any change in CCL rates. In any event, Pacific has included relevant reseller minutes. The basis for Pacific's minutes of use is its Carrier Access Billing System (CABS), which includes all Feature Group minutes used by resellers. In California, resellers are not required to order exclusively Feature Group services to gather traffic, and will not be required to do so unless and until the Commission approves a change in Individual Resale Line ("IRL") treatment now available in California. Moreover, the proposal of Pacific and the California reseller organization, CALTEL, in the Phase III intrastate access charge hearings (A. 83-06-65), and now before the Commission for approval, is that resellers be exempt from any CCL charges for a period of nine months following adoption of the proposal. If this proposal is adopted it is unlikely that resellers will be required to bear any CCL charges in 1987.

Commission. There are, however, a multitude of reasons for not delaying the implementation of the direct assignment of WATS due to the temporary unavailability of UWALs.

First, MCI and US Sprint have presented an extraordinarily truncated version of the history behind approval of the direct assignment of WATS. It is true that the availability of equal access had a role in the Commission's approval of direct assignment, but nowhere in Decision No. 85-06-115 can there be found even a remote discussion of Pacific making available the jurisdictionally mixed and bi-directional access line MCI and US Sprint now claim to be the lynch pin of direct assignment. At the time Decision No. 85-06-115 was issued, a "universal WATS" line had not been conceived and presented to any regulator, let alone discussed in any way in the Phase II intrastate access charge hearings (the hearings that led to Decision No. 85-06-115). In connection with the direct assignment of WATS, Pacific's obligation is to provide equal access in applicable end offices in order that MCI, US Sprint, AT&T or any other carrier can utilize a banded, screened WATS access line in conjunction with Feature Group D service, and Pacific has done exactly that. As is pointed out in Pacific's Response to MCI's petition to modify Decision No. 85-06-115, Pacific has had such an offering available since June of this year, and through that offering MCI and US Sprint can obtain the same WATS access line as does AT&T in offices where Feature Group D is available. Moreover, today AT&T does not have access to a jurisdictionally mixed and bi-directional WATS access line, and in that regard MCI and US Sprint are in the same position as AT&T. Contrary to the assertions of MCI and US Sprint, the conditions that existed when Decision No. 85-06-115 was rendered do not exist today, and any carrier may, where Feature Group D is available, obtain a jurisdictionally separate and non-bidirectional WATS access line, should they choose to do so.

Additionally, there have been a number of developments at the Federal Communications Commission ("FCC") that MCI and US Sprint have left unmentioned. In its May 30, 1986 Memorandum Opinion and Order the FCC stated that "in requiring the elimination of restrictions on use not generally applicable to special access lines, our Order did not and does not purport to preempt any state restrictions contained in intrastate tariffs or any state laws or restrictions limiting the scope of outside competition." Furthermore, on December 5, 1986 the FCC issued a public news release (Report No. CC-174) stating that the jurisdictional treatment (for separation purposes) of a universal WATS line is a matter that requires further consideration by the Federal and State Joint Board. In short, the book is far from

closed as to what jurisdictional treatment should be accorded a "jurisdictionally mixed" line that MCI and US Sprint desire.

Finally, it should be noted that Pacific has presented to the Commission staff for approval a proposal that offers a jurisdictionally mixed and bi-directional WATS access line. Pacific understands that MCI is aware of this proposal and has no fundamental objection to the offering. For some months prior to submission of this proposal Pacific had several discussions with the staff to resolve the difficult separation issues that accompany this service. Clearly, Pacific's action has not caused the delay of which MCI and US Sprint complain, and as such Pacific's conduct in no way can or should be used as a basis for delaying implementation of the direct assignment of WATS.

AT&T PROTEST

AT&T's objection to Pacific's Advice Letter filing runs in fundamentally the opposite direction than that of MCI or US Sprint - AT&T argues that Pacific has understated the amount of revenue to be shifted with the direct assignment of WATS. According to AT&T, Pacific has (a) applied an incorrect method to determine the amount of the shift, (2) incorrectly used 1986 rather than 1987 minutes of use to arrive at new CCL rates, (3) improperly included inside wire amounts in the NTS costs allocable to interLATA services, and, therefore, (4) should be required to implement its proposed level of shift subject to refund while hearings are held to determine what AT&T assures us will be a higher shift amount. Pacific categorically rejects each of these contentions, and, for the reasons stated below, asks that the Commission do likewise.

1. Method of Calculation. Put most simply, there is no precisely defined method for determining the annual amount of revenue shift under the SPF to SLU plan, and AT&T can point to no such procedure. Granted, yearly allocations are called for and Separations Procedures do apply, but Pacific has undeniably satisfied both of these requirements. Each year Pacific has sought approval of a SPF to SLU reduction, and the change to NTS costs has always been derived from application of standard

Separation Procedures. [2] AT&T's reference (see, its protest p. 4) to a "Commission prescribed methodology" is a misleading exaggeration of the general guidelines that do exist.

The separations based method Pacific has followed is one that maintains consistency with Pacific's most recently adopted results of operations, and for that reason it is a method that is most likely to prevent under or over-recovery of authorized revenues, as determined on a test year basis. Maintaining consistency with adopted results is not only a sensible and reasonable approach to determining the reduction associated with the direct assignment of WATS, it is imperative that Commission authorized and expected revenue levels be recognized if Pacific is to have any fair opportunity to achieve its authorized rate of return. In addition, by maintaining a base reference point to the last adopted results the Commission can assure itself that reasonable reductions are reflected without entering into a full-bloom analysis of Pacific's total results of operations.

Moreover, what AT&T is asking the Commission to do is ignore the precedent already established for determining such reductions. The first SPF to SLU reduction occurred in January of this year, and at that time Pacific determined the level of reduction in a manner very similar to what it is proposing here. The Commission has once approved this method, and it should do so again in order that gradual and moderate reductions can be implemented. It should be noted that the first reduction amount was around $95 million, and Pacific's proposed reduction with Advice Letter No. 15190 is $85.3 million. AT&T predicts that its method could cause an additional $100 million in revenue burden to be shifted to intraLATA services. This, Pacific respectfully submits, is not what the Commission had in mind when it directed that gradual and moderate changes take place.

Finally the Commission should not be led astray by AT&T's claim that Pacific is "over-earning" on access services. To begin with, AT&T's analysis (see, its protest, pp. 6-7) that Decision No. 85-06-115 set access costs on a "fully allocated basis" is faulty. A careful examination of Decision No.

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[2] Pacific's adopted results of operations in its 1986 rate case (the basis for the reduction reflecting the direct assignment of WATS) are derived from application of Separation Procedures used in Pacific 1986 rate case. These results were accepted by the Commission staff and adopted by the Commission in Decision No. 86-01-026.

85-06-115 (mimeo, p. 80) reveals that switched access rates are priced at 30% above their direct costs. In addition, other access elements (such as High Capacity and DDS special access service) are intentionally priced above cost (see, Decision No. 83-12-026, dated December 7, 1983, mimeo, pp. 54-55). These services, as well as the Special Access Surcharge and billing and collection services (also intentionally priced above costs; see, Decision No. 83-12-024, mimeo, p. 125) are what contribute substantially to a high "rate of return" for access services. But, even more important, the Commission has never determined a separate rate of return for access services and directed that earning above such a return be reduced. Instead, the Commission has established a revenue objective for access services that comprises a part of Pacific's total revenue requirement. Pacific is not exceeding its overall authorized rate of return, and, given that condition, determination of a service specific "rate of return" is a meaningless exercise.

Pacific has correctly followed the guidelines set down by the Commission for determining SPF to SLU reductions, including the reduction associated with the direct assignment of WATS, and it should not be required to reflect the extreme upward adjustment AT&T is proposing. If the Commission should determine that some adjustments in methodology are appropriate which cause a greater reduction than Pacific has proposed, Pacific must be permitted to supplement its Advice Letter filing and reflect a greater increase in the intraLATA billing surcharge.

2. Minutes of Use Volumes. Consistent with the use of 1986 cost data, Pacific employed 1986 usage data to arrive at the unit rates for premium and non-premium CCL. Pacific used these volumes because it is not appropriate, when utilizing test year data, to selectively move outside of the test year period for some elements of cost, revenue or usage without making like adjustments in all other elements. For example, if updated volumes (1987 volumes) were used with 1986 costs, as is suggested by AT&T, unit rates could be overstated or understated depending on what changes in NTS costs could be anticipated for 1987. Without a redetermination of "1987 costs", AT&T cannot predict that unit rates will be unnecessarily high. If conditions in 1987 are such that costs outrun volumes, unit rates could be under-stated, as would be true for total revenues. Pacific's estimation method is one that is most consistent with the Commission's last adopted view of Pacific's results of operations, and one that is internally consistent with itself through use of data common to an identified period of time.

AT&T's proposed approach satisfies neither of these valid objectives.

3. Inside Wire. In its effort to have the Commission recognize a reduction of some $100 million more than has been recommended by Pacific, AT&T is asking that the Commission take precipitous action on the topic of inside wire. AT&T's concern here is that some components of inside wire remain in the NTS cost calculation used by Pacific even though the FCC has directed that all inside wire be "detariffed" on January 1, 1987. (Second Report and Order, CC Docket No. 79-105, adopted January 30, 1986.) Because Pacific has proposed a charge for maintenance of inside wire, AT&T contends that "double recovery" will occur.

The fundamental problem with AT&T's arguement is that action by the FCC does not necessarily cause a reduction in Pacific's intrastate rate base for detariffed inside wire. In fact, the Commission has filed pleadings with the FCC requesting a stay of the FCC order and rehearing on the issue of intrastate accounting treatment for detariffed inside wire. In addition, in Decision No. 86-07-049 (dated July 16, 1986) the Commission indicated (at mimeo, p. 5) that the FCC lacked authority to preempt every aspect of state regualtion of inside wire. What the Commission has asked of the FCC in the above described pleadings is that the intrastate maintenance and installation expense associated with inside wire continue under regulation. Pacific has reflected this in its Advice Letter filing and unless and until this Commission directs that such expenses are to be removed from Pacific's intrastate rate base, Pacific must continue to reflect their recovery through tariffed rates, including access rates. This accepted approach to recovery of intrastate inside wire expenses does not result in double recovery. Should the Commission determine that rate reductions should result from Pacific's inside wire charging plan, these reductions can be reflected at an appropriate time as directed by the Commission.

4. AT&T's Proposed "Remedy". AT&T's proposed solution to the problem it has invented is to gain the benefit of an immediate reduction in access rates, subject to refund if the Commission determines later that a greater amount of shift should be implemented. Pacific disagrees that any further shift is appropriate at this time, but has even further difficulty with AT&T's proposed solution. It is impossible to implement AT&T's proposal because it is not possible for Pacific to retroactively receive any additional amount of shift that may be subsequently determined. Furthermore, it would not be possible under AT&T's approach for AT&T to flow through on a contemporaneous basis all

of the access savings associated with a later determined increase in shift amount. "Flow-through" of access savings is a fundamental precept of the SPF to SLU plan, and what AT&T appears to be suggesting is that any further shift amount determined by the Commission would simply be pocketed by AT&T.

There is no need to change the method of calculation used by Pacific, and there is certainly no justification for adopting a so-called "minimum" amount subject to refund. It is impossible to fairly administer such a procedure, and for that reason it must be rejected. Such a process is directly at odds with the simultaneous shift in interLATA and intraLATA revenue recovery burden contemplated by the Commission when it approved the SPF to SLU plan in Decision No. 85-06-115.

SUMMARY

The protests of MCI, US Sprint and AT&T should not be approved or acted on by the Commission. Except for the "universal WATS" access line, MCI's and US Sprint's concerns can be addressed by tariff clarifications; development of the special WATS access line they desire is progressing and cannot constitute a basis for a delay in the direct assignment of WATS. As for AT&T, its proposed methodology for determining the amount of shifted revenue is nowhere specifically approved by the Commission. In addition, it results in a large and abrupt increase in anticipated interLATA revenue reductions that is inconsistent with the Commission's intention to gradually and moderately implement such changes. The Commission will not advance its objectives by following AT&T's lead, and, accordingly AT&T's suggestions should not be adopted. However, if AT&T's recommended higher amount of shift is recognized then Pacific must be permitted to increase the intraLATA surcharge.

For all of the above reasons, Pacific respectfully requests that each of the above mentioned protests be denied.

M. J. MILLER
Executive Director
State Regulatory

cc: Service List A. 83-06-65

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December 11, 1986

James M. McCraney
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California Public Utilities Commission
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Re: Pacific Bell Advice Letter No. 15190

Dear Mr. McCraney:

MCI Telecommunications Corporation (MCI) hereby protests Pacific Bell's Advice Letter No. 15190. This Advice Letter was filed on November 21, 1986 with a proposed effective date of January 1, 1987.

Pacific's Advice Letter proposes to implement Ordering Paragraph 6 of Decision No. 85-06-115, dated June 12, 1985. This filing would directly assign the closed end of a WATS access line to the WATS access service and revise the CCLC rate accordingly. As MCI describes below, Pacific's proposed tariff language does not properly implement the Commission's decision. Moreover, MCI requests that Advice Letter 15190 be suspended until WATS equal access, as manifest by an unrestricted WAT access line (WAL) is available. At that time Advice Letter 15190, with the necessary corrections discussed below, should be allowed to take effect.

ADVICE LETTER 15190 IS UNCLEAR AND DOES NOT APPEAR TO IMPLEMENT THE DIRECT ASSIGNMENT OF WATS CORRECTLY

Pacific Bell proposes several changes to its rates in Advice Letter 15190. In summary, it proposes to reduce the premium carrier common line charge to $.0433 per minute from $.0459 (non-premium is reduced to $.0338 from $.0359). The proposed line termination rate is reduced to $.0041 from $.0046. In addition the IntraLATA billing surcharge is increased to 4.13% in order to recover the revenues previously recovered by the CCLC. What appears to missing is language exempting the closed end of the WATS line from the CCLC and a special access rate to recover some of the revenues that previously were recovered by the CCLC. Some background on the mechanics of direct assignment will show why these provisions are necessary.

The closed end of a WATS line is that portion of the plant associated with that service that is dedicated to WATS traffic. For OutWATS service this is the originating end. For

800/InWATS it is the terminating end. Direct assignment treats the closed end of a WATS line as a special, dedicated line for rate purposes, even though it is functionally a switched service. It does this by exempting the closed end from the usage sensitive CCLC and creating a new non-usage sensitive monthly rate in the special access tariff. Because WATS access lines carry higher than average volumes of traffic the special access charge will, in most cases, recover less revenue than had previously been recovered by the CCLC. In addition, the removal of the closed end line costs and the associated minutes of use from the CCLC rate calculation will reduce this rate also. These two rate changes, the exemption of the closed end and the reduction in the CCLC, will produce a revenue shortfall which must be recovered from other services if an LEC's revenue requirement remains unchanged. The CPUC has elected to recover these revenues through a surcharge on intraLATA rates.

MCI's does not find, in its review of Advice Letter 15190 the rates and terms and conditions that are necessary to implement the direct assignment of WATS lines. Section 3 of Schedule Cal. P.U.C No.175-T contains no language which would exempt the closed end of a WATS line from the CCLC. There currently is language in Section 3.4.(C) of Schedule Cal. P.U.C. No. 175-T, sheet 91 that describes which services will be subject to the CCLC. This reads:

"All switched Access services except for an IRL, provided under this tariff ordered by the customer, will be subject to Carrier Common Line Access Charges."

Since a WATS access line is a switched service subject to switched access charges, however, the above language does not appear to provide any special rate treatment different from switched access rates. Rather, it appears to reinforce the current situation that a WATS access line is liable for the CCLC on both the open and closed ends. There is no other language in the tariff that provides the necessary exemption.

Without this exemption language Pacific can continue to recover the CCLC from both the open and closed ends of a WATS access line and, as result, grossly overrecover its revenue objective at the expense of all its ratepayers.

Further, MCI does not find the new special access charge for WATS access lines in section 7 of Schedule Cal P.U.C. No. 175-T. Pacific has added both 2-wire and 4-wire WATS access lines to Section 7.5.4 of 175-T. The tariff notation here indicates, however, that these are changes to the existing tariff, not new charges. Therefore it is unclear whether these rates are in addition to the existing monthly rates charged by Pacific Bell's Schedule Cal. P.U.C. No. A7, or a new option that allows the interexchange carrier to order an access line directly for its customers. If this is an additional charge in the existing tariff,then Advice Letter 15190 could be interpreted as an increase in the cost of a WATS access line from $25 to $50 per month (excluding the current special access surcharge applied to WATS access lines) with no commensurate reduction in the CCLC applied to the closed end. Once again, this will result in an overrecovery of revenues by Pacific Bell. If the opposite interpretation, that this is an alternative rather than additional charge, is assumed then Pacific has failed to comply with the Commission's order to implement the direct assignment of WATS.

In addition to the issues discussed above, MCI believes that Pacific has understated the minutes of use used to calculate the CCLC and has, therefore, overstated the per minute CCLC costs. Pacific states in its Advice Letter that "...the 1986 adopted minutes of use were used to develop the CCLC and line termination rates." Because switched minutes of use have grown steadily each year, Pacific's use of 1986 volumes will overrecover the 1987 NTS revenue requirement. Also, Pacific's treatment of resellers'

traffic is unclear in its filing. If, as it appears, Pacific does not include the resellers' minutes of use in the CCLC calculation this will increase the overestimation caused by the use of 1986 minutes of use and will increase the potential overrecovery further.

IT IS PREMATURE TO IMPLEMENT THE DIRECT ASSIGNMENT OF WATS ACCESS LINES PRIOR TO THE AVAILABILITY OF EQUAL ACCESS WATS

In Decision No. 85-06-115, the Commission recognized that adopting the direct assignment of WATS for intrastate ratemaking purposes would disadvantage OCCs which, because of the type of access and services available only to AT&T, were not able to offer a WATS product competitive and comparable in price to that of AT&T. Finding of Fact 20 in D. 85-06-115 states:

> " Deferral of direct assignment of closed end WATS lines and application of switched access charges to WATS until substantial achievement of equal access fairly and adequately addresses the OCCs concerns."

The Commission ordered the local exchange companies to delay the implementation of the direct assignment until January 1, 1987, a date, in the Commission's view, when equal access for WATS would be widely available. While it is true that Pacific Bell had converted almost seventy percent of its lines to equal access by this past September and General Telephone has converted 30-40% percent, due to Pacific's delay of appropriate WATS access lines OCCs are still unable to offer a WATS product which is comparable in price and competitive with AT&T's WATS service. Thus, the conditions which led to the Commission to delay the direct assignment until January 1, 1987 persist.

MCI's request to delay the implementation of direct assignment until a competitive WATS access line is available to all carriers is reasonable. In May of this year the Common Carrier Bureau of the Federal Communications Commission, in Memorandum Opinion and Orders dated May 20 and 30, ordered all local exchange companies to provide interexchange carriers with an unrestricted WATS access line by June 1, 1986, the same day on which direct assignment was due to take effect in the interstate jurisdiction. Many local exchange carriers in other jurisdictions have filed the tariffs necessary to comply with the Common Carrier Bureau's order and are currently providing OCCs with unrestricted WATS access. Pacific requested and received a waiver from the FCC to delay its implementation of an unrestricted WAL until September 1, 1986. Nearly four months later, Pacific has yet to provide such an unrestricted WAL.

MCI believes that failure to provide unrestricted WALs to all IECs justifies a deferral of the implementation of direct assignment, and has filed contemporaneously with this protest a Petition for Modification of Decision No. 85-06-115. The arguments cited in MCI's Petition for Modification support a rejection of Pacific's Advice Letter 15190, and are incorporated by refenence here.

MCI REQUESTS THE CPUC TO SUSPEND THE EFFECTIVE DATE OF ADVICE LETTER 15190 UNTIL A UNIVERSAL WATS ACCESS LINE IS TARIFFED AND AVAILABLE.

The Commission has several options available that would allow the direct assignment to be implemented post haste in a fair and judicious fashion. It could, for example,

advise Pacific and other carriers that it favors the immediate provision of unrestricted WATS access lines. This action would obviate the need for any delay in the implementation of direct assignment. The Commission could also suspend the proposed tariff, and make its effectiveness contingent on the effectiveness of Pacific's imminent tariff for WALs. It could also suspend the tariff until MCI's petition for Modification is ruled upon. If in any of theses action, the Commission orders Pacific to provide the delayed service, they will have greatly reduced the need for any delay of the direct assignment tariff of Pacific.

In addition, the rates and charges language proposed in Advice Letter 15190, and cited above, should be clarified. The current language in Pacific Bell's Tariff F.C.C. 128, Section 3.2.G should be used as a model for the intrastate tariff. The purpose and applicability of the special access rate contained in Schedule Cal. P.U.C. No. 175-T Section 7.5.4 should be clarified or changed so that WATS customers, IECs, and even intraLATA customers (through an inappropriate surcharge) are not penalized to Pacific's overrecovered benefit.

Respectfully,

James L. Lewis
Mary Wand
Kevin Timpane

cc: Dean Evans, CPUC
Marlin Ard, Pacific Bell
D.C. Shull, Pacific Bell

APPENDIX E

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of PACIFIC BELL)
Advice Letter No. 15190)
)

PROTEST OF AT&T COMMUNICATIONS OF CALIFORNIA, INC. (U 5002 C)
TO ADVICE LETTER NO. 15190

December 9, 1986

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APPENDIX E

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of PACIFIC BELL)
Advice Letter No. 15190)
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PROTEST OF AT&T COMMUNICATIONS OF CALIFORNIA, INC. (U 5002 C)
TO ADVICE LETTER NO. 15190

Pursuant to General Order 96A III H, AT&T Communications of California, Inc. (AT&T) herein submits its protest to Pacific Bell (Pacific) Advice Letter No. 15190. Advice Letter No. 15190 was filed with the Commission on November 21, 1986 to become effective on January 1, 1987.

Pacific Bell's Advice Letter No. 15190 purports to reduce its intrastate interLATA carrier common line and line termination revenue objectives in accordance with Decision No. 83-12-024 (Access Phase I decision) and Decision No. 85-06-115 (Access Phase II decision). In fact, the Advice Letter fails to conform to these access decisions, overstates Pacific's Carrier Common Line Charge (CCLC) and would result in an overpayment by toll service users to Pacific of $50 to $100 million. The Advice Letter violates several explicit policy directives of the Commission respecting the calculation of annual NTS costs to be allocated to Pacific's intrastate access service:

- The proposed 1987 intrastate Carrier Common Line and Line Termination revenue objective is not based on an estimate of separated 1987 NTS costs but on an arbitrary calculation

derived by multiplying the current 1986 Carrier Common Line Charge by Pacific's "adopted" 1986 forecast of switched access minutes of use. This constitutes at least a $26 million error. In addition, although inside wire (IH) will be detariffed on January 1, 1987, Pacific failed to remove IH maintenance expenses from its NTS costs recovered through its CCLC. This IH maintenance expense amounts to about $15 million. The result of these two errors creates an inflated starting point from which the 1987 reductions for IH, customer premise equipment (CPE) and HATS direct assignment are subtracted.

- Pacific then divided its remaining NTS revenue objective by its 1986 estimated intrastate switched access minutes of use (MOUs) to calculate the new CCLC for 1987. This procedure creates an inflated CCLC, because the 1986 estimated volumes will clearly understate any realistic estimate of 1987 volumes. This error generates anywhere from $25 million to $38 million in overrecovered revenues.

These errors undermine the fundamental purpose of the Commission's ordered access charge reduction plan and would result in unreasonable and above-normal earnings for Pacific on its access services. Pacific will earn at least 17.08% on its access services for the test year 1986, and if the Advice Letter is approved, will earn an even higher rate of return in 1987.

I. Pacific's Methodology Is Inconsistent With The Commission's Intended Plan To Achieve Cost Based Access Rates.

In the first access decision, Decision No. 83-12-024, the Commission clearly enunciated the proper methodology to be used in developing the non-traffic sensitive (NTS) revenue objective. Conclusion of Law 15 on mimeo page 156 states, in part:

> "Base revenue requirement for access services should be calculated according to Separations Manual procedures including, at the present time, an allocation of NTS subscriber plant cost based on frozen SPF ..."

This conclusion of law clearly recognizes that the Carrier Common Line Charge is to be calculated yearly based on the Company's NTS costs allocated between toll and local services according to Separations Manual procedures. In fact, Pacific's witness Dr. Bruins devoted a substantial portion of his testimony in the Access Phase II case in support of his allocation of NTS costs between interLATA toll and intraLATA toll using a modified version of the Frozen SPF (Application 83-06-65, Ex. 809). The Federal Communications Commission (FCC) has required this same procedure for annual interstate access filings.

The issue of whether the CCLC should be based on actual NTS costs arose again in the Access Phase II "Urgent Issues Phase." In that proceeding, Pacific proposed to reduce its Directory Assistance access charges and shift an alleged revenue shortfall to a residually priced CCLC. In Decision No. 85-01-010, the Commission rejected Pacific Bell's proposal.

> "We have previously determined that one of those principles, governing the calculation of access services revenue requirement, is that the CCLCs should be calculated not residually, but rather to cover the full allocation of NTS costs based on Separations Manual procedures ..." (emphasis added) (D. 85-01-010, mimeo, p.63).

In Decision No. 85-06-115 the Commission approved its SPF to SLU transition program, and reaffirmed this methodology:

> "In D.85-01-010 we concluded that 'the CCLCs should be calculated to cover the full allocation (to access services) of NTS costs (except NTS Cat 6 costs) based on Separations Manual procedures.' (Id., mimeo. at 11.) Adoption of a SPF to SLU transition represents a departure from the Separations Manual, but should not sever the tie we have established between the explicit level of CCLCs." (D.85-06-115, mimeo at 64.)

Pacific, however, has substantially deviated from the Commission's prescribed methodology. In the Access Phase III proceeding, Pacific's access witness, Mr. Oliver, admitted that Pacific developed a base NTS revenue objective to which the 1986 SPF to SLU phase-down was applied that had no relation to Separations Manual assigned NTS costs. Rather, Pacific simply multiplied the 1985 Carrier Common Line Charge by the estimated 1986 switched access minutes. (Application No.83-06-65, Tr. 14, pp. 1788-1789.) This simple multiplication method had no relation to the Company's 1986 NTS costs or the Separations Manual. It was an arbitrary calculation which was and is inconsistent with the Commission's clear policy objective of:

> "gradually and moderately diminishing the access services revenue requirement as a means of addressing the long-term bypass problem." (D. 83-12-024, mimeo at 103-104).

Pacific's access witness, Mr. Oliver, admitted that, had Pacific derived the base NTS revenue objective for 1986 (from which the first SPF to SLU phase-down was deducted) using the Separations Manual procedures, the base NTS revenue objective would have been about $601 million. (Application No. 83-06-65, Tr. 21, pp. 2749-2750.) However, Pacific's "rate times volume" methodology generated a base NTS revenue objective of $627.2 million for 1986.* Pacific then reduced this $627.2 million NTS revenue objective to $537.8 million as a result of the first year SPF to SLU phase-down (plus the CPE and IH reductions). If the appropriate base NTS revenue objective of $601 million had been used as a starting point, Pacific's first year phase-down would have resulted in an NTS revenue objective of $511.8 million.

In Advice Letter 15190, Pacific stated that "The Intrastate Carrier Common Line and Line Termination revenue objective reductions were developed on an industry basis using the 1986 'adopted' results." (Advice Letter, mimeo, p. 2). Pacific's reliance on rate case "adopted" results as a required basis for its calculations is in fact only a convenient rationale to sustain artificially high Carrier Common Line Charges. It is clear from this admission and the workpapers associated with Advice Letter No. 15190 (workpaper 3-1) that Pacific again simply

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* To put this figure in perspective, the Commission in Decision No. 85-06-115, issued in June 1985, adopted a cost based NTS revenue objective of $558 million after the removal of the incremental 2% rate of return (mimeo at p. 82).

multiplied the 1986 CCLC by the estimated 1986 access MOUs to derive an intrastate interLATA NTS revenue objective of $540 million. Pacific's methodology does not comply with the Commission's Decision No. 85-06-115 ordering the use of Separations Manual procedures to allocate the 1987 NTS costs of the Company. It is inappropriate for Pacific to employ traditional rate case procedures in the implementation of the SPF to SLU transition plan. The Commission's intent is to shift actual company NTS costs on a yearly basis, not to adopt annual revenue objectives based on the last approved rate case volumes.

Pacific's continued use of this incorrect methodology for 1987 compounds the error begun with the first year of the SPF to SLU transition plan, and should not be perpetuated. Unless the NTS revenue objective is cost based and allocated yearly on a Separations Manual basis, neither the CCLC nor the SPF to SLU transition will retain any relation to the company's NTS costs.

Nothing could illustrate the inappropriateness of Pacific's methodology better than the level of earnings Pacific is apparently accumulating on access services. On November 12, 1986, CPUC Staff Project Manager Marks mailed to all appearances in Application 85-01-034 (the Pacific rate case) an adopted summary of separated earnings for test year 1986 reflecting a range of rates of return on intrastate access services from 17.08% to 23.32%. Such high rates of return suggest that Pacific's access could be reduced substantially and still earn Pacific's 12.20% authorized rate of return.

The Commission has specifically set Pacific's access category rate of return at the Company's overall rate of return. In Decision No. 83-12-024, when access charges were first approved, the Commission authorized Pacific to recover a 2% rate of return increment above the overall authorized level in calculating the access charge revenue requirement. (D. 83-12-024, mimeo at 105). That 2% rate of return increment was specifically removed in Decision 85-06-115, (mimeo p. 42). Thus, the Commission intended that access services earn the Company's authorized rate of return. Decision No. 85-06-115 also set Pacific's switched access rates on a fully allocated cost basis. (D. 85-06-115, mimeo, p. 80). Therefore, it is clear that Pacific's calculation of its NTS revenue objective -- not traffic sensitive revenue -- is a primary driver of the 17% - 23% rate of return on access services.

II. Pacific Bell Erred in Not Computing the Carrier Common Line Charge Using 1987 Estimated Access Volumes.

On mimeo page 2 of Advice Letter 15190, Pacific Bell stated:

> "Since the 1986 adopted results were our starting point, the 1986 adopted Minutes of Use (MOU) were used to develop the CCLC and Line Termination rate."

In fact, there is no justification at all for using 1986 MOUs to establish a 1987 CCLC. In the Access Phase III case, A. 83-06-65, Pacific witness Oliver agreed that switched access minutes grow approximately 7% to 10% a year. (Application No. 83-06-65, Tr. pp. 1889, 1891). In essence, by using 1986 MOUs Pacific is requesting that the

Commission approve a 7% to 10% over-recovery of its 1987 NTS revenue objective assigned to interLATA access services.

No Commission decision requires the use of "adopted" MOUs for use in the SPF to SLU transition phase-down. Indeed, such a procedure is wholly illogical. The 1986 MOUs have already been used for the March, 1986 SPF to SLU phase-down. The Commission, in establishing its SPF to SLU transition plan, called for "annual adjustments in the transitional NTS cost allocator, to be coordinated with annual advice filings of recalculated CCLCs and revised intraLATA surcharge based on the newly adjusted NTS cost allocator." (D. 85-06-115, p. 64, emphasis added). Regardless of the methodology used to develop the NTS revenue objective subsequent to the SPF to SLU, IH and CPE phase-down, it is inequitable to force toll ratepayers to overpay the resultant carrier common line charge to Pacific because of an understated MOU estimate. By ratcheting up the recovery of NTS costs each year through the use of outdated MOU estimates, Pacific is not implementing the Commission's intended plan to gradually diminish the access service revenue requirement.

III. Pacific Bell Has Not Removed Inside Wire Maintenance Expenses from Their NTS Costs

The FCC has ordered the detariffing of inside wire as of January 1 1987.* Pacific has a maintenance plan approved by the

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* Second Report and Order, CC Docket No. 79-105, adopted January 30, 1986 and released February 24, 1986, paras. 55 and 56, reaffirmed by Memorandum Opinion and Order, CC Docket No. 79-105, adopted November 13, 1986, released November 21, 1986.

Commission that is being offered to its residential and business customers to recover potential maintenance expenses. (Decision No. 86-07-049.) This plan could potentially bring Pacific upwards of $50 to $70 million per year in below-the-line revenue. Yet Pacific has not reduced the inside wire maintenance expenses from its 1987 NTS revenue objective for access services. This will lead to a double recovery of the IH maintenance costs, unless adjusted by the Commission.

There is no acceptable basis for permitting a double recovery of this item. By its very nature, an item that is removed from the rate base cannot continue to generate a revenue requirement to be recovered from ratepayers. Pacific Bell should not be permitted to recover these costs through its approved maintenance plan while also recovering these same costs through tariffed services. Based on an analysis of Pacific's October, 1986 interstate access filing, its inside wire maintenance expense should constitute approximately $15 million in intrastate NTS costs that must be removed from the 1987 Carrier Common Line Charge calculation.

IV. The Commission Should Make the 1987 Pacific Bell Carrier Common Line Charge Subject to Refund and Order a Hearing On the Proper SPF to SLU Phase-down Methodology.

Although Pacific's Advice Letter No. 15190 is clearly in error, a delay in reducing intrastate access charges is not in the public interest. Therefore, it is not appropriate to simply reject Pacific's Advice Letter. Rather, AT&T respectfully requests that the Commission

allow the NTS cost reduction of $85.3 million represented by Pacific's present filing to go into effect as a minimum amount. However, it is further requested that Pacific's proposed $.0433 carrier common line charge go into effect subject to refund and that a hearing be ordered to determine the corrected CCLC based on the proper amount of 1987 NTS cost allocation to access service. In addition the Commission should reaffirm that the CCLC must be based on a Separations Manual allocation of the company's NTS costs on its books of account.

This problem was foreseen as early as August 1986 when AT&T, in its Access Phase III brief in A. 83-06-065, warned that Pacific was not correctly implementing the SPF to SLU transition plan ordered in Decision No. 85-06-115. It remains necessary for the Commission to act on this matter.

Dated this 9th day of December, 1986.

Respectfully submitted

Randolph W Deutsch

Richard A. Bromley
Randolph W. Deutsch

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APPENDIX F

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of General Telephone Company of California Advice Letter No. 5052

PROTEST OF AT&T COMMUNICATIONS OF CALIFORNIA, INC. (U 5002 C) TO ADVICE LETTER NO. 5052

Pursuant to General Order 96A III H, AT&T Communications of California, Inc. (AT&T) herein submits its protest to General Telephone Company of California (General) Advice Letter No. 5052. Advice Letter No. 5052 was filed on November 21, 1986 to become effective on January 1, 1987.

Advice Letter No. 5052 purports to reduce the intrastate interLATA Carrier Common Line Charge (CCLC) in accordance with Decision No. 83-12-024 (Access Phase I decision) and Decision No. 85-06-115 (Access Phase II decision). However, the Advice Letter fails to conform to these access decisions. The CCLC set forth in Advice Letter No. 5052 is overstated for several reasons.

- The proposed 1987 intrastate CCL revenue objective is not based on an estimate of separated 1987 NTS costs but on an arbitrary attrition revenue growth estimate from the adopted 1984 Carrier Common Line revenue objective. In addition, although inside wire (IH) will be detariffed on January 1, 1987, General failed to remove IH maintenance expenses from

its Carrier Common Line revenue objective. The result of these two errors creates an inflated starting point from which the 1987 reductions for IW, customer premise equpment (CPE) and WATS direct assignment are subtracted.

- General then divided the remaining NTS revenue objective by 1986 estimated intrastate switched access minutes of use (MOUs) to calculate the new CCLC for 1987. This creates an inflated CCLC. The 1986 estimated volumes will clearly understate any realistic estimate of 1987 volumes.

I.
General Telephone's Methodology Is Inconsistent With the Commission's Intended Plan to Achieve Cost-Based Access Rates.

In the first access decision, Decision No. 83-12-024, the Commission clearly enunciated the proper methodology to be used in developing the non-traffic sensitive (NTS) revenue objective. Conclusion of Law 15 on mimeo page 156 states, in part:

> "Base revenue requirement for access services should be calculated according to Separations Manual procedures including, at the present time, an allocation of NTS subscriber plant cost based on frozen SPF ..."

This conclusion of law is a recognition that the CCLC is to be calculated yearly based on the company's NTS costs allocated using Separations Manual procedures. This is the same procedure required by the Federal Communications Commission (FCC) for annual interstate access

filings. This Commission has adopted the Separations Manual for assigning intrastate costs between toll and local services.

In Decision No. 83-12-024, the Commission, permitted General to implement its own access tariff "consistent with the access rate design and revenue requirement principles established in this decision, to be effective January 1, 1984" (footnote omitted) (D. 8-12-024, mimeo, p. 137).

In the Access Phase II, Urgent Issues Phase, General defended its first NTS revenue objective as being set in accordance with the Separations Manual procedures. (See Decision No. 85-01-010, at mimeo, p. 12.) The Commission reviewed General's methodology in detail and concluded that:

> "In D.83-12-024 we described staff's method of allocating NTS costs as 'applying the current Separations Manual including the present SPF factor ... rather than the 25% gross allocator which is expected to be adopted soon.'
>
> ... We adopted the staff method including, at the present time, an allocation of NTS subscriber plant costs based on the frozen SPF factor; ....
>
> We find that General has calculated its CCLC revenue requirement based upon an allocation of NTS costs fully consistent with the principles of D.83-12-024." (D.85-01-010, mimeo, p. 15).

That approved CCLC revenue requirement for 1984 was $113.5 million.

General has failed, however, to follow the dictates of Decision No. 83-12-024 in determining its subsequent years' CCLC revenue

objectives thereby compounding an error reflected in the proposed 1987 CCLC revenue objective. This can be seen on the first page of the worksheet supporting Advice Letter No. 5052 entitled "General Telephone Company of California Calculation of the 1986 CCL Revenue Requirement". The 1985 attrition year total CCLC revenue objective was $122.55 million (Line 9, col. 2) reflecting multiplication of the 1984 adopted CCLC revenue requirement by General's proposed attrition revenue growth estimate of 7.63%. Reductions were made for IN (Line 5, col. 2 vs. col 1) and for CPE (Line 6, col. 2 vs. col. 1). However, in order to realize the desired $122.55 million CCLC revenue objective, General arbitrarily adjusted the category "CCL-other" on line 2 from $70.344 million in 1984 to $86.8343 million in 1985--a 23% rate of growth. It is obvious that no attempt was made to assign through Separations Manual procedures the actual Company NTS costs.

The same flawed methodology was employed in calculating the 1986 CCLC revenue objective with the exception that an attrition growth rate of 6.64% was employed. This can be seen from column 5 (after the 2% incremental rate of return was removed in column 4). The effect in 1986 was to adjust "CCL-other" on line 2 from $80.901 million in 1985 to $96.382 in 1986--a 19% growth rate.

This methodology of establishing the total CCL revenue requirement by an attrition growth factor and then making arbitrary adjustments in the "CCL other" (local loops) category, which completely offset IN and CPE reductions, is inconsistent with any type of cost related development of the annual CCLC. The methodology has also allowed

General to double recover its attrition related revenue requirement from access services. In these same years, General applied and recovered an attrition surcharge from access services (4.83% in 1985 and 8.48% in 1986).

In Advice Letter 5052, General has again failed to calculate a cost-based CCLC for 1987, thereby violating both the letter and spirit of Decisions No. 83-12-024 and No. 85-06-115. Rather, General merely took the 1986 CCLC revenue objective described above and removed the HATS minutes and then reduced the amount by the 1987 IH and CPE phase-down (Column 6). Further, General has not indicated any intention to remove the 8.48% attrition surcharge which constitutes a continued double recovery of attrition growth.

AT&T requests that General be required to develop the 1987 CCLC revenue objective based on separated NTS costs from its books of account.

II.
General Erred In Not Computing the Carrier Common Line Charge Using 1987 Estimated Access Volumes.

General acknowledged in its workpapers supporting Advice Letter No. 5052 that it determined the 1987 CCLC of $.05817 using 1986 estimated access volumes. There is no explanation as to why estimated 1987 volumes were not used. In its concurrent access reduction filing (Advice Letter No. 15190) Pacific Bell argued that it used available "1986 adopted results" and "1986 adopted volumes" because of its 1986 rate decision. General cannot even claim this dubious logic. The Commission did not

approve of any "adopted 1986 volumes" for General.* There is no justification for not developing the 1987 CCLC using estimated 1987 volumes.

Pacific Bell's witness in the Access Phase III proceeding, Mr. Oliver, testified that the growth rate in access minutes is 7% to 10% per year. (Application 83-06-65, Tr. pp. 1889-1891). There is no reason to believe that General's growth rate is any different. In fact, General used these same growth estimates in its interstate access filing. Therefore, use of 1986 estimated access minutes will cause General to overrecover its 1987 CCLC revenue requirement by 7% to 10% or about $7 to $10 million. Regardless of the methodology used to develop the 1987 revenue objective, it is inequitable to force toll ratepayers to overpay the CCLC because of an outdated minutes of use estimate. By ratcheting up the recovery of NTS costs each year through the use of outdated minutes of use estimates, General is not implementing the Commission's intended plan to gradually diminish the access service revenue requirement.

The Commission, in establishing its SPF to SLU transition phase-down, called for "annual adjustments in the transitional NTS cost allocator, to be coordinated with annual advice filings of recalculated CCLCs and revised intraLATA surcharge based on the newly adjusted NTS cost allocator." (D.85-06-115, p. 64). (Emphasis added.)

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* The 1986 General attrition decision, Decision 85-12-081 did not investigate or specifically adopt 1986 test year volumes. Rather, a linear regression was used to trend up General's projected revenues per access line.

III.
General Failed to Remove Inside Wire Maintenance Expenses from Its NTS Costs.

The FCC has ordered the detariffing of inside wire as of January 1, 1987.* However, General has failed to remove the inside wire maintenance expenses from its 1987 NTS cost allocation to access services. General now has the ability to sell the service on the open market in a manner similar to Pacific Bell's maintenance plan with "below-the-line" revenues. (Decision No. 86-07-049). General cannot at the same time seek to include maintenance expense for a detarrifed item in its tariffed rates. The inside wire maintenance expense constitutes approximately $5.39 million in NTS costs that must be removed from the 1987 CCLC.

IV.
The Commission Should Make the 1987 General Telephone Carrier Common Line Charge Subject to Refund and Order a Hearing on the Proper SPF to SLU Phase-Down Methodology.

Although General's Advice Letter No. 5052 is clearly in error, a delay in reducing intrastate access charges is not in the public interest. Therefore, it is not appropriate to simply reject General's Advice Letter. Rather, AT&T respectfully requests that the Commission allow the NTS cost reduction of $7.4 million represented by General's present filing to go into effect as a minimum amount. However, it is further requested that General's proposed $.05817 Carrier Common Line Charge go into effect subject to refund.

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* Second Report and Order, FCC Docket No. 79-105, adopted January 30, 1986 and released February 24, 1986.

AT&T has concurrently filed a protest to Pacific Bell's Advice Letter No. 15190 and asked for a hearing to determine the proper amount of 1987 NTS cost allocation to access service and correct methodology for calculating future access reductions. AT&T requests that General's Advice Letter No. 5052 be joined in the Pacific Bell hearing.

Dated at San Francisco this 9th day of December, 1986.

Respectfully submitted,

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Randolph W. Deutsch

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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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In the matter of General Telephone Company of California Advice Letter No. 5052

RESPONSE OF GENERAL TELEPHONE COMPANY OF CALIFORNIA (U 1002 C) TO PROTEST OF AT&T COMMUNICATIONS, INC. TO ADVICE LETTER NO. 5052

Pursuant to General Order No. 96-A, General Telephone Company of California (U 1002 C) ("General") hereby submits its response to the AT&T Communications, Inc. ("AT&T") Protest to Advice Letter No. 5052 ("Advice Letter") filed December 9, 1986.

General denies the allegation of AT&T that the Advice Letter fails to conform to the Access Phase I and Phase II Decision Nos. 83-12-024 and 85-06-115.

The Commission found that the base revenue requirement used to establish General's 1984 intrastate interLATA Carrier Common Line Charge ("CCLC") was calculated in a manner "fully consistent with the principles of D. 83-12-024" (D. 85-01-010, mimeo, p. 15). In subsequent CCLC filings in compliance with D. 85-06-115, General has simply modified its CCLC base revenue requirement to be consistent with the findings set forth in its 1985 and 1986 Attrition Decision Nos. 85-03-042 and 85-12-081.

General's methodology is consistent with the Commission's intended plan to achieve cost-based access rates. In the attrition decisions, the CPUC tested and found reasonable for

General estimates of 1985 and 1986 revenues and costs. The methodology used to calculate General's proposed 1987 CCLC is the same methodology accepted by the CPUC in setting General's 1986 CCLC, which utilized General's adopted 1985 and 1986 attrition revenue growth rates as ordered by the Commission.

In Decision No. 85-03-042, Appendix B, the Commission adopted an attrition adjustment mechanism for revenues projection based explicitly on growth in total gross revenues per access line. In Decision No. 85-12-081, the Commission adopted General's 1986 attrition revenue projection which was developed on a single overall rate consistent with the Commission-adopted methodology. With these Commission decisions, the rate for revenue growth each year was assumed to be applicable across the board for all categories of revenue. Any attempt to segregate revenue growth rates between categories of access rates would be arbitrary. Therefore, it was necessary to assume that total access revenues, including the reduction for customer premise equipment and inside wire phase down, grew at the adopted attrition revenue growth rate.

General's rates for all other services in 1986 and 1987 are based on the adopted 1986 attrition results. The use of untested 1987 data in determining a new CCLC would be arbitrary and not appropriate for this compliance filing.

General did not err in computing the CCLC using 1986 estimated access volumes. 1986 call volumes were used to maintain consistency with the 1986 costs that were used. If 1987 volumes were to be used, 1987 costs would have to be developed to maintain

consistency. However, as stated above, no 1987 data has been tested by the Commission.

If 1987 costs are projected to grow at a lesser rate than the 1987 access minutes, then the resulting 1987 CCLC would be lower. However, without tested 1987 data, there is no way to determine whether there will be any difference in growth rates for cost and access minutes. Therefore, it cannot be concluded that the CCLC is overstated for application in 1987.

General did not remove inside wire maintenance expenses from its subscriber line costs used to develop the CCLC in this Advice Letter based on Ordering Paragraph 2 of Decision No. 86-07-049 (OII 84 - Inside Wire), which states: "Finding of Fact 12 (Decision 84-01-036 as modified by D. 84-10-095) is modified to read: '12. The basic exchange rates of the respondent telephone utilities should be adjusted to reflect the elimination of the cost of inside wiring maintenance.'" Therefore, the impact of the elimination of inside wiring maintenance will be taken on basic rates only and no other rates of the company will change as a result of it unless otherwise ordered by the Commission.

General's Advice Letter No. 5052 as filed is in full compliance with all Commission decisions and orders and is consistent with General's CCLC adopted for application in 1986. General's 1987 proposed CCLC should be adopted as filed.

Executed at Thousand Oaks, California, this 18th day of December, 1986.

Respectfully submitted,

KENNETH K. OKEL
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By Kathleen S. Blunt
KATHLEEN S. BLUNT
Attorneys for General Telephone Company of California

APPENDIX G

MCI Telecommunications Corporation
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415 978 1100

December 15, 1986

James M. McCraney
Deputy Director
Evaluation and Compliance Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, Ca 94102

Re: General Telephone of California Advice Letter No. 5052

Dear Mr. McCraney:

MCI Telecommunications Corporation (MCI) hereby protests General Telephone of California's (GTE-C) Advice Letter No. 5052. This Advice Letter was filed on November 20, 1986 with a request to become effective on regular statutory notice. MCI believes that it is GTE-C's intent to have Advice Letter No. 5052 take effect concurrently with the effective date of Ordering Paragraph 6 of Decision No. 85-06-115; that is, January 1, 1987. MCI did not receive GTE-C's Advice Letter until December 8, 1986. The envelope in which MCI's copy of the Advice Letter was enclosed was postmarked December 4, 1986. Because of GTE-C's untimely mailing of Advice Letter No. 5052, MCI has received permission from the Evaluation and Compliance Division staff to file this protest less than twenty days prior to the proposed effective date of the tariff.

GTE-C's Advise Letter proposed to implement Ordering Paragraph 6 of Decision No. 85-06-115, dated June 12, 1985. This filing would directly assign the closed end of a WATS access line to the WATS access service. In addition, GTE-C proposes to "... further define.." (Advice Letter 5052 at 2) its WATS offering. As MCI describes below, GTE-C's advice letter fails to implement the direct assignment of WATS lines as ordered by the CPUC. In addition, MCI argues that the new terms and conditions that GTE-C proposes for its WATS offering are unreasonable and should be rejected. Moreover, MCI requests that Advice Letter 5052 be suspended until WATS equal access, as manifested by an unrestricted WATS access line (WAL) is available.

ADVICE LETTER 5052 DOES NOT IMPLEMENT THE DIRECT ASSIGNMENT OF WATS ACCESS LINES

Advice Letter 5052 purports to implement the direct assignment of WATS access lines as ordered by the CPUC in Decision No. 85-06-115. In its protest of Pacific Bell's Advice Letter 15190, incorporated by refence and attached to this filing, MCI discussed the mechanics of direct assignment and the tariff provisions that are necessary to implement it correctly. GTE-C's filing, like Pacific's, fails to include the language necessary to exempt the closed end of a WATS access line from the carrier common line charge. In addition, GTE-C's advice letter does not include the special access charge which is imposed on WATS access line customers in place of the CCLC on the closed end. Without this rate language, Advice Letter 5052 fails to directly assign WALs.

GTE-C IS PROPOSING UNNECESSARY AND AMBIGUOUS TERMS AND CONDITIONS FOR ITS WATS ACCESS OFFERING

GTE-C states in Advice Letter 5052 that " a Supplement to this Advice will be filed which will further define the WATS offering." (Advice Letter 5052 at 2). MCI is perplexed by GTE-C's motives for proposing changes to its WATS offering through this tariff filing. Furthermore, MCI objects to GTE-C's casual approach to the filing of what could be, if the original Advice Letter 5052 is any indication, significant changes to the terms and conditions of a service on less that statutory notice. GTE-C is using the opportunity provided by Decision No. 85-06-115 to go beyond the parameters of direct assignment and make significant changes in the manner in which the WATS access service is provided.

GTE-C has added several new definitions to its Schedule Cal. P.U.C. No. C-1. In particular, the terms "WATS Access" and "WATS Serving Office" have been added to Sheet 42, and "MTS Access" has been added to Sheet 34. These new definitions only confuse the use of special and switched access, especially when used in the context of WATS service, and should be deleted. The WATS offering that has traditionally been available to AT&T, and the service that is subject to direct assignment, is functionally a switched service. The CPUC, when it ordered the direct assignment of WATS, recognized that the closed of a WATS line appears to be a dedicated line because it carries only WATS traffic. The direct assignment process, therefore, treats the access line as a special access line for rate purposes but does not change the switched nature of the service. By introducing the terminology "a combination of Switched Access Service and Special Access Service" as GTE-C does on Sheet 42, and throughout the filing, GTE-C is confusing the existing switched WATS offering available to AT&T with the special access arrangements that OCCs have been forced to utilize in lieu of equal access WATS. These new definitions are

unnecessary and should be deleted.

In addition, GTE-C proposes to introduce new tariff language in an apparent attempt to limit the availability of a service available in its federal tariff. The definition of a WAL contained on Sheet 42 of Schedule Cal. P.U.C. No. C-1 states "Intrastate WATS Access may not be combined over an Interstate Special Access line used for WATS." Above and beyond the inappropriate use of the term Special Access that was discussed above, this section of GTE-C's state tariff limits a customer's ability to purchase a service that is available in GTE-C's federal tariff. GTE-C has an unrestricted WATS access line available in its FCC tariff, and cites no authority for its attempt to impose restrictions in its intrastate tariff. Indeed, GTE-C's proposed restrictions are in direct violation of the Common Carrier Bureau's orders of May 20, 1986 and May 30, 1986. (In the Matter of Midyear 1986 Access Tariff Filings) GTE-C cites no orders of the FCC or of this Commission in support of this blatant attempt to violate existing federal regulations.

Finally, GTE-C has added to Schedule Cal. P.U.C. No. C-1, Sheet 135 a new provision for "WATS Access Screening". This states, in part "The customer, when ordering WATS Access Screening, shall report the valid screening codes to be instituted in each WATS Serving Office for each of the end users for whom screening will be undertaken by the Utility." This language is unclear and vague. GTE-C does not state the type of information that it requires, what this data will be used for, or what a "valid screening code" is. At a minimum, this section should be clarified so that the type of information that is required can be determined.

IT IS PREMATURE TO IMPLEMENT THE DIRECT ASSIGNMENT OF WATS ACCESS LINES PRIOR TO THE AVAILABILITY OF EQUAL ACCESS WATS

MCI has argued in its protest of Pacific Bell's Advice Letter 15190 and its Petition for Modification of Decision No. 85-06-115 that the failure of LECs to provide an unrestricted WATS access line to all IECs justifies a deferral of the direct assignment of WATS that is currently scheduled for January 1, 1986. The arguments that MCI presented in those two filings, both dated December 11, 1986, are also true for GTE-C's Advice Letter 5052 and are incorporated by refence here. MCI has been negotiating with GTE-C for an restricted WATS access line for many months. If an unrestricted WATS access line is as imminent as GTE-C has lead MCI to believe in its discussions, then delaying the implementation of direct assignment until a date concurrent with the availability of an unrestricted WATS line is reasonable.

For the foregoing reasons MCI requests that GTE-C's Advice Letter 5052 be rejected. GTE-C should be required to file an advice letter that correctly implements the direct assignment of WATS, without unnecessary and unrelated changes in the terms and conditions of WATS service. This new filing should have an effective date concurrent with an advice letter introducing an unrestricted WATS access service. In addition, MCI reserves the right to protest any Supplements to Advice Letter 5052 that GTE-C may file.

Respectfully,

James L. Lewis
Mary E. Wand

cc: Dean Evans, CPUC
Spencer Herzberger, General Telephone Company of California