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RESOLUTION NO. T-11093

EVALUATION AND COMPLIANCE
DIVISION

DATE: March 6, 1987

R E S O L U T I O N

____ Director
____ Numerical File
____ Alphabetical File
____ Accounting Officer

SUBJECT: General Telephone Company of California(General).
Order authorizing an increase in the intrastate
special access tariff rates for High Capacity
Digital Service. Resolution No. T- 11093.

WHEREAS: GENERAL TELEPHONE OF CALIFORNIA, by Advice
Letter No. 5059 filed January 16, 1986, and supplements filed
January 22, 1987, January 28, 1987 and February 11, 1987
requests authority under Section 454 of the Public Utilities
Code to make effective the following tariff revisions:

1. Increase intrastate special access tariff rates for High
Capacity Digital DS1(1.544 mbps) and DS1C(3.152 mbps)
Service.
2. Establish a new rate element called Special Transport
Terminal.

High Capacity Digital DS1 Service provides a channel to transmit
data in a digital format at a bit rate of 1.544 mega bits per second
between customer locations. This service is provided by General
within a Local Access and Transport Area (LATA) for connection
services for intrastate interLATA carriers.

General, in response to customer demand implemented High Capacity
Digital Service 1984. The original cost studies upon which the rates
and charges for this service were based did not include all costs
(e.g., allocation of conduit cost) and understated some costs
(e.g., installation of repeaters to amplify signals). These low rates
which substantially understated the total cost of the service were
first filed with the Federal Communications Commission on
March 19, 1984 and later mirrored into Schedule Cal PUC No. C-1.

Since the initial filing, General has developed a new fully
allocated costing model based on recorded data which reflects the
actual cost to provide High Capacity Digital Service. The proposed
rate structure is designed to recover the full cost of providing
this service. The rate elements that are changing are the
Special Access Line(SAL) monthly rate and the Special Transport
monthly rate.

In addition, the SAL will now have a nonrecurring charge (NRC) in order to recoup the investment cost to construct a SAL. There is no SAL nonrecurring charge in the existing tariff because General's original cost study indicated that the nonrecurring cost associated with construction of a Special Access Line was minimal and could be recovered in the monthly rate.

In addition to the above changes, General proposes a new rate element called Special Transport Terminal. This element contains a monthly recurring charge (MRC) to cover the termination cost of a Special Transport facility at a serving central office. General's current and proposed rates and charges for it's High Capacity Digital Special Access Service are shown below:

High Capacity Digital Special Access Service

	<u>MRC</u>		<u>NRC</u>	
	Current	Proposed	Current	Proposed
<u>Special Transport†</u>				
1.544 mbps	\$24.31/mi	30.00/mi	--	--
3.152 mbps	25.59/mi	32.57/mi	--	--
<u>Special Transport Terminal</u>				
1.544 mbps	--	50.00	--	--
3.152 mbps	--	54.30	--	--
<u>Special Access Line</u>				
1.544 mbps				
First Sys	59.95	492.00	--	\$2,000.00
Each Add. Sys	59.95	337.00	--	125.00

† per channel between central offices.

The rate increases as noted above are substantial. The proposed increase in SAL rates exceeds the Commission's guidelines for a single-step rate increase for Private Line Service. It is the recommendation of the E&C Division staff that the Commission's normal guideline of approving no increase greater than 50% in recurring charges and 100% in nonrecurring charges be waived for this filing for the following reasons:

1. General provides this service only to interexchange carriers and large corporations. It would not be a financial burden for these customers (e.g., AT&T, BofA and PG&E) to pay the increase in one step.
2. The proposed rate structure is similar to the rate structure of Pacific for identical services.

3. The current rates and charges do not cover the cost of providing the service. These rates are being subsidized by the general body of ratepayers.
4. The proposed rates and charges cover costs and are similar to General's FCC rates which became effective January 1, 1987.
5. At present rates, the losses are expected to increase as the projected increase in demand for this service is 50% per year.
6. The alternative to this rate increase of \$101,388 is to continue subsidizing 14 large business customers at an annual rate of \$7,242 each or withdrawing the service.

Because the rate increases are substantial, the Telecommunications Branch staff also recommends that nonrecurring charges for new connections become effective March 9, 1987 and the monthly rates become effective 80 days later. This will allow existing customers the time to make alternative arrangements if they feel the rates are too high.

General estimates the impact of the proposal would increase the annual revenue of its High Capacity Digital offering by \$101,388 for the first year.

Notice of the proposed rate changes were provided to customers by letter dated December 15, 1986. General is also informing new customers ordering High Capacity Digital Access Service that it has submitted an Advice Letter with substantially higher rates to the Commission for approval to reflect actual cost.

AT&T Communications of California and MCI Telecommunications Corporation (MCI) have submitted protests to General's Advice Letter No. 5059.

AT&T's protest, filed December 23, 1986, requested that this advice letter be suspended until the Commission issues its Access Phase III decision (A. No. 83-06-65) based on the following concerns:

1. There was no cost support data furnished.
2. It is improper to justify this extraordinary rate increase on the basis of wanting to establish parity with a proposed interstate access tariff.
3. This filing allows General to selectively increase access prices to match annual changes in the FCC tariff which effectively circumvents the Commission's review and approval of rate increases.

MCI's protest filed January 31, 1986 asked the Commission to reject Advice Letter No. 5059 for the following reasons:

1. Advice Letter No. 5059 proposes to establish parity with rates that are still pending before the FCC.
2. Advice Letter No. 5059 is an attempt to prejudge the outcome of Phase III of the access charge proceeding.
3. Advice Letter No. 5059 selectively proposes rate parity only where it results in increased intrastate rates.

General responded to the protests of AT&T and MCI on December 31, 1986 and January 7, 1987 respectively. General's reply to the concerns of AT&T is summarized as follows:

1. There was no cost support data furnished.
 - (a) General supplied cost support data to AT&T on December 22, 1986.
 - (b) General also notes that the proposed rates cited by AT&T in it's protest are less than the current tariff rates AT&T charges its customers for the same service.
2. It is improper to justify this extraordinary rate increase on the basis of parity with a proposed interstate access tariff.

General replies that "the rates proposed in Advice Letter No. 5059 are cost based, and because the intrastate and interstate cost happen to be virtually the same, parity/ mirroring is a happy byproduct which will ease its administrative burdens and also simplify matters for its customers."

3. This filing allows General to selectively increase access prices to match annual changes in the FCC tariff which effectively circumvents the Commission's review and approval of rate increases.

General submitted its proposed revisions of its entire Special Access tariff to the Telecommunications Branch Staff in 1985, but was requested by the staff to resubmit the revisions in smaller packages. General is not circumventing the Commission, and it was not obliged by any Commission order, rule or decision to make this proposal in the A.83-06-065 proceeding. The Commission's staff fully scrutinized the proposal and its supporting data through data requests and numerous telephone conversations

In response to MCI's protest, General claimed no new issues were raised that were not previously cited in AT&T's protest. Therefore, General's response to MCI was similar to its response to AT&T. In addition, since the filing of AT&T's response, General's pending interstate access tariff rates have been approved by the FCC and have been effective since January 1, 1987. Lastly, General stated that the proposed rates are less than MCI's comparable rates.

MCI on January 21, 1987 and AT&T on January 22, 1987 in a letter to the Telecommunications Branch staff stated their objections to the response of General to their protests of Advice Letter No. 5059.

AT&T questioned the validity of General's cost study for the following reasons:

1. Cost Study methodology used replacement cost which is inconsistent with the Commission's traditionally accepted embedded cost analysis.
2. General's investment cost line items appear significantly overstated.

MCI stated that General in its reply to their protest failed to address items 2 and 3 raised in the protest and that instead, General choose to produce an irrelevant comparison of its proposed special access rates to MCI's private line rates.

General responded that it has already addressed items 2 and 3 of MCI and disagreed with MCI's assertion that the rate comparison is irrelevant. General properly compared charges for similar elements of service even though the service was offered under a different name.

General also stated that AT&T criticized it for not using a cost methodology which it has never been ordered to use by the Commission and made unsubstantiated allegations that certain cost were overstated. General concluded that these points were clearly insufficient to justify suspending Advice Letter No. 5059.

In order to avoid further delay, as this Resolution has been deferred three times due to protests by AT&T and MCI, General submitted on February 11, 1987 a revised tariff based on the embedded cost methodology specified in Decision No. 83-04-012, "the Cost Manual", dated April 6, 1983. This revised rates and charges are shown on page 2 of this Resolution. General also provided copies of the revised tariff and supporting data to AT&T and MCI on February 12, 1987.

AT&T's second allegation that certain investment cost items were significantly overstated was not substantiated and is confusing in light of the fact that AT&T's own tariff rates for this service will still be higher than General's proposed rates.

We have carefully evaluated all the allegations above and find that the protests of AT&T and MCI are without merit. The proposed rates, although high when compared to present rates are consistent with the Commission's pricing policy of requiring discretionary services to be priced to recover full cost.

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

IT IS ORDERED that:

- (1) AT&T's protest to Advice Letter No. 5059 is denied.
- (2) MCI's protest to Advice Letter No. 5059 is denied.
- (3) Authority is granted to make the above revisions effective.
 - a. Nonrecurring charges - March 9, 1987
 - b. Monthly rates - May 28, 1987
- (4) Schedule Cal. P.U.C. No. C-1, 6th Revised Sheets 161, 163, 164, 190 thru 192 and 5th Revised Sheet 184 shall be marked to show that such sheets were authorized by Resolution of the Public Utilities Commission of the State of California No. T-11093.

The effective date of this Resolution is today.

I hereby certify that the foregoing Resolution was duly introduced, passed and adopted at a regular meeting of the Public Utilities Commission of the State of California, held on March 6, 1987, the following Commissioners voting favorable thereon:

STANLEY W. HULETT
 President
 DONALD VIAL
 FREDERICK R. DUDA
 G. MITCHELL WILK
 Commissioners



Executive Director