

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Telecommunications BranchRESOLUTION NO. T-12042
July 29, 1987R E S O L U T I O NACTION TAKEN ON MCI'S REQUEST TO PROVIDE VNET SERVICE
ON AN INTRASTATE COMMERCIAL BASISSUMMARY

MCI filed Advice Letter No. 37 on June 25, 1987, requesting authority to provide intrastate Vnet service on a commercial basis. MCI currently has an experimental Vnet offering, known as Vnet Phase .0. Vnet Phase .6 is a commercial offering virtual private line network system, which would give customers the appearance of a private line network while using the public switched telephone network. Although MCI does not hold out Vnet as an intralata service, Vnet customers can make intralata calls. MCI's Vnet service is similar to AT&T's Software Defined Network (SDN) service.

This Resolution rejects MCI's Advice Letter No. 37 because of its potential adverse effect on local exchange companies' intralata services. If MCI wants to provide Vnet service it should file an application or adhere to the same restrictions and conditions placed on AT&T's SDN service in Decision 86-05-073.

BACKGROUND

Vnet Phase .0 is offered only on a limited basis. The rates are \$0.10 per call and \$0.02 for every six seconds, with no mileage charges. Vnet Phase .6 would include time and mileage charges, and it would be identical in rates to MCI's interstate Vnet rates, greatly facilitating MCI's current billing practices. There would also be volume and time of day discounts.

Vnet Phase .6 is a customized virtual private network which offers multi-location companies communications and management features. Vnet provides interstate and intrastate interlata communications.

Vnet would allow customers to have a 7 digit customer-defined private numbering plan for all of their Vnet locations, giving the appearance of a private line network while using MCI's switched network. The appearance of a private network would be created by routing the traffic through MCI's Vnet switches, which would send the calls to MCI's Vnet data base, where the various features of the Vnet system are controlled.

One such feature is called "universal range privilege". Universal range privilege would allow a Vnet customer to specify the type of Vnet calls allowed to each dedicated access line group and for each identification code.

MCI's Vnet service is similar to AT&T's Software Defined Network(SDN) service, except that, unlike AT&T's SDN, MCI is not seeking any intralata authority. It is possible to complete intralata calls using Vnet, and MCI will not block any of these intralata calls:

Commission decision No. 86-05-073 (issued May 28, 1986) authorized AT&T to offer SDN service, with a very limited authorization to provide intralata service to allow connection to customer computer data bases and internal operating systems. Any other intralata usage was to be blocked, and AT&T was not to hold out SDN as an intralata service. MCI's service, on the other hand, which would compete with AT&T's SDN, would have no blocking or monitoring of intralata calls, which could be completed by Vnet as easily as an interlata call.

The Commission's SDN Order Instituting Investigation(OII No. 86-05-036) is investigating issues such as blocking and reporting requirements on SDN-like services such as MCI's Vnet. The OII will evaluate the potential market for SDN-like services and make recommendations to the Commission on such issues as blocking and reporting requirements concerning intralata usage.

MCI's Vnet customers would have a real incentive to use Vnet to complete intralata toll calls. As with many of MCI's services, the call charges are less expensive in many cases than, for example, Pacific Bell's Message Telecommunications Service (MTS) toll rates. Vnet is less expensive than MTS for any call of one minute duration or less, and for any distance of seventeen miles or more, regardless of the call duration.

PROTESTS

General Telephone protested MCI's advice letter on June 30, 1987. General Telephone objects to statements in the advice letter which claim that intralata calls can not be completed using Vnet, when in fact Vnet can be used to complete intralata calls.

General cites this as a violation of the competition decision (D. 84-06-113), which prohibits interexchange carriers such as MCI from offering intralata service (High speed data is the only exception, and it does not apply here.). General asks that this advice letter be rejected unless MCI agrees to monitoring and blocking of its Vnet service, so as to insure that MCI does not complete these intralata calls.

MCI responded to General's protest on July 9, 1987. MCI claims that they are not seeking intralata authority, and that although Vnet can be used for the completion of intralata calls, the same thing can be said for most of MCI's services. MCI points out that the competition decision does not require non-dominant IEC's to block intralata traffic. Decision No. 84-06-113 requires only that these IEC's not hold out the availability of intralata service.

Pacific Bell protested MCI's advice letter on July 15, 1987, and MCI responded to Pacific Bell's protest on July 16, 1987. Pacific believes that MCI should be required to block intralata calls. Pacific cites decisions 84-06-113 and 84-10-100. These decisions state that OCC's (interexchange common carriers other than AT&T) are not required to block incidental intralata calls.

The decisions state that the OCC's had no prior legal duty to block intralata calls, and that imposing blocking requirements at the time of the decisions would have imposed severe burdens on the OCC's. These decisions further state that blocking would be required under equal access. Pacific Bell believes that Vnet is a new service, which should not be excluded from intralata blocking requirements.

MCI responds to this by stating that Pacific Bell has protested other new services which MCI offered on the grounds that they were new services which should require blocking of intralata calls. In each of these cases, Pacific Bell's protests were denied, and MCI's advice letters were approved. MCI believes that Vnet should likewise be approved.

Pacific Bell believes that blocking of intralata Vnet calls is feasible, but it is not sure, so it wishes to work with MCI to learn more about blocking capabilities, or to hold hearings to develop the pertinent facts.

MCI believes that blocking is not possible because they do not have a Vnet switch in every LATA, and the Vnet switches do not receive information regarding the true point of origination of every call. MCI would agree to work with Pacific Bell, but they have apparently already briefed Pacific Bell on their ability to block intralata calls, so they don't believe that this advice letter should be held up for that reason.

Pacific Bell also believes that approving this advice letter would adversely affect Pacific's intralata services and the contribution to basic rates that they provide. MCI's Vnet rates, for existing Vnet customers, are less expensive in many cases than Pacific Bell's intralata toll rates. MCI again responds that the same is true of many MCI services, and yet the Commission has approved these other services.

Pacific Bell believes also that Vnet will affect their intrastate-interlata access rate structure and revenue requirement recovery. Pacific believes that MCI's planned use of shared termination lines into local exchange networks in conjunction with Vnet service could result in a displacement of existing switched access rates for large users. MCI responds by stating that MCI presently provides only dedicated access to Vnet in California, and that with the pending tariff, switched access would be available as well. MCI believes that Pacific Bell should welcome the change.

Pacific Bell states that their current switched access tariff (Schedule Cal. P.U.C. No. 175T, 6.1.1, mandated by Decision No. 86-05-073) was ordered to provide access to AT&T's SDN service, which Pacific believes is similar to MCI's Vnet service. Pacific believes that the Commission's decision on SDN should have a bearing on MCI's proposed service. AT&T was ordered to screen out unauthorized intralata calls as effectively as possible, and also to file reports of actual intralata usage. MCI's advice letter would not, in its present form, require any blocking or intralata usage reports. Pacific also cites the virtual private network OII, OII No. 85-06-035, which has not yet been completed. MCI does not believe it is subject to AT&T's SDN restrictions because Vnet is intended solely as an interlata service.

MCI has objected to Pacific Bell's protest on the grounds that it is not timely. Pacific Bell filed their protest on July 15, 1987, twenty days after MCI filed their initial advice letter, and sixteen days after MCI's supplement to their advice letter, extending the effective date to August 1. Pacific Bell therefore believes its protest was timely.

DISCUSSION

We choose to reject MCI's advice letter 37, but invite MCI to file an application should it want to pursue offering Vnet service on a commercial basis. The protests filed by Pacific Bell and General Telephone raise substantial issues of fact that would be best addressed in hearings. This also comports with the precedent of AT&T's SDN application, which sought both inter and intra-LATA authority for a similar offering, and with our decision in the AT&T case which required blocking of intra-LATA service and authorized the provision of intra-LATA service only

to allow connections to customer computer data bases and internal operating systems.

The Commission has viewed its ban on intra-LATA competition as an interim policy designed to protect basic ratepayers by utilizing contribution from intra-LATA toll to pay a significant portion of local exchange revenue requirements. We expect to revisit the issue of intra-LATA competition when appropriate rate design revisions are complete.

In this light, we recognize that telecommunications technology does not necessarily develop in a way that respects LATA boundaries. We have permitted several service offerings that allow incidental intra-LATA calling; the current ban is not absolute. Also, we have recently set out a framework by which AT&T Communications may apply for regulatory flexibility.

An application will be the proper forum for considering the range of regulatory options available for Vnet. In its application, MCI should also address the relationship between Vnet and the more general concerns being addressed in OII 86-05-036.

FINDINGS

We find the rates and conditions of service set forth in MCI Advice Letter No. 37 need to be addressed in hearings; therefore, good cause appearing,

IT IS ORDERED that:

1. MCI Advice Letter No. 37 is hereby rejected.
2. MCI should file an application addressing the issues discussed in this Resolution if it wants to provide Vnet service.
3. The effective date of this resolution is June 29, 1987.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 29, 1987. The following Commissioners approved it:

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


Executive Director