

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Telecommunications BranchRESOLUTION T-13073
June 21, 1989R E S O L U T I O N

PACIFIC BELL. ORDER AUTHORIZING A SPECIALIZED SERVICE ARRANGEMENT WITH AT&T COMMUNICATIONS OF CALIFORNIA TO PROVIDE BILLING AND COLLECTION SERVICES AS REQUESTED BY ADVICE LETTER 15551, FILED ON MAY 15, 1989.

SUMMARY

Pacific Bell (Pacific), by Advice Letter 15551, filed on May 15, 1989 and amended by Supplemental Advice Letters 15551A and 15551B, filed on May 16, 1989 and June 12, 1989, respectively, requested revisions to its Tariff Schedule Cal. P.U.C. 175-T, Section 12 to effect a new Billing and Collection Special Service Arrangement (SSA 89-1) with AT&T Communications of California (AT&T).

Currently, Pacific provides intrastate billing and collection services for AT&T under an existing SSA (SSA 86-1). SSA 86-1 was authorized by Resolution T-11049, dated June 25, 1986, to be effective from June 30, 1986 through December 31, 1990.

The new SSA will replace SSA 86-1 and extend the arrangement through 1995. SSA 89-1 will provide AT&T with lower billing and collection rates than those under SSA 86-1 and more flexibility in AT&T's billing and collection conversion process. One of the benefits to Pacific will be guaranteed minimum volumes for 1989 and 1990. Customers of AT&T billed under this arrangement will continue to receive one bill for both local and long distance service.

This Resolution approves the tariffs associated with SSA 89-1, and does not extend its approval to any agreement provisions between Pacific and AT&T which are not set forth in the approved tariffs. It also orders Pacific to flow-through to its ratepayers a sum of \$42.0 million as an incremental adjustment to Pacific's bill-and-keep surcharges/surcredits, starting on January 1, 1990 and ending on December 31, 1990.

While this Resolution approves the SSA's effective period of June 22, 1989 through December 31, 1995, it defers the adoption of the estimated revenue requirement impacts for the years 1991 to 1995. For each of those years, Pacific is ordered to make an

advice letter filing (by October 1 of the preceding year) stating that year's revenue requirement impact and establishing the corresponding incremental adjustment to Pacific's bill-and-keep surcharges/surcredits to flow-through that year's incremental revenue requirement impact.

On June 2, 1989, the Division of Ratepayer Advocates (DRA) filed its protest of Advice Letter 15551. Pacific and AT&T filed their respective responses to DRA's protest on June 9, 1989. To the extent that this Resolution considers DRA's protest and incorporates some of the recommendations contained in the protest, DRA's protest is granted.

BACKGROUND

1986 Billing and Collection SSA with AT&T

Resolution T-11049, dated June 25, 1986, authorized a Billing and Collection Special Service Arrangement between Pacific and AT&T (SSA 86-1) to be effective from June 30, 1986 through December 31, 1990. SSA 86-1 contains rates, terms and conditions under which Pacific provides intrastate billing and collection services to AT&T. The SSA exhibits a declining rate schedule; the step reduction in rates from 1988 to 1989 is, however, contingent upon AT&T's takeback. In approving SSA 86-1, Resolution T-11049 implicitly accepted the SSA's projected annual revenue levels for 1986 through 1990.

1989 Billing and Collection SSA with AT&T, as filed

On May 15, 1989, Pacific filed Advice Letter 15551 requesting that SSA 89-1 be approved to replace SSA 86-1. SSAs 86-1 and 89-1 are substantially the same in structure. AT&T's customers billed under SSA 89-1 will continue to receive the convenience and benefit of receiving one bill for both local and long distance telephone services. Under this SSA, Pacific will provide the following services, unless AT&T directs that the service not be provided:

- Recording Services
- Billing Service
- Billing Analysis Service
- Billing Information Service, including Billing Interfaces
- Post-Billing Message Investigation Service
- Billing and Collection Services for AT&T equipment and equipment offered by AT&T's affiliates
- Bill Insert Service and Bill Print Statement Service
- Recording Conversion Services
- Intrastate Private Line Billing Conversion Services
- Message Processing Conversion Services
- Long Distance Service Billing Conversion Services

Pacific states that the replacement of SSA 86-1 by SSA 89-1 is designed to allow Pacific to meet AT&T's billing and collection needs. SSA 89-1 will provide AT&T with the immediate benefit of lower billing and collection rates for 1989 and 1990, as well as future benefits of having flexibility in targeting customer accounts and disaggregating billing and collection functions for takeback.

To Pacific, SSA 89-1 will provide guaranteed minimum volumes for 1989 and 1990, and terms and conditions necessary to continue to provide billing and collection services to AT&T at some capacity for the subsequent five years (1991 through 1995). It will also generate additional revenues from conversion services provided and charged to AT&T on an individual case basis.

Pacific states in its Supplemental Advice Letter 15551B that the intrastate incremental revenue requirement impact of this filing is a negative \$24.6 million for the period of June 22, 1989 through December 31, 1989. Based on our review, this amount is a negative \$21.9 million, which is discussed later in this Resolution. On an annual basis, the corrected incremental revenue requirement impact is a negative \$41.2 million for 1989.

PROTEST, RESPONSES AND DISCUSSION

DRA filed its protest of Pacific's Advice Letter 15551 on June 2, 1989. DRA states that, because most of the information on which its protest is based has been designated as proprietary by Pacific, DRA is required to present the protest's detailed discussion in three confidential attachments. On June 9, 1989, Pacific and AT&T filed their respective responses to DRA's protest. A substantial portion of Pacific's response was also designated confidential.

DRA, in its protest, states that it is amenable to a Commission approval of SSA 89-1 if such approval is made subject to certain conditions. Pacific responds to DRA's protest and requests that the protest be denied, except for the recommendation on AT&T's flow through on which Pacific remains silent. AT&T similarly requests Commission denial of DRA's protest.

We have reviewed the issues and recommendations put forth by DRA and the responses by Pacific and AT&T. The following sections present, item by item and with consideration for the request for confidentiality, DRA's protest, AT&T's and Pacific's responses, and our position. It also includes a discussion on our adjustment to the SSA's estimated 1989 incremental revenue requirement effect.

1. Flow-through by Pacific.

A major objection raised by DRA is that the filing does not include a flow-through of the filing's revenue requirement reduction for 1989. DRA states that in order to properly

credit Pacific's ratepayers with the benefit of this new SSA the 1989 revenue requirement reduction should be reflected in its current surcharge rates.

DRA points out that, ordinarily, the revenue requirement effects of advice letters are incorporated in rates via the attrition mechanism. However, because it is uncertain that there will be a 1990 attrition, particularly in light of testimony given by parties in I.87-11-033, the Investigation of Alternative Regulatory Frameworks for Local Exchange Telephone Companies, DRA believes that a Commission order is necessary to flow through this filing's revenue requirement reduction. Therefore, DRA recommends that Pacific be ordered to reflect the SSA's 1989 incremental revenue requirement impact in Pacific's rates by adjusting the billing surcharges set forth in Pacific's Schedule Cal.P.U.C. No. A2, Rule No. 33. The adjustment should be on a bill-and-keep basis and the effective date of this adjustment should be concurrent with that of the SSA.

In its response, Pacific states that DRA's recommendation for an immediate flow-through of the revenue requirement reduction is an attempt of retroactive ratemaking, and, therefore, should not be adopted. The attrition process, Pacific points out, has no provision for interim updates to reflect actual events occurring during the course of the attrition year.

Pacific asserts that Advice Letter 15551 is designed to be workable under the mechanisms for rate design presently in effect. In the event that a modified form of regulation be adopted pursuant to Phase III of I.87-11-033, both Pacific and DRA proposals, while containing different specifics, do replace the attrition and general rate case filings with a process whereby the contribution provided by this SSA will further Pacific's efforts to earn its benchmark rate of return.

We agree with Pacific that the attrition process, as adopted, does not have any provision for interim updates of established rates to reflect actual events during the attrition year. While the Commission does not have a provision for interim updates for attrition, the Commission has the ability of imposing interim updates if it so chooses. We see no compelling reason to change our position on interim updates at this time. Although it is probable that substantial changes to the current regulatory frameworks for local exchange carriers may take place in the near future as the result of I.87-11-033, we must continue to observe the existing limitation regarding interim updates. Therefore, we will deny DRA's recommendation to implement a flow-through of the 1989 incremental revenue requirement reduction coincident with the effective date of SSA 89-1.

DRA makes a valid observation that, ordinarily, advice letters' revenue requirement effects are incorporated in rates via the attrition mechanism. We agree with DRA on two

other points: one, at present, it is unlikely that there would be an attrition for Pacific in 1990; and, two, ratepayers have been, and still are, overpaying Pacific as the result of current understatement of AT&T's contribution to Pacific's billing and collection services. Therefore, unless this Resolution orders a flow-through by Pacific, the necessary revenue requirement adjustments may not be implemented and ratepayers would continue to overpay Pacific as the result.

A fair and consistent treatment of this new SSA's revenue requirement effects is for Pacific to flow-through the 1989 (partial year) and 1990 incremental revenue requirement effects over the period of January 1, 1990 to December 31, 1990. The flow-through will be implemented by adjusting Pacific's bill-and-keep surcharges/surcredits on intrastate access service and intraLATA toll and exchange services. We will order Pacific to file an advice letter, by October 1, 1989, to implement the flow-through as ordered herein. We will defer our discussion on flow through for the years 1991 to 1995 to a later section where we address those years' revenue requirement effects.

2. Flow-through by Other Local Exchange Carriers (LECs).

DRA states that all LECs will receive increased settlement revenues for the remainder of 1989 and for 1990 as a result of the implementation of SSA 89-1. DRA believes that these increases should be offset by decreases in the rates of all of the LECs, and recommends that each LEC (except Pacific) be required to reduce its rates for 1989 by the amounts set forth in (Confidential) Attachment 3 of DRA's protest.

Pacific, in its response, requests that DRA's recommendation to require flow-through by other LECs be denied. It refers to its arguments against DRA's recommendation for flow through by Pacific as the basis for this request.

While we do not dispute DRA's projection that other LECs will realize increased settlement revenues as a result of SSA 89-1, we believe that it is inappropriate to order these LECs to flow-through their respective revenue impacts. We have not adjusted these LECs' revenues to reflect SSA 86-1's projected decreasing revenue levels as we have done for Pacific in its attrition filings. Moreover, we have an insufficient record for flowing through the LEC's revenues. Therefore, it would be inconsistent to adjust their revenues to reflect the new SSA's impact at this time.

3. Flow-through by AT&T.

DRA recommends that the Commission order AT&T to file an advice letter to pass along, dollar-for-dollar to reference rates, the savings that it will realize as the result of the new SSA. DRA views billing and collection rates as similar to many other elements of Pacific's access tariff rates in

that they include contributions to the cost of the non-traffic sensitive (NTS) part of the local loop. Given this fact, reductions in billing and collection charges to AT&T are very similar to the Commission's SPF to SLU access charge reductions, the benefit of which the Commission has consistently required to be reflected as a reduction to AT&T's reference rates. By analogy, a reduction in billing and collection prices should also require a flow through of these reductions to AT&T's rates. DRA also cites Resolution T-11049 as an applicable precedent where AT&T was ordered to flow through the effect of SSA 86-1 on AT&T's 1986 test year.

AT&T, in its response, strongly opposes DRA's recommendation on flow-through by AT&T. It cites two reasons why the Commission should reject DRA's recommendation. First, AT&T believes that DRA's recommendation to require AT&T to flow through cost savings from a single event such as a new purchasing arrangement, without consideration of other factors, would violate and invalidate the pricing flexibility provisions of Decision 88-12-091. (Decision 88-12-091 authorized AT&T, upon its own analysis, to adjust its prices within preestablished limited bands to reflect changes in underlying costs and market condition.) Second, AT&T states that "the new billing and collection agreement between Pacific and AT&T only results in relative changes to a portion of AT&T's billing and collection expenses and does not necessarily represent an absolute net savings to AT&T".

We note that, since the issuance of D.88-12-091 on December 19, 1988, there have been changes to intrastate access charges and billing surcharges on access services where AT&T was not directed to flow through these changes' effects to AT&T's access costs. The changes mentioned resulted from the intrastate High Cost Fund Update (Resolution T-13063), Pacific's Productivity Savings filing (Advice Letter 15508), and Restructuring and Repricing of Pacific's and GTE-California's High Speed Digital Service Rates (D.89-02-023 and D.89-02-023, respectively). Moreover, D.88-12-091 authorized AT&T to adjust its rates within the approved rate bands to reflect changes to its access costs. We expect that AT&T will flow-through changes to its access costs to its ratepayers.

4. Rate parity between Sections 8 and 12.

DRA recommends that Pacific be required to file an application to increase Section 8 rates to bring them into parity with Section 12, SSA 89-1 rates. DRA cites Resolution T-11049 as an applicable precedent where Pacific was ordered to lower Schedule Cal. P.U.C. 175-T, Section 8 rates to bring them to parity with Section 12, SSA 86-1 rates. (Section 8 contains rates for billing and collection services provided to any interexchange carrier (IEC); Section 12 is made up of billing and collection Special Service Arrangements between Pacific and individual IECs.)

Pacific, again, requests that the Commission reject DRA's recommendation. Pacific states that although Resolution T-11049's requirement made sense in 1986, its application in today's environment is unclear. Lastly, Pacific points out that, within the next year, Pacific will put forth permanent Section 8 rates for Commission approval. (Section 8 currently has rates for the years 1986 through 1990.)

We note that the requirement in Resolution T-11049 to revise Section 8 rates was made with the intent to stimulate billing and collection demand from other interexchange carriers. Bringing the rates to parity now would mean an increase to Section 8 rates which would not be consistent with that Resolution's intention. Therefore, Resolution T-11049 cannot be an applicable precedent to support DRA's recommendation in this instance. We also note that Section 8 rates will terminate at the end of 1990. We expect Pacific to make the necessary filing within the next year to establish permanent Section 8 rates. Therefore, we find that it is not necessary to order Pacific to file an application at this time to correct the rate disparity between Sections 8 and 12.

5. Revenue Requirement Effects.

DRA protests that the filing contains many undocumented or questionable estimates and assumptions. More specifically, DRA states that the validity of the filing's takeback assumptions is uncertain, calculated revenues appear to be understated, historical data were not included to support the forecasts, revenue effects are uncertain, and calculated expenses appear to be overstated. These concerns make up the basis for DRA's recommendation that there be no approval of the revenue requirement impacts beyond 1989. They also serve as the basis for DRA's recommendation to open an Order Instituting Investigation (OII) to address the ratemaking effects of this filing, and the reasonableness and fairness of the filing's estimates.

In addressing the concerns raised by DRA regarding the filing's estimates and assumptions, Pacific in several instances cites its responses to data requests issued by the Commission Advisory and Compliance Division (CACD) and DRA. These responses, Pacific states, should have adequately addressed DRA's concerns and questions on Pacific's revenue and expense projections. Pacific also states that its volume estimates are based on conversion information provided by AT&T. These volume estimates, while not being certain, do represent viable and reasonable forecasts upon which the pending SSA can and should be approved.

On DRA's recommendation that there should be no long-term approval of the SSA's revenue requirement effects, Pacific states that such suggestion is inconsistent with the existing regulatory framework and is in conflict with DRA's proposal contained in I.87-11-033.

Pacific also does not believe that the Commission should open an OII as recommended by DRA. Pacific maintains that DRA possesses no basis upon which to claim that the proposed SSA, as provided, does not permit the determination of its ratemaking effects. However, Pacific also states that, while it sees no need for the requested OII, it is willing to respond to any data requests that the Commission may pose in the future concerning this SSA.

We believe that, in general, the proposed SSA has merits and should be approved. However, we do share DRA's concern that the takeback assumptions are not well supported. In light of the history related to SSA 86-1, where the actual volumes differ greatly from the estimates and where Pacific has benefited from that difference through favorable adjustments in the 1987, 1988 and 1989 attritions, and because of our reservations on Pacific's projections in general, we agree with DRA that long-term approval of this SSA's effects may not be in the best interest of the ratepayers. Therefore, for this filing, we will deviate from our normal procedure and adopt only the revenue requirement impacts for 1989 and 1990.

Unless directed otherwise by future Commission order(s), for each of the years from 1991 to 1995, Pacific should make an advice letter filing by October 1 of the preceding year stating the following year's incremental revenue requirement impact based on the SSA 89-1 and establishing the corresponding incremental change in Pacific's bill-and-keep billing surcharges/surcredits to flow-through that effect on January 1 of the following year. For example, by October 1, 1990, Pacific should file an advice letter to reflect the incremental 1991 revenue requirement effect in a bill-and-keep surcharges/surcredits to become effective January 1, 1991. This requirement serves two purposes: it addresses our and DRA's concerns regarding long-term approval of the SSA's revenue requirement effects and establishes a procedure for Pacific to flow through the SSA's effects for 1991 to 1995, inclusive, under our current regulatory environment.

Our review of Pacific's recorded data indicates that Pacific's Message Toll Service (MTS) recording volume for 1989 is understated. Pacific's workpapers show no growth in this service from 1988 to 1989, where we feel that a 10% growth is appropriate. Making this adjustment results in an additional \$500,000 in the SSA's estimated incremental revenue requirement reduction for 1989. The resulting incremental revenue requirement impact for the period of June 22, 1989 to December 31, 1989 is a negative \$21.9 million. The impact for 1990 is a negative \$20.1 million. As discussed previously, the amount to be flowed through by Pacific is based on the sum of these two effects or \$42.0 million.

Although we share DRA's concerns on the accuracy of Pacific revenue and cost estimates, we do not feel opening an OII on this filing is necessary at this time. We are satisfied with

Pacific's showing for 1989 and 1990, and believe that the annual filing requirement imposed on Pacific will provide adequate safeguards from gross under/overstatement of the SSA's impacts in subsequent years.

6. Clarification of Commission Approval.

DRA recommends that the Resolution should make clear that the approval of this SSA does not extend to any agreement provisions between Pacific and AT&T which are not set forth in the approved tariffs. We agree that this clarification is necessary and will adopt this recommendation.

In summary, we deny the following DRA's recommendations: to open an OII to address the ratemaking effects of this SSA and the reasonableness and fairness of Pacific's revenue requirement forecasts; to order the LECs to flow-through the increased settlement revenues benefit resulted from this SSA; to order AT&T to flow-through its savings resulted from this SSA; and, to order Pacific to file an application to increase Section 8 rates to match Section 12. We adopt DRA's recommendation to clarify the scope of our approval of this SSA and a modified version of DRA's recommendation to order a flow-through of Pacific's revenue requirement reduction resulted from this filing. To that extent, DRA's protest is granted.

Pacific in the Advice Letter requests an effective date of June 22, 1989 which is less than regular notice. No protest was received on this request. Therefore, we will grant Pacific's request to effect the SSA on June 22, 1989.

FINDINGS

1. The proposed SSA's rates, terms, conditions, and effective period are reasonable.
2. The SSA will provide lower billing and collection rates for AT&T and more flexibility in its conversion process.
3. The SSA will provide guaranteed minimum volumes to Pacific in 1989 and 1990.
4. AT&T's ratepayers billed under this SSA will continue to enjoy the convenience and benefit of receiving one bill from Pacific for local and long distance telephone services.
5. The attrition process does not have any provision for interim updates of established rates to reflect actual events during the attrition year.
6. Advice letters' revenue requirement effects are incorporated in rates via the attrition mechanism.

7. It is unlikely that there will be an attrition filing by Pacific for 1990, particularly in light of testimony given by parties in I.87-11-033.
8. Ratepayers have been, and still are, overpaying Pacific as the result of current understatement of AT&T's contribution to Pacific's billing and collection services.
9. It is fair and reasonable to order Pacific to flow-through the 1989 and 1990 incremental revenue requirement effects resulted from this SSA, starting on January 1, 1990 and ending on December 31, 1990.
10. The flow-through should be by an adjustment to Pacific's bill-and-keep billing surcharges/surcredits to intrastate access service and intraLATA toll and exchange services.
11. Pacific's estimate of the proposed SSA's 1989 MTS recording volume is understated, and should be revised to reflect a 10% growth from 1988 to 1989.
12. The SSA's incremental revenue requirement effect of negative \$21.9 million for the period of June 22, 1989 through December 31, 1989 reflects the revision discussed in Finding of Fact No. 11 and is reasonable.
13. The SSA's 1990 incremental revenue requirement effect of negative \$20.1 million is reasonable.
14. Adoption of the proposed SSA's incremental revenue requirement effects for 1991 and beyond should be deferred to later date(s) as specified in Finding of Fact No. 15.
15. It is reasonable to require Pacific, for 1991 to 1995, to make an annual filing by October 1 of the previous year stating and flowing through the year's incremental revenue requirement effect of SSA 89-1 by an adjustment to the bill-and-keep billing surcharges/surcredits to be effective January 1 through December 31 of that coming year.
16. Commission approval of the proposed SSA should apply to the tariffs associated with SSA 89-1 only and does not extend to any agreement provisions between Pacific and AT&T which are not set forth in the approved tariffs.
17. With respect to DRA's protest, we have considered its recommendations, some of which are incorporated in this order. To that extent, DRA's protest is granted.
18. Pacific requests an effective date of June 22, 1989 which is less than regular notice. No protest has been received on this request, therefore, this request is granted.

THEREFORE, IT IS ORDERED that:

1. Pacific's Advice Letter 15551 and supplements are adopted as discussed in this Resolution.
2. The SSA contained in Advice Letter 15551 and supplements as discussed in this Resolution shall be effective on June 22, 1989, which is less than regular notice.
3. Pacific shall file by October 1, 1989 an advice letter to implement a flow-through of SSA 89-1's 1989 and 1990 incremental revenue requirement effects, a total of \$42.0 million, by adjusting its bill-and-keep billing surcharges/surcredits in Schedule Cal. P.U.C. No. A2, Rule No. 33. The adjustment shall be effective from January 1, 1990 through December 31, 1990.
4. For each of the years 1991 through 1995, unless directed otherwise by future Commission order(s), Pacific shall file an advice letter, by October 1 of the preceding year, stating and flowing through the year's incremental revenue requirement effect by adjusting its bill-and-keep billing surcharges/surcredits in Schedule Cal. P.U.C. No. A2, Rule No. 33 subject to Commission approval. The adjustment shall be effective from January 1 through December 31 of that year.
5. All tariff sheets filed under Advice Letter 15551 shall be marked to show that such sheets were authorized by Resolution of the Public Utilities Commission of the State of California No. T-13073.

The effective date of this Resolution is today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 21, 1989. The following Commissioners approved it:

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners



Executive Director.