

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-13091  
Telecommunications Branch Date September 7, 1989

R E S O L U T I O N

RESOLUTION T-13091. PACIFIC BELL. ORDER AUTHORIZING A CONTRACT COVERING THE PROVISION OF CENTREX SERVICE TO NEW YORK LIFE INSURANCE COMPANY.

SUMMARY

Pacific Bell (Pacific), by Advice Letter No. 15590, filed August 8, 1989, and supplemented by Advice Letter No. 15590A, filed August 11, 1989, requests authority under the provisions of General Order No. 96-A (G.O. 96-A) and Decision No. 88-09-059 to deviate from filed tariff schedules in order to provide New York Life Insurance Company (New York Life) with Centrex Service under contract. Supplemental Advice Letter No. 15590A was issued to correct Pacific's estimated 1989 annual revenue effect that was shown in Advice Letter No. 15590. This Resolution authorizes the contract, which Pacific estimates will result in a decrease in annual revenues for 1989 of approximately \$10,196. No protests to this Advice Letter were filed.

BACKGROUND

In D.88-09-059 the Commission adopted a modified Phase I Settlement (hereinafter referred to as the (Settlement)). Under the provisions of the Settlement, the Local Exchange Companies (LECs) are allowed to provide certain services, such as Centrex service, under the terms of contracts between LECs and customers. The Settlement provides that such contracts become effective upon authorization by the Commission.

Appendix A of D.88-09-059 sets forth a process and requirements for the filing of advice letters requesting authorization of customer specific contracts. Such requirements include:

- The contracts do not become effective until authorized by Commission resolution.
- LECs may request confidential treatment of workpapers and supporting cost documentation. Parties to the Settlement, other than the Division of Ratepayer Advocates (DRA) must enter into protective agreements to obtain such workpapers and/or documentation.

- Each contract shall cover the costs of the services provided under each such contract.
- Contracts must contain "appropriate" services.
- The methodology for determining costs shall be either fully allocated or direct embedded.
- For Pacific's Centrex service, the price may in no event go below the price of the single-line business rate, plus the multi-line End User Common Line charge per line (1MB+EUCL).
- Tracking procedures will be set up to validate costs.
- Contracts are to be used only in unusual or exceptional circumstances.

Advice Letter No. 15590 contains a customer specific contract quite similar to that which was approved by the Commission for Great Western Bank on May 26, 1989 in Resolution T-13069. The contract filed under Advice Letter No. 15590 covers the provision of Centrex Service to New York Life at its San Francisco location. Centrex Service is a central office based communications system equipped with primary station lines capable of direct in and out dialing of calls with optional features.

Under the terms of the New York Life contract, Pacific agrees to provide New York Life, who currently takes Centrex service under tariff, 309 lines for a period of 4 years at a fixed rate of approximately \$4,632 per month. Pacific indicates that Commission authorization of this contract will result in an estimated decrease in annual revenues for 1989 of approximately \$10,196.

#### PROTESTS

No protests were filed on Pacific's Advice Letters No. 15590, or No. 15590A.

#### DISCUSSION

The New York Life contract, in accordance with the requirements of Appendix A of D.88-09-059, contains the necessary language which conditions its approval upon Commission authorization. Pacific, in its Advice Letter, has requested confidential treatment of workpapers and supporting cost documentation, and a review of the New York Life contract itself indicates that the contract does not contain a service listed as inappropriate under the provisions of Appendix A of D.88-09-059.

Based on a review of the workpapers and supporting documentation provided with the New York Life contract, it appears that the monthly contract rate of \$4,632 does recover the specific costs of providing Centrex service to New York Life based on a fully allocated cost analysis. Further, the monthly rate per line

under the contract is greater than the single line business rate plus the multi-line End User Common Line (1MB+EUCL) rate. The contractual rates and charges are excluded from the Rule No. 33 surcharge mechanism in order to provide the customer with a fixed rate and to prevent the application of surcredits which could move the contractual rate below the sum of the 1MB+EUCL.

With regard to tracking procedures required by D. 88-09-059, Pacific states in the Advice Letter that Pacific will be tracking recurring billings, nonrecurring billings, in-service volumes, inward movement volumes, recurring costs, and nonrecurring costs, and will provide an initial six-month report and subsequent annual reports to the Commission documenting the tracked data.

The provisions of Appendix A of D. 88-09-059 also require that customer specific contracts are to be used "only in unusual or exceptional circumstances (Appendix A page 14). In the Advice Letter, Pacific states,

"A special contract is required in this exceptional circumstance given the fact that this customer asked Pacific for a fixed price that would be competitive with other vendors. Pacific could not offer this type of price under current tariffs, and therefore offered a customer specific contract.

"The terms and conditions of this contract are specific and unique and should not be considered precedential. The statements in the Advice Letter are unique to this contract and should also not be considered precedential."

The assertions by Pacific that the customer requires a customer specific contract for competitive pricing purposes over PBX alternatives appears to form a reasonable basis on which to determine that an exceptional circumstance exists which warrants the provision of such a contract for Centrex service to New York Life. We note that this determination is made with regard to New York Life based on the assertions made at this time concerning New York Life. We agree with Pacific that such a determination for New York Life should not be considered and will not be considered by this Commission as establishing a precedent for similar determinations for subsequent contracts with other customers for telecommunications services.

D.88-09-059 states that "for Pacific's Centrex, the price may in no event go below the price of the single-line business rate, plus the multi-line EUCL per line." The following two questions have been raised concerning this requirement:

1. What is the appropriate "price" for Pacific's Centrex which should be compared to the price of the 1MB+EUCL?
2. Is the 1MB+EUCL floor rate fixed or does it float?

On the first question, the IMB+EUCL is a monthly recurring rate per line which does not include nonrecurring charges. Pacific has bundled the nonrecurring charges into its contract rate and compares this contract rate on a per line basis to the IMB+EUCL. DRA, in its comments on the Great Western contract, expressed concern that Pacific is misconstruing the requirements of Appendix A of D.88-09-059 by including billings for nonrecurring charges in the contractual monthly rate per line. We did not resolve this issue in the Great Western contract because the amount of the nonrecurring charges was not significant. The issue must now be resolved in order to appropriately address the second question concerning the status of the IMB+EUCL, which was also not resolved in the Great Western contract. Clearly, it is not logical to compare a rate which is a sum of both recurring and nonrecurring charges to a rate dictated by D.88-09-059, which is only a recurring charge. Therefore, before comparing the contract rate to the IMB+EUCL, the nonrecurring charges must be excluded first.

On the second question, Pacific's interpretation is that the floor rate of the IMB+EUCL would be fixed for the duration of the contract. AT&T, who commented on the Great Western Contract, interpreted the statement to mean that the floor rate is not fixed, but floats as the IMB+EUCL changes. In Resolution T-13069, we did not specifically address this issue for the Great Western contract because it appeared unlikely that the IMB+EUCL would exceed the contract rate in the near future; however, we required Pacific Bell to justify its position on this issue in each subsequent filing of an advice letter for contracted Centrex Service. Pacific has not done this in Advice Letter No. 15590. Since the purpose of the IMB+EUCL floor rate is to provide a level playing field for Centrex and PBX customers and a floating floor rate maintains that level playing field, we agree with AT&T on this issue. Therefore, as the IMB+EUCL floor rate changes during the life of the contract, the contract rate may have to be adjusted so that at no time will the contract monthly rate per line, less nonrecurring charges, be lower than the then current IMB+EUCL.

We are aware that the provision of a contract rate which is subject to change may not meet the needs of all customers. However, as an alternate means of providing a level playing field, we required Pacific, in Resolution T-13069, to provide in writing to each future customer considering a Centrex contract, an alternate offer to provide the customer deaveraged PBX trunk rates under contract with rates determined by the same cost methodology used to determine the contract Centrex line rate. This requirement applies to all Centrex contracts which were signed on or after May 26, 1989, the effective date of Resolution T-13069. The New York Life contract was signed before May 26, 1989 and, therefore, the customer did not have the opportunity to evaluate competing alternatives on a level playing field. Therefore, the requirement in this contract, as indicated in the last sentence of the preceding paragraph, will be applicable to all Centrex contracts signed before May 26, 1989, and not yet approved by this Commission. However, we will waive this requirement if Pacific provides written documentation that the customer has been given an alternate offer by Pacific to provide deaveraged PBX trunk rates

under contract with rates determined by the same cost methodology used to determine the contract centrex line rate.

FINDINGS

We find that:

1. On August 8, 1989 Pacific Bell filed Advice Letter No. 15590 requesting Commission authorization to provide for the offering of Centrex service to New York Life Insurance Company under a customer specific contract.
2. On August 11, 1989 Pacific Bell filed Advice Letter No. 15590A supplementing Advice Letter No. 15590 to correct their estimated 1989 annual revenue effect that was shown in Advice Letter No. 15590.
3. Appendix A of D.88-09-059 and G.O. 96-A set forth certain requirements for the filing of advice letters requesting authorization of customer specific contracts.
4. Advice Letter No. 15590 (Advice Letter) conforms to the requirements of Appendix A of D.88-09-059 and G.O. 96-A.
  - a. The New York Life contract states that the contract will not become effective until authorized by the Commission.
  - b. The Advice Letter and the New York Life contract are public documents.
  - c. Pacific requests in the Advice Letter that the workpapers and supporting cost documentation associated with the New York Life contract be treated as confidential.
  - d. Pacific has offered the parties to the Phase I Settlement in I.87-11-033 the opportunity to receive and review the workpapers and supporting documentation associated with the New York Life contract if such a party (except DRA) first enters into a protective agreement.
  - e. The New York Life contract provides for the offering of Centrex service which is an appropriate service for offering under a contractual arrangement.
  - f. The rates and charges set forth in the New York Life contract cover the cost of providing the Centrex service offered under the terms of the contract.
  - g. The methodology used by Pacific to develop the costs of providing Centrex service to New York Life under the terms of the contract are based on the fully allocated methodology.
  - h. The price per month per line for Centrex services for New York Life under the terms of the contract is higher than the sum of the present one-party business measured service

rate and the multi-line End User Common Line charge per month per line.

- i. The Advice Letter indicates that the costs and revenues associated with the provision of Centrex service to New York Life under the terms of the contract will be tracked.
  - j. A contract is required for New York Life because the customer, who was seeking a competitive price for its existing Centrex, was not satisfied with the pricing options provided for under Pacific's tariff.
5. The surcharge/surcredits set forth in Pacific's tariff Schedule Cal. P.U.C. A2, Rule No. 33 do not apply to the rates and charges covered by the New York Life contract.
6. Before comparing the contract rate to the IMB+EUCL the nonrecurring charges must first be excluded.
7. The monthly rate for this contract is subject to change so that at no time during the life of the contract will the monthly rate per line, less nonrecurring charges, be lower than the then current IMB+EUCL floor rate.
8. The requirement as expressed in Finding No. 7 is waived if Pacific provides written documentation that the customer has been given an alternate offer by Pacific to provide deaveraged PBX trunk rates under contract with rates determined by the same cost methodology used to determine the contract centrex line rate.
9. Authorization of the New York Life contract will result in an estimated reduction in Pacific's 1989 annual revenues of approximately \$10,196.
10. Commission authorization of the Advice Letters and the New York Life contract do not establish precedents for the contents of these filings or for Commission approval of similar requests. The Commission approval of the New York Life contract is based on the specifics of the New York Life contract.
11. The rates, charges, terms and conditions of the contractual service authorized in this resolution are just and reasonable; therefore,

IT IS ORDERED that:

- (1) Authority is granted to make the above Advice Letters and contract effective on September 7, 1989, subject to the conditions set forth in Findings Nos. 5, 6, 7 and 8.
- (2) The Advice Letters and contract authorized herein shall be marked to show that an Advice Letter was authorized under Resolution of the Public Utilities Commission of the State of California No. T-13091.

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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 September 7, 1989. The following Commissioners approved it:

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

*Wesley Franklin*  
WESLEY FRANKLIN  
Acting Executive Director