

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
COMMISSION ADVISORY AND COMPLIANCE DIVISION      RESOLUTION T-13098  
September 7, 1989

**R E S O L U T I O N**

RESOLUTION T-13098. ORDER PROVISIONALLY AUTHORIZING AT&T-CALIFORNIA'S REQUEST TO REVISE THE RATE STRUCTURE OF ITS INTRASTATE WATS AND 800 INTERLATA ADD-ON SERVICES AND REVISE USAGE RATES WITHIN APPROVED RATE BANDS.

BY ADVICE LETTERS NO. 142 AND 143, FILED ON JULY 21, 1989, AND ADVICE LETTER SUPPLEMENTS NO. 142A AND 143B, FILED ON AUGUST 29, 1989.

**SUMMARY**

This resolution provisionally authorizes AT&T-California's (AT&T-C) request in Advice Letters No. 142 and 143 filed on July 21, 1989 (items 1-4 following), and in Advice Letter Supplements No. 142A and 143A filed on August 29, 1989 (items 5-6 following), to:

1. Eliminate the Set-Up Charge and Group Average Billing rate elements of intrastate WATS InterLATA Add-on Service;
2. Eliminate the Set-Up Charge rate element of intrastate 800 InterLATA Add-on Service;
3. Institute a Minimum Average Time Requirement (MATR) of 30 seconds for all completed intrastate WATS and 800 InterLATA Add-on messages;
4. Revise some usage rates for intrastate WATS and 800 InterLATA Add-on Services (these revisions are within the rate bands authorized in D.88-12-091);
5. Remove the flexible rate bands for intrastate WATS and 800 InterLATA Add-on Services authorized in D.88-12-091. AT&T-C will not use rate flexibility for these services until new rate bands have been approved by the Commission; and
6. Make these revisions effective on October 1, 1989.

Under provisional authorization, these revisions are subject to change or withdrawal pursuant to this Commission's review and consideration of AT&T-C's Transport Incremental Cost Methodology (TICM) and TICM input data in A.89-03-046 (Readyline 800

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proceeding). If AT&T-C submits long-run incremental cost studies in support of an advice letter, filed on 40-day regular notice pursuant to General Order 96-A, which proposes rates and charges which would be effective prior to a final decision in the consolidated Readyline 800 proceeding (A.89-03-046, et al), such rates and charges shall be provisional and subject to adjustment to reflect the costing methodology ultimately adopted in A.89-03-046. AT&T-C shall clearly identify such advice letters at the time of filing as provisional and cite this Resolution T-13098. Each advice letter filed with the Commission Advisory and Compliance Division (CACD) will continue to be evaluated on its complete record, factors and merits.

Should AT&T-C seek to modify any other rate band authorized in D.88-12-091 to effect rate flexibility (five-day notice), it must do so by application as specified in that decision's Ordering Paragraph 2d.

AT&T-C shall track monthly billings, message volumes and call durations associated with its WATS and 800 InterLATA Add-on services, and report them to the CACD Telecommunications Branch Chief within 60 days of each month's end.

BACKGROUND

AT&T's intrastate InterLATA Add-on WATS and 800 Services are offered only in conjunction with a Local Exchange Company's IntraLATA WATS or 800 service. On July 21, 1989, AT&T-C filed Advice Letters 142 (WATS) and 143 (800), requesting regular 40-day notice to: a) eliminate the message Set-Up charge; b) eliminate group average pricing for WATS (not applicable to 800); c) implement a Minimum Average Time Requirement (MATR) of 30 seconds for all completed messages; and d) revise some usage rates within the rate bands authorized in D.88-12-091. The proposed MATR has the potential to increase rates for customers with a large number of sub-30 second calls. At the CACD's request, AT&T-C provided documentation that no customers will experience an increase in their bill.

The net revenue effect of these changes estimated by AT&T-C is a reduction of \$ 24 million annually. As impetus for the filings, AT&T cites competition by other interexchange carriers' WATS and 800 services which are priced lower.

AT&T-C provided a cost study to the Commission supporting these advice letters using the Transport Incremental Cost Methodology

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(TICM), which is currently being considered in AT&T-C's Readyline 800 application (A.89-03-046) pursuant to D.88-12-091, Ordering Paragraphs 2e and f. Further, Ordering Paragraph 2n of D.88-12-091 states:

"AT&T-C shall use the formal application process for any new service submission or for the revision of existing service where the submission or revision departs from the approved standard costing methodology".

In AT&T-C's application for a certificate of public convenience and necessity (CPCN) for authority to provide intrastate intralATA PRO California service (A.88-08-051), AT&T-C also used TICM. In D.89-06-050, this Commission granted the CPCN to AT&T-C on an interim basis pending further review of TICM and the Commission's adoption of a standard costing methodology in the Readyline proceeding.

In its Advice Letters No. 142 and 143, AT&T-C recognized the pendency of the Commission's evaluation of TICM as an appropriate cost standard for AT&T-C's intrastate services. AT&T-C offered to submit additional cost information which may be required pursuant to that evaluation relative to WATS and 800 rates.

On August 29, 1989, AT&T-C filed Advice Letter Supplements No. 142A and 143A to remove the flexible rate bands authorized in D.88-12-091 for its WATS and 800 InterLATA Add-on Services, and to request that the effective date of Advice Letters No. 142 and 143, with these Supplements A, be October 1, 1989. In its supplements, AT&T-C states that it "has agreed not to use its (WATS or 800 Service) rate flexibility until new rate bands have been filed with and approved by the Commission." This is in line with AT&T-C's August 15, 1989 response to the protests of the Division of Ratepayer Advocates, MCI Telecommunications Corporation and US Sprint Communications Company Limited Partnership, summarized as follows.

PROTESTS

The Division of Ratepayer Advocates (DRA) and MCI Telecommunications Corporation (MCI) filed timely protests to Advice Letters No. 142 and 143 on August 9 and 10, respectively. US Sprint Communications Company Limited Partnership's (Sprint) protest of Advice Letters No. 142 and 143, dated August 10, 1989, was received August 11, 1989, one day after the 20-day protest period; the CACD recommends it be accepted.

All three protests allege that AT&T-C's elimination of message set-up charges does not comply with the Commission's D.88-12-091, which granted AT&T limited pricing flexibility within authorized rate bands. In support of this allegation, DRA and Sprint cite the phrase "zero rate band around per message charge" which is

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included in Appendix B to D.88-12-091, "AT&T-C's Proposed Rate Bands," describing the WATS and 800 rate bands. This phrase is construed to establish a rate band for WATS and 800 message set-up charges, which is therefore subject to D.88-12-091 Ordering Paragraph 2d:

"AT&T-C shall be required to use the formal application process to make any changes to the rate bands authorized today."

MCI and Sprint also cite AT&T-C testimony in the D.88-12-091 proceeding (A.87-10-039) that the per message set-up charge must be considered in the overall rate structure of WATS and 800. MCI and Sprint maintain that in granting AT&T-C pricing flexibility through rate bands, the Commission accepted AT&T-C's claim that the lower end of the bands covered cost when all components are considered. The set-up charge provides such a significant contribution to cost coverage that the elimination of them calls this conclusion into question. Sprint draws additional support for its position from D.88-12-091, attributing to the Commission the recognition of the "inherent connection between flexibility for hourly usage rates and call set-up charges" in noting that AT&T-C does not propose a rate band for WATS and 800 set-up charges.

MCI and Sprint both request that the Advice Letters be rejected for noncompliance with D. 88-12-091, and that AT&T-C be required to file an application.

DRA additionally cites AT&T-C's use of TICM in these advice letters as precipitous, and cannot support or oppose the institution of the 30-second MATR due to insufficient information. However, "DRA believes that AT&T-C's proposed rate revisions and the establishment of a MATR would benefit a majority of AT&T-C customers." Therefore, DRA does not request that the Commission reject the rate structure changes requested by AT&T-C, but recommends that the Commission authorize these changes provisionally by Resolution, pending the outcome of the Readyline 800 proceeding. DRA also recommends that AT&T-C track monthly billings, message volumes and call durations.

**AT&T-C's Response**

AT&T-C timely responded to these protests on August 15, 1989. In its defense, AT&T-C states that its proposed rate structure for WATS and 800 Service is similar to those of MCI and Sprint and will produce comparable rates. AT&T-C points out that the "same competitive pressures (requiring its filing) led Pacific Bell to file its Advice Letter 15557, effective July 5, 1989, substantially restructuring the rate design and reducing its 800 service rates."

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In direct response to the protests' allegations of inconsistency with D.88-12-091, AT&T-C posits that this is a moot argument, since it did not file the Advice Letters on five days' notice pursuant to D.88-12-091 (changes within rate bands), but under General Order 96-A on regular 40 days notice. AT&T-C argues that in granting AT&T-C limited pricing flexibility, the Commission did not intend to prevent AT&T-C from continuing to file tariff revisions under existing Commission rules (i.e., G.O. 96-A). AT&T-C agrees that the subject Advice Letters fundamentally alter the WATS and 800 rate structures upon which pricing flexibility was established, and thus, this pricing flexibility is no longer effective. AT&T-C concludes that:

"If AT&T(-C) seeks to implement further rate changes for WATS or 800 Service, such changes must be accomplished under existing Commission rules outside any flexibility granted by D.88-12-091 by filing an application or advice letter pursuant to GO 96-A." (AT&T-C's 8/15/89 Response to Protests, p. 3.)

Finally, AT&T-C accepts DRA's recommendations for approval of the Advice Letters, namely provisional tariff status and tracking plan elements. However, AT&T-C proposes to voluntarily make its tariff provisional, citing additional delay beyond its requested effective date of September 1, 1989 if a Commission Resolution is required to do so.

### DISCUSSION

These Advice Letter filings and the protests of DRA, MCI and Sprint raise two primary issues with respect to compliance with this Commission's D.88-12-091:

1. Whether a rate band exists for the WATS and 800 message Set-Up Charges, and the elimination thereof necessarily constitutes a change in the rate band requiring an application (Ordering Paragraph 2d).
2. Whether AT&T-C's use of TICM in supporting these advice letters prior to this Commission's completing its consideration of TICM in A.89-03-046 requires an application (Ordering Paragraph 2n).

#### 1. Rate Band Applicability

Attached to D.88-12-091 as Appendix B was an annotated summary of AT&T-C's "Proposed Rate Bands." In this, as well as in its compliance filing (Advice Letter No. 119), AT&T-C refers to a "Zero Rate Band" for its WATS and 800 set-up charges. DRA and Sprint cite this phrase in support for their protests that AT&T-C is attempting to change a rate band without an application, as ordered by D.88-12-091, Ordering Paragraph 2d. In granting AT&T-C limited regulatory flexibility by D.88-12-091, this Commission adopted a streamlined procedure for AT&T-C to make changes within

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approved rate bands on five days' notice by advice letter. In its Advice Letters No. 142 and 143, AT&T-C does not seek to change the "rate band" for WATS and 800 Set-Up charges to effect pricing flexibility (i.e., enable additional changes on five days' notice). Rather, it seeks to revise its WATS and 800 tariffs on regular 40-day notice under the Commission's General Order 96-A, and waives the authorized five-day notice for hourly rate revisions included in these advice letters which are within its approved rate bands. In D.88-12-091, the Commission did not suspend the existing regulatory mechanisms for AT&T-C (e.g., G.O. 96-A), but augmented them. The Commission Advisory and Compliance Division (CACD) continues to receive and evaluate advice letters filed by AT&T-C for other than rate changes within the approved rate bands.

Should AT&T-C seek to modify any rate band authorized in D.88-12-091 to effect rate flexibility (five-day notice), it must do so by application as specified in that decision's Ordering Paragraph 2d.

Sprint further cites the one other direct reference to WATS and 800 set-up charges in D.88-12-091 -- a review of AT&T-C's position on "How Limited Should the Rate Bands Be Under the Observation Approach:"

"As another example of the reasonableness of its rate bands, AT&T-C points out that AT&T-C proposes no rate band for the per-message charges for WATS and 800 service." (p. 43)

As this statement was part of the decision's summary of AT&T-C's position on the issue posed, it should not be construed as the Commission's conclusion. Such conclusions are presented in the "Discussion" sections of decisions, the Findings of Fact, and the Conclusions of Law.

## 2. TICM

In using its Transport Incremental Cost Methodology (TICM) as cost support for Advice Letters No. 142 and 143, AT&T-C anticipates the conclusion of this Commission's consideration of its Readyline 800 application (A.89-03-046). However, the language of D.88-12-091's Ordering Paragraph 2n appears to cloud the issue:

"AT&T-C shall use the formal application process for any new service submission or for the revision of existing service where the submission or revision departs from the approved standard costing methodology".

This ordering paragraph represents one of eight additional commitments offered by AT&T-C as conditions of the regulatory flexibility granted in D.88-12-091, which were not contested (p. 85). These eight conditions were adopted by the Commission in the public interest, and conclude Ordering Paragraph 2 (h - o),

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following sub-paragraphs specifying the process to be used to reach an "approved standard costing methodology." Read in this context, Ordering Paragraph 2n represents a standard to be observed subsequent to the establishment of a uniform costing methodology, rather than a rigid requirement during the transition to the uniform costing methodology.

Until a uniform costing methodology is established by the Commission in this proceeding, AT&T-C will continue in transition from the old to the new. In D.88-12-091, this Commission reiterated that "one of the purposes of the Observation Approach was to avoid the production of detailed cost studies by AT&T-C." During the transition period, the choice is between mandating "parallel" costing methodologies or allowing the transition to a new uniform costing methodology to begin, subject to this Commission's conclusions in A.89-03-046. Requiring AT&T-C to maintain two costing methodologies during this transition seems at odds with the intent of the Observation Approach. If all other requirements have been met by AT&T-C's advice letters filed on regular 40-day notice pursuant to G.O. 96-A, making AT&T-C tariff revisions provisional when TICM is used to support them until this transition is completed would be more consistent. Each advice letter filed with the Commission Advisory and Compliance Division (CACD) will continue to be evaluated on its complete record, factors and merits.

### FINDINGS

1. In granting AT&T-C limited regulatory flexibility in D.88-12-091, this Commission adopted a streamlined procedure for AT&T-C to make changes within approved rate bands on five days' notice by advice letter.
2. In its Advice Letters No. 142 and 143, AT&T-C does not seek to change the "rate band" for WATS and 800 Set-Up charges to effect pricing flexibility (i.e., enable additional changes on five days' notice).
3. In its Advice Letters No. 142 and 143, AT&T-C seeks to revise its WATS and 800 tariffs on regular 40-day notice under the Commission's General Order 96-A.
4. In D.88-12-091, the Commission did not suspend the existing regulatory mechanisms for AT&T-C (e.g., G.O. 96-A), but augmented them. The Commission Advisory and Compliance Division (CACD) continues to receive and evaluate advice letters filed by AT&T-C for other than rate changes within the approved rate bands.
5. Should AT&T-C seek to modify any rate band authorized in D.88-12-091 to effect rate flexibility (five-day notice), it must do so by application as specified in that decision's Ordering Paragraph 2d.

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6. The summary of AT&T-C's position in D.88-12-091 (p. 43) should not be construed as the Commission's conclusion. Such conclusions are presented in the "Discussion" sections of decisions, the Findings of Fact, and the Conclusions of Law.

7. In using its Transport Incremental Cost Methodology (TICM) as cost support for Advice Letters No. 142 and 143, AT&T-C anticipates the conclusion of this Commission's consideration of its Readyline 800 application (A.89-03-046).

8. D.88-12-091's Ordering Paragraph 2n states:

"AT&T-C shall use the formal application process for any new service submission or for the revision of existing service where the submission or revision departs from the approved standard costing methodology".

9. This ordering paragraph is one of eight additional commitments offered by AT&T-C as conditions of the regulatory flexibility granted in D.88-12-091, which were not contested (p. 85).

10. These eight conditions conclude Ordering Paragraph 2 (h - o), following sub-paragraphs specifying the process to be used to reach an "approved standard costing methodology."

11. Ordering Paragraph 2n represents a standard to be observed subsequent to the establishment of a uniform costing methodology, rather than a rigid requirement during the transition.

12. In D.88-12-091, this Commission reiterated that "one of the purposes of the Observation Approach was to avoid the production of detailed cost studies by AT&T-C." (Finding of Fact 10)

13. Requiring AT&T-C to maintain two costing methodologies during this transition is at odds with the intent of the Observation Approach.

14. If all other requirements have been met by AT&T-C's advice letters filed on regular 40-day notice pursuant to G.O. 96-A, making AT&T-C tariff revisions provisional when TICM is used to support them until this transition is complete would be more consistent with the Observation Approach.

15. Each advice letter filed with the Commission Advisory and Compliance Division (CACD) will continue to be evaluated on its individual record, factors and merits.

16. AT&T-C accepts DRA's recommendation that AT&T-C track monthly billings, message volumes and call durations associated with its WATS and 800 InterLATA Add-on services.

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17. AT&T-C agrees that Advice Letters No. 142 and 143 fundamentally alter the WATS and 800 rate structures upon which pricing flexibility was established, and thus, this pricing flexibility is no longer effective.

THEREFORE, IT IS ORDERED that:

1. AT&T-C is authorized on a provisional basis to revise its WATS and 800 InterLATA Add-on tariffs, as requested in Advice Letters No. 142 and 143 and Advice Letter Supplements No. 142A and 143A, subject to adjustment to reflect the costing methodology ultimately adopted in A.89-03-046.

2. The rate flexibility authorized in D.88-12-091 for WATS and 800 InterLATA Add-on Service is revoked, pending application by AT&T-C for new rate bands, and approval by this Commission.

3. Should AT&T-C seek to modify any other rate band authorized in D.88-12-091 to effect rate flexibility (five-day notice), it must do so by application as specified in that decision's Ordering Paragraph 2d.

4. Advice Letters No. 142, 142A, 143 and 143A and their accompanying tariff sheets shall be marked to show that they were approved by Commission Resolution T-13098.

5. AT&T-C shall track monthly billings, message volumes and call durations associated with its WATS and 800 InterLATA Add-on services, and report them to the CACD Telecommunications Branch Chief within 60 days of each month's end.

6. If AT&T-C submits long-run incremental cost studies in support of an advice letter filing made on 40-day regular notice pursuant to General Order 96-A, proposing rates and charges which would be effective prior to a final decision in the consolidated Readyline 800 proceeding (A.89-03-046, et al), such rates and charges shall be provisional and subject to adjustment to reflect the costing methodology ultimately adopted in A.89-03-046. AT&T-C shall clearly identify such advice letters at the time of filing as provisional and cite this Resolution T-13098. Each advice letter filed with the Commission Advisory and Compliance Division (CACD) will continue to be evaluated on its complete record, factors and merits.

7. The effective date of of this Resolution is today.

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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