

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-14007  
Telecommunications Branch November 3, 1989

R E S O L U T I O N

RESOLUTION T-14007. PACIFIC BELL. ORDER AUTHORIZING A CONTRACT COVERING THE PROVISION OF CENTREX AND INSIDE WIRE SERVICES TO SUTRO & CO INCORPORATED.

SUMMARY

Pacific Bell (Pacific), by Advice Letter No. 15614, filed October 4, 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 Sutro & Co. Incorporated (Sutro) with Centrex service and inside wire under contract. This Resolution authorizes the contract which Pacific estimates will result in a decrease in annual revenues for 1989 of approximately \$28,100. No protests to this Advice Letter have been 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. 15614 contains a customer specific contract quite similar to that which was approved by the Commission for Déan Witter Reynolds on September 7, 1989 in Resolution T-13092. The contract filed under Advice Letter No. 15614 covers the provision of Centrex Service and inside wire to Sutro at its two San Francisco locations and its Los Angeles 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 Sutro contract, Pacific agrees to provide Sutro, who currently receives Centrex service under tariff, with Centrex service for a period of 5 years. For the first year under the contract Pacific will provide the customer with 456 Centrex lines in San Francisco and 180 Centrex lines in Los Angeles. During the second through fifth years the contract provides for the addition of 40 additional lines in San Francisco (at a growth rate of 10 lines per year) and 60 additional lines in Los Angeles (at a growth rate of 15 lines per year) to the customer's service. The monthly rates for each month of the 5 year term of the contract are approximately \$7,456 for San Francisco and \$3,186 for Los Angeles. These monthly rates reflect the initial lines and the additional lines added during each year of the contract. Pacific indicates that Commission authorization of this contract will result in an estimated decrease in annual revenues for 1989 of approximately \$28,100. The inside wire which is included in the contract is existing and was paid for when service to the customer was initiated. The inclusion of inside wire in the contract has no impact on the costs and/or revenues associated with the Centrex services involved.

#### PROTESTS

No protests have been filed on Pacific's Advice Letter No. 15614.

#### DISCUSSION

The Sutro 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 Sutro 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 Sutro contract, it appears that the monthly contract rates of \$1,455.60 and \$3,186.00 for both the San Francisco and Los Angeles locations, respectively, do recover the specific costs of providing Centrex and inside wire services to Sutro based on a direct embedded cost analysis. Further, the monthly rates per line (excluding nonrecurring charge revenues) under the contract are 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 to other vendors. Pacific could not offer this type of price under the current tariffs, and therefore offered a customer customer specific."

"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 Sutro. We note that this determination is made with regard to Sutro

based on the assertions made at this time concerning Sutro. We agree with Pacific that such a determination for Sutro 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 arisen 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?

In Resolutions Nos. T-13091 (New York Life Centrex Contract) and T-13092 (Dean Witter Reynolds, Inc. Centrex Contract) both dated September 7, 1989 we addressed both of these questions. With regard to the first question we determined in these previous Resolutions that revenues from nonrecurring charges must be excluded from the contract rate before comparing the contract rate to the 1MB+EUCL. With regard to the second question we determined that as the 1MB+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 1MB+EUCL. The purpose of such rate adjustments is to provide for a level playing field between the Centrex rates offered under a customer specific contract and the rates for 1MBs as well as PBX trunks which are the principle competitive services for Centrex. In Resolution No. T-13069 (Great Western Centrex Contract) based on the premise that a contract rate which is subject to change may not meet the needs of customers, we adopted an alternative means of providing a level playing field. This alternative required Pacific to 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 rates. Per Resolution No. T-13069, this requirement to offer to provide deaveraged PBX trunk rates applies to all Centrex contracts which were signed on or after May 26, 1989 which provide for a fixed rate Centrex contract rate. In Resolutions Nos. T-13091 and T-13092, we provided for all contracts signed prior to May 26, 1989 an alternative to having a contract with rates subject to change. This alternative provides for a waiver of the requirement that the Centrex contract rate may at no time be lower than the current 1MB+EUCL 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. Since the Sutro contract was signed prior to May 26, 1989 we will also provide for the same waiver alternative to be applicable to the Sutro contract.

FINDINGS

We find that:

1. On October 4, 1989 Pacific Bell filed Advice Letter No. 15614 requesting Commission authorization to provide for the offering of Centrex service to Sutro & Co. Incorporated under a customer specific contract.
2. 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.
3. Advice Letter No. 15614 (Advice Letter) conforms to the requirements of Appendix A of D.88-09-059 and G.O. 96-A.
  - a. The Sutro contract states that the contract will not become effective until authorized by the Commission.
  - b. The Advice Letter and the Sutro contract are public documents.
  - c. Pacific requests in the Advice Letter that the workpapers and supporting cost documentation associated with the Sutro 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 Sutro contract if such a party (except DRA) first enters into a protective agreement.
  - e. The Sutro contract provides for the offering of Centrex and inside wire services which are appropriate services for offering under a contractual arrangement.
  - f. The rates and charges set forth in the Sutro contract cover the cost of providing the Centrex and inside wire services offered under the terms of the contract.
  - g. The methodology used by Pacific to develop the costs of providing Centrex and inside wire services to Sutro under the terms of the contract are based on the direct embedded methodology.
  - h. The prices per month per line for Centrex services for Sutro under the terms of the contract are 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 and inside wire services to Sutro under the terms of the contract will be tracked.
- j. A contract is required for Sutro 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.
4. 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 Sutro contract.
5. Before comparing the contract rate to the IMB+EUCL the nonrecurring charges must first be excluded.
6. 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.
7. The requirement as expressed in Finding No. 6 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.
8. Authorization of the Sutro contract will result in an estimated reduction in Pacific's 1989 annual revenues of approximately \$28,100.
9. Commission authorization of the Advice Letter and the Sutro contract do not establish precedents for the contents of these filings or for Commission approval of similar requests. The Commission approval of the Sutro contract is based on the specifics of the Sutro contract.
10. 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 Letter and contract effective on November 4, 1989, subject to the conditions set forth in Findings Nos. 4, 5, 6 and 7.
- (2) The Advice Letter 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-14007.

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 November 3, 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