

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION NO. T-14038
Telecommunications Branch January 9, 1990

R E S O L U T I O N

RESOLUTION T-14038. PACIFIC BELL. ORDER AUTHORIZING
A CONTRACT COVERING THE PROVISION OF CENTREX SERVICE TO
RALPH M. PARSONS COMPANY.

SUMMARY

Pacific Bell (Pacific), by Advice Letter No. 15645, filed November 29, 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 Ralph M. Parsons Company with Centrex service under contract. This Resolution authorizes the contract, which Pacific estimates will result in a decrease in annual revenue of \$115,600 for each year of the contract. 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.

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- The methodology for determining costs shall be either fully allocated embedded 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. 15645 contains a customer specific contract quite similar to that which was approved by the Commission for New York Life on September 7, 1989 in Resolution No. T-13091. The contract filed under Advice Letter No. 15645 covers the provision of Centrex service to Ralph M. Parsons at its Pasadena location. Centrex 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 Ralph M. Parsons contract, Pacific agrees to provide Ralph M. Parsons, who currently takes Centrex service under tariff, 2100 lines for a period of 3 years at a fixed rate of \$29,724 per month. The contract also provides for the potential growth of maximum 1400 lines during the life of the contract at a per line rate of \$14.55 per month. Pacific indicates that Commission authorization of this contract will result in an estimated decrease in annual revenues of \$115,600 for each year of the contract.

PROTESTS

No protests have been filed on Pacific's Advice Letter No. 15645.

DISCUSSION

The Ralph M. Parsons 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 Ralph M. Parsons contract 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 Ralph M. Parsons contract, it appears that the contractual rates do recover the specific costs of providing Centrex service to Ralph M. Parsons based on a direct embedded cost

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analysis. Further, the monthly rate 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 rate (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 and a set term 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 price that is fixed and is competitive with other vendors appears to form a reasonable basis on which to determine that an exceptional circumstance exists which warrants providing Centrex service to Ralph M. Parsons under contract. We agree with Pacific that such a determination for Ralph M. Parsons should not be considered by this Commission as establishing a precedent 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 revenues, 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 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 Centrex contract rate. The Ralph M. Parsons contract was signed after May 26, 1989 and Pacific has fulfilled this requirement by offering to provide the customer deaveraged PBX trunk rates under contract.

FINDINGS

We find that:

1. On November 29, 1989 Pacific Bell filed Advice Letter No. 15645 requesting Commission authorization to provide for the offering of Centrex service to Ralph M. Parsons Company 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. 15645 conforms to the requirements of Appendix A of D.88-09-059 and G.O. 96-A.
 - a. The Ralph M. Parsons contract states that the contract will not become effective until authorized by the Commission.
 - b. The Advice Letter and the Ralph M. Parsons contract are public documents.

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- c. Pacific requests in the Advice Letter that the workpapers and supporting cost documentation associated with the Ralph M. Parsons 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 Ralph M. Parsons contract if such a party (except DRA) first enters into a protective agreement.
 - e. The Ralph M. Parsons 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 Ralph M. Parsons 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 Ralph M. Parsons under the terms of the contract are based on the direct embedded methodology.
 - h. The price per month per line for Centrex services for Ralph M. Parsons 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 Ralph M. Parsons under the terms of the contract will be tracked.
 - j. A contract is required for Ralph M. Parsons because the customer requires a fixed price that is competitive with PBX alternatives. These customer requirements are not met by Centrex available under Pacific's present tariffs.
4. Before comparing the contract rate to the 1MB+EUCL the nonrecurring charges must first be excluded.
 5. Authorization of the Ralph M. Parsons contract will result in an estimated decrease in Pacific's annual revenue of \$115,600 for each year of the contract.
 6. Commission authorization of the Advice Letter and the Ralph M. Parsons contract do not establish precedents for the contents of these filings or for Commission approval of similar requests. The Commission approval of the Ralph M. Parsons contract is based on the specifics of the Ralph M. Parsons contract.

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7. The rates, charges, terms and conditions of the contractual service authorized in this resolution are just and reasonable; therefore,

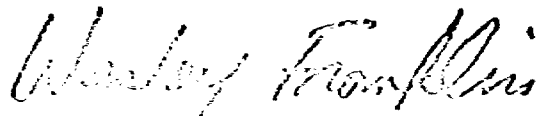
IT IS ORDERED that:

- (1) Authority is granted to make the above Advice Letter and contract effective on January 10, 1990, subject to the conditions set forth in Finding No. 4.
- (2) The Advice Letter and contract authorized herein shall be marked to show that they were authorized under Resolution of the Public Utilities Commission of the State of California No. T-14038.

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 January 9, 1990. The following Commissioners approved it:

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



WESLEY FRANKLIN
Acting Executive Director

Commissioner Stanley W. Hulett,
being necessarily absent, did
not participate.