

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-14040
Telecommunications Branch Date January 9, 1990

R E S O L U T I O N

RESOLUTION T-14040. PACIFIC BELL. ORDER AUTHORIZING A
CONTRACT COVERING THE PROVISION OF CENTREX SERVICE TO
AT&T TECHNOLOGIES UNDER CONTRACTS.

SUMMARY

Pacific Bell (Pacific), by Advice Letter No. 15649, filed December 12, 1989 requesting 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 AT&T Technologies with Centrex service under a customer specific contract. This Resolution authorizes the contract, which Pacific estimates will result in a increase in annual revenue of \$305,832 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.
- 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.

The contract filed under Advice Letter No. 15649 covers the provision of Centrex Service equipped with ISDN (Integrated Services Digital Network) capability to AT&T Technologies at its Sunnyvale location (hereinafter referred to as "Centrex IS").

Centrex IS is a local exchange telecommunications service which provides the customer an integrated voice/data communications capability for the simultaneous transmission of circuit switched digitized voice, circuit switched data and packet switched data on an incoming and outgoing basis. The offering consists of a group of line and system wide features that can be provided in addition to Pacific's existing Centrex service.

Under the terms of the AT&T Technologies contract, Pacific agrees to provide AT&T Technologies, who currently takes Centrex (but not Centrex IS) Service under tariff, 1200 lines, 800 of which will have ISDN capability, for a period of five years at a fixed rate of \$44,856 per month. Pacific indicates that Commission authorization of this contract will result in an estimated increase in annual revenue of approximately \$305,832 for each year of the contract.

PROTESTS

No protests were filed on Pacific's Advice Letter No. 15649.

DISCUSSION

The AT&T Technologies 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 AT&T Technologies 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 AT&T Technologies contract, it appears that the monthly contract rate of \$44,856 does recover the specific costs of providing Centrex IS service to AT&T Technologies based on a direct embedded cost basis. Further, the monthly rate per line (excluding non-recurring charge revenues) under the contract is 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 (where identifiable), 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 customer's request for a fixed rate as well as certain capabilities over the contractual period, which cannot currently be provided by a general tariffed offering. In addition, competition is a factor in that the customer has expressed the intention to select a competitive alternative unless Pacific provided that service at rates, terms, and conditions more flexible and competitive than the general tariffed offering.

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 in order to provide a fixed rate and certain capabilities appears to form a reasonable basis on which to determine that an exceptional circumstance exists which warrants the provision of Centrex IS service to AT&T Technologies under contract. We agree with Pacific that such a determination for AT&T Technologies should not be considered precedential 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 Whitter 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 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 rate 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 alternative 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 AT&T Technologies contract was signed prior to May 26, 1989 and Pacific has given the customer this alternative offer in writing, the

contract rate for this contract will not be subject to change as 1MB+EUCL changes during the life of the contract.

FINDINGS

We find that:

1. On December 12, 1989 Pacific Bell filed Advice Letter No. 15649 requesting Commission authorization to provide for the offering of Centrex IS service to AT&T Technologies 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. 15649 (Advice Letter) conforms to the requirements of Appendix A of D.88-09-059 and G.O. 96-A.
 - a. The AT&T Technologies contract states that the contract will not become effective until authorized by the Commission.
 - b. The Advice Letter and the AT&T Technologies contract are public documents.
 - c. Pacific requests in the Advice Letter that the workpapers and supporting cost documentation associated with the AT&T Technologies 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 AT&T Technologies contract if such a party (except DRA) first enters into a protective agreement.
 - e. The AT&T Technologies contract provides for the offering of Centrex IS service which is an appropriate service for offering under a contractual arrangement.
 - f. The rates and charges set forth in the AT&T Technologies contract cover the cost of providing the Centrex IS service offered under the terms of the contract.
 - g. The methodology used by Pacific to develop the costs of providing Centrex IS service to AT&T Technologies under the terms of the contract are based on the direct embedded methodology.
 - h. The price per month per line for Centrex IS service for AT&T Technologies 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.

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- i. The Advice Letter indicates that the costs and revenues associated with the provision of Centrex IS service to AT&T Technologies under the terms of the contract will be tracked.
 - j. A contract is required for AT&T Technologies because the customer is seeking Centrex service with certain capabilities on fixed rate and fixed term not available under Pacific's tariff.
4. Before comparing the contract rate to the 1MB+EUCL, the non-recurring charges must first be excluded.
 5. Authorization of the AT&T Technologies contract will result in an estimated increase in Pacific's annual revenues of \$305,832 for each year of the contract.
 6. Commission authorization of the Advice Letter and the AT&T Technologies contract do not establish precedents for the contents of these filings or for Commission approval of similar requests. The Commission approval of the AT&T Technologies contract is based on the specifics of the AT&T Technologies contract.
 7. The rates, charges, terms and conditions of the contracted service authorized in this resolution are just and reasonable; therefore,

IT IS ORDERED that:

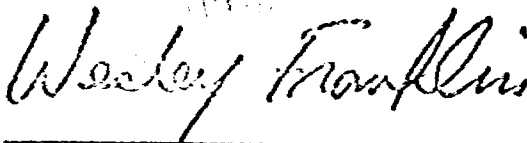
- (1) Authority is granted to make the above Advice Letter and contract effective on January 10, 1990, subject to the condition set forth in Finding No. 4.
- (2) The Advice Letter and contract authorized herein shall be marked to show that an Advice Letter was authorized under Resolution of the Public Utilities Commission of the State of California No. T-14040.

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

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



WESLEY FRANKLIN
Acting Executive Director