

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-14048
Telecommunications Branch February 7, 1990

R E S O L U T I O N

RESOLUTION T-14048. PACIFIC BELL. ORDER AUTHORIZING A CONTRACT COVERING THE PROVISION OF CENTREX SERVICE TO ROCKWELL INTERNATIONAL.

SUMMARY

Pacific Bell (Pacific), by Advice Letter No. 15665, filed January 17, 1990 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 Rockwell International (Rockwell) with Centrex Service under contract. This Resolution authorizes the contract which Pacific estimates will result in a decrease in annual revenue of approximately \$209,186 during the life of the contract. 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.

The contract filed under Advice Letter No. 15665 covers the provision of Centrex service to Rockwell at its Anaheim 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 Rockwell contract, Pacific agrees to provide Rockwell, who currently receives Centrex service under tariff, with 5500 lines at its Anaheim location, for a period of 3 years at a fixed rate of \$71,555.00 per month (\$13.01 per line). The customer may elect to have more lines up to a maximum of 6500 lines. The monthly rate for each line over the initial 5500 lines is \$13.66 per line. The non-recurring rates and charges for the lines and associated features added over the initial 5500 lines, up to 6500 lines, shall be at the prevailing tariff rates. Pacific indicates that Commission authorization of this contract will result in an estimated decrease in annual revenue of approximately \$209,186 during the life of the contract.

PROTESTS

No protests have been filed on Pacific's Advice Letter No. 15665.

DISCUSSION

The Rockwell 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

Rockwell 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 Rockwell contract, it appears that the monthly contract rate of \$71,555 does recover the specific costs of providing Centrex service to Rockwell 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 rate (1MB+EUCL).

With regard to tracking procedures required by D. 88-09-059, Pacific indicates in the Advice Letter that Pacific will be tracking recurring billings, nonrecurring billings, in-service volumes, inward movement volumes, recurring costs, and nonrecurring costs. In addition the Advice Letter goes on to state: "Pacific will provide an initial six month report and subsequent annual reports to the Commission.

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 meet the customer's expectations under the 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 fixed price contract that is competitive with 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 Rockwell. We note that this determination is made with regard to Rockwell based on the assertions made at this time concerning Rockwell. We agree with Pacific that such a determination for Rockwell 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 Centrex contract rate.

In Resolution Nos. T-13091 and T-13092, we provided for all contracts signed prior to May 26, 1989 an alternative to having a contract with the contract 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 methodology used to determine the contract Centrex line rate. Since the Rockwell contract was signed prior to May 26, 1989 and Pacific has given the customer this

alternative offer in writing, the contract rates 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 January 17, 1990 Pacific Bell filed Advice Letter No. 15665 requesting Commission authorization to provide for the offering of Centrex service to Rockwell International 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. 15665 conforms to the requirements of Appendix A of D.88-09-059 and G.O. 96-A.
 - a. The Rockwell contract states that the contract will not become effective until authorized by the commission.
 - b. The Advice Letter and the Rockwell contract are public documents.
 - c. Pacific requests in the Advice Letter that the workpapers and supporting cost documentation associated with the Rockwell contract be treated as confidential.
 - d. Pacific has offered the parties to the Phase I Settlement in 1.87-11-033 the opportunity to receive and review the workpapers and supporting documentation associated with the Rockwell contract if such a party (except DRA) first enters into a protective agreement.
 - e. The Rockwell 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 Rockwell 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 Rockwell under the terms of the contract are based on the direct embedded methodology.

- h. The price per month per line for Centrex service for Rockwell under the terms of the contract is no lower 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 (1MB+EUCL).
 - i. The Advice Letter indicates that the costs and revenues associated with the provision of Centrex service to Rockwell under the terms of the contract will be tracked.
 - j. A contract is required for Rockwell because the customer requires a fixed price contract that is competitive with PBX alternatives. These customers requirements are not met by the Centrex service available under Pacific's present tariff.
4. Before comparing the contract rate to the 1MB+EUCL the nonrecurring charges must first be excluded.
5. Authorization of the Rockwell contract will result in an estimated reduction in Pacific's annual revenues of approximately \$209,186 during the life of the contract.
6. Commission authorization of the Advice Letter and the Rockwell contract do not establish precedents for the contents of these filings or for Commission approval of similar requests. The Commission approval of the Rockwell contract is based on the specifics of the Rockwell contract.
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 February 8, 1990.
- (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-14048.

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 February 7, 1990. 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