

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-14076
Telecommunications Branch May 22, 1990

R E S O L U T I O N

RESOLUTION T-14076. PACIFIC BELL. ORDER AUTHORIZING
PACIFIC BELL TO PROVIDE CENTREX SERVICE TO CITY OF
GLENDALE UNDER CONTRACT.

SUMMARY

Pacific Bell (Pacific), by Advice Letter Nos. 15730, 15730-A, 15730-B, filed April 23, 1990, April 26, 1990 and April 30, 1990, respectively, requests authority under 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 the City of Glendale with Centrex service under a customer specific contract. This Resolution authorizes the contract which Pacific estimates will result in an increase of \$958,257 in annual revenue over current billings for 1990. City of Glendale currently uses a combination of Centrex service under tariff rates and a NEAX 22A PBX system. No protests to this Advice Letter were filed.

BACKGROUND

In D. 88-09-059 the Commission adopted a modified Phase 1 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.

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- 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. 15730 covers the provision of Centrex service to the City of Glendale. Centrex is a central office based communications system equipped with primary station lines capable of receiving direct in-dialed calls and capable of direct out-dialing of calls with optional features.

Under the terms of the Glendale contract, Pacific agrees to provide the City of Glendale who currently uses a combination of Centrex service under tariff and a PBX system, 732 lines and optional features for a period of ten years for a one time payment of \$983,212. The contract also provides for the potential growth of an additional 268 lines at the contract per growth line rate. Nonrecurring charges for growth lines will be at the tariff rate. Pacific indicates that the Commission authorization of this contract will result in an estimated increase in annual revenue of \$958,257 over current billings for 1990.

PROTESTS

No protests have been filed on Pacific's Advice Letter No. 15730.

DISCUSSION

The City of Glendale 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 City of Glendale contract indicates that the contract does not contain a service listed as inappropriate under the provisions of Appendix A of D. 88-09-59.

Based on a review of the workpapers and supporting documentation provided with the City of Glendale contract it appears that the contractual rates do recover the specific costs of providing Centrex service to the City of Glendale based on a direct embedded cost analysis. Further, the monthly rate per line (excluding nonrecurring charge revenues) under the contract is

greater than the single line business rate plus the multi-line End Users Common Line (1MB+EUCL) rate.

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 the fact that this customer asked Pacific for a fixed price, a set term of ten years with customer-specific pricing that could be paid for in an up front lump sum payment. 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 over a ten year term that is competitive with PBX alternative's appears to form a reasonable basis on which to determine that an exceptional circumstance exists. This exceptional circumstance warrants providing Centrex service to the City of Glendale under contract. We agree with Pacific that such a determination for the City of Glendale 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 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 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 principal 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. Addendum No. 1 of the City of Glendale contract was signed after May 26, 1989, and Pacific has met this requirement.

FINDINGS

We find that:

1. On April 23, 1990 Pacific Bell filed Advice Letter No. 15730 requesting Commission authorization to provide for the offering of Centrex service to the City of Glendale 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. 15730 conforms to the requirements of Appendix A of D. 88-09-059 and G.O. 96-A.
4. Pacific has offered 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 rate.
5. Before comparing the contract rate to the 1MB+EUCL the nonrecurring charges must first be excluded.
6. Authorization of the City of Glendale contract will result in an estimated increase in Pacific's annual revenue of \$958,257 over current billings for 1990.
7. Commission authorization of the Advice Letter and the City of Glendale contract do not establish precedents for the contents of

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these filings or for Commission approval of similar requests. The Commission approval of the City of Glendale contract is based on the specifics of the City of Glendale contract.

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

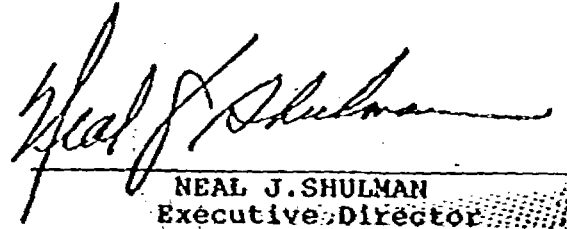
IT IS ORDERED that:

- (1) Authority is granted to make the above Advice Letter and contract effective on May 25, 1990.
- (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-14076.

The effective date of this Resolution is today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on May 22, 1990. The following Commissioners approved it:

G. MITCHELL WILK
_President
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners


NEAL J. SHULMAN
Executive Director

Commissioner Frederick R. Duda,
being necessarily absent, did
not participate.