PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-14155
Telecommunications Branch September 25, 1990

RESOLUTION

RESOLUTION T-14155. PACIFIC BELL. REQUEST TO REVISE SCHEDULE NO. 175-T TO ACHIEVE GREATER OPERATIONAL PARITY WITH ITS INTERSTATE ACCESS TARIFF.

BY ADVICE LETTER 15785, FILED ON AUGUST 10, 1990.

SUMMARY

This resolution authorizes Pacific Bell's (Pacific's) request in Advice Letter No. 15785, filed on August 10, 1990, to revise its Tariff Schedule No. 175-T, intrastate access tariff, in order to achieve greater parity with its interstate access tariff. Pacific has filed this Advice Letter to ease administration of these two tariffs. Failure to maintain consistency between these two tariffs causes Pacific higher administrative cost due to the complexity of handling two separate tariffs and also results in customer confusion.

Commission Decision 87-12-063 specified that utilities consolidate local switching access service rate elements of line intercept and line termination into a single switching element in Schedule 175-T in order to conform to the Uniform System of Accounts. Pacific proposes to comply with this decision by incorporating the rate elements of line intercept and line termination into the existing local switch rate for Feature Group A and B (LS1) access service and Feature Group C and D (LS2) access service.

Pacific proposes to further comply with Decision 87-12-063 by gradually increasing the local switching rate for LS1 access service until it equals the LS2 access service rate on January 1, 1993.

BACKGROUND

The Local Switching (LS) 1 (Feature Group A and B) rate element covers line and trunk side long distance access connections available to long distance telephone companies on switches throughout California.

The LS2 rate element covers feature Group C, which is AT&T's access service and available only to AT&T; and Feature Group D, which is long distance access service that is equivalent to AT&T's access service and available only on switches equipped for Equal Access.

Historically, LS2 service required more sophisticated, and thereby expensive, technology (for Feature Group C and D) than LS1.

Advice Letter No. 15785 requests two tariff revisions that require Commission authorization; they are:

1. Merge the two local switching rates, LS1 and LS2, into one. The LS1 (Feature Group A and B) access rate will be gradually increased to the LS2 (Feature Group C and D) access rate. The Federal Communications Commission (FCC) proposed this consolidation in 1987, and new equipment costs no longer justify the cost differences between the LS1 and LS2 rates. The LS1 rate is currently less than the LS2 rate; therefore, LS1 customers will have to pay more as a result of this increase to the LS2 rate.

2. Consolidate intercept, termination, and access rate elements. Pacific also proposes to combine the rate elements of line intercept and line termination with the LS1 and LS2 rates. Existing LS1 and LS2 access rate customers are currently charged line intercept and line termination rates in addition to LS1 or LS2 access rates. The existing LS1 and LS2 access rates will be increased an amount equal to current line intercept and line termination rate elements (175-T 6.6.8.3(A)). Inclusion of line intercept and line termination into LS1 and LS2 rates will not result in an increase in access charges to customers, because separate line intercept and line termination rate elements will be eliminated.

[2] 3. Reduce the period before which a late payment charge applies to access customers. Currently, the period between the billing date and the date on which late charges are applied is 41 days. This period will be reduced to 31 days through this resolution. This change is consistent with the FCC tariff, but is more restrictive and will result in increased charges to those customers who pay their bill between the 31st and 41st day.

Pacific has notified approximately 300 customers affected by this change, by serving them with a copy of this Advice Letter [on them] at the time of its filing.

<u>PROTESTS</u>

On August 28 and 30, 1990, the California Association of Long Distance Telephone Companies (CALTEL) and MCI Telecommunications Corporation (MCI), respectively, filed protests to Pacific Bell's Advice Letter 15785. Both companies objected to Pacific Bell's escalation of LS1 to LS2 rates without an application and public hearing. Pacific responded to both protests on September 7, 1990.

Additionally, CALTEL protested Pacific Bell's elimination of the ten day waiting period prior to late payment charges on disputed bills without an application and public hearing. CALTEL also claimed that Pacific Bell's Advice Letter No. 15785 does not comply with General Order (GO) 96-A, stating that Pacific failed to include the revenue impact of the LS1 to LS2 escalation on various classes of customers including small long distance telephone companies who use the LS1 service.

Finally, CALTEL protested Pacific's omission of revenue effects resulting from this filing as required by G.O. 96-A. In response to CALTEL and MCI's protest of Advice Letter 15785, Pacific agreed with CALTEL's protest regarding incomplete revenue information contained in the advice letter, and filed Supplement A to advice letter 15785 on September 7, 1990. This supplement included revenue impacts for various years of LS1 to LS2 escalation starting with $300,000 revenue increase for the first year of escalation to $7.4 million revenue increase for the third and last year of the escalation.

In response to the suggestion that the LS1 rate increase to achieve parity with the LS2 rate should be accomplished by application and public hearing, Pacific estimates the proposed revenue increase for switched access in 1990 equals .0008% and an total increase of .01% through 1993. Pacific contends this change constitutes a small overall revenue increase that is minor in nature and may be filed under G.O. 96-A, Section VI which allows minor revenue increases to be filed by advice letter.

Pacific maintains that this advice letter filing is the appropriate procedure for eliminating the ten day grace period for late payment penalties and disputed amount penalties, to achieve consistency with Pacific's interstate switched access tariffs.

Pacific states that this revision clarifies the term "date of resolution" (Section 2.4.1 (B) (3) (h)) and the time frames for remittance by Pacific of customer overpayments and disputed penalty amounts (Section 2.4.1. (b) (3) (i)), Pacific also proposes to increase the period (by eliminating the existing ten day waiting period) used by Pacific for calculating penalties on disputed amounts that are resolved in the Customer's favor.

AT&T filed a letter September 7, 1990, in support of Pacific Bell's Advice Letter 15785, stating that it concurs with Pacific's efforts to achieve parity with Pacific's FCC interstate tariffs, citing ease of administration and reduced customer confusion resulting from differences between Pacific's FCC interstate tariff and its California intrastate tariff. However, this letter is included only as background information and does not affect the Commission's action on this advice letter.

DISCUSSION

The two major issues raised by the protestants in Pacific Bell Advice Letter 15785 are:

1. Whether the escalation of LS1 rates to LS2 rates requires an application and public hearing; and

2. Whether the elimination of the ten day waiting period prior to application of late payment charges requires an application and public hearing.

Pacific has addressed these issues in its response dated September 7, 1990. This response states that the LS1 to LS2 rate escalation is minor in nature, may be filed by advice letter and does not require and application filing.

Pacific's elimination of the ten day waiting period prior to the application of late penalty charges on disputed bills in favor of the utility, states correctly that this is consistent with its interstate access tariff.

Both issues have been addressed and adopted by the Commission in order to achieve operational parity between Pacific's Intrastate California tariff and its Interstate Access tariff.

Other issues addressed in this advice letter include Pacific's filing to adopt parity of its' California intrastate tariff with its' FCC interstate tariff.

Decision No. 85-01-010 states that "We adopt the principle of operational parity, with the requirement that deviations be justified." Decision No. 83-12-024 includes a similar statement: "...we acknowledge that parity offers clear advantages, including lower administrative costs, lessen incentives to misreport and inefficiently route traffic, and more predictable access revenues." Pacific Bell bases its requests in Advice Letter No. 15785 on these policy statements by the Commission.

1. The merger of two local switching rates (LS1 and LS2).

In May of 1987, FCC Docket 87-313 amended Part 69, Access Charges, of its Rules and Regulations to allow for the combining of local switching rates elements LS1 and LS2. This would result in only one switching rate element, as opposed to separate rate elements LS1 (Feature Groups A and B) and LS2 (Feature Groups C and D) now in use.

In Decision No. 87-12-063, this Commission adopted the FCC Part 36 Separations Manual which specified that non-traffic sensitive costs associated with Central Office Equipment (COE) Category 6 (of the Part 36 Separation Manual) are not to be distinguished from traffic sensitive costs. Consequently, a Subscriber Plant Factor (SPF) to Subscriber Line Useage (SLU) shift within this category, specifically to address the Line Termination element, is no longer applicable. In addition, because Line Termination costs are now recovered on a traffic sensitive basis, adoption of a combined Local Switching rate element which includes Line Termination is logical since the same minutes of use are applied to Local Switching, Line Intercept and Line Termination. Pacific states that this change will benefit both carriers and Pacific by simplifying billing and reducing bill auditing costs for both parties.

Pacific states that in order to conform to Commission's Decision 87-12-063 which adopted the FCC Part 36 Separation Manual, Pacific proposes to increase the LS1 and LS2 rate by_an amount equal to the line intercept and line termination rate elements.

Pacific states that the rationale for two distinct Local Switching Rates (LS1 and LS2) was based on the different cost elements between LS1 switching elements which include Feature Group A and B access and LS2 switching elements which include Feature Group C and D access; however, new cost studies indicate that the cost elements are no longer different between LS1 and LS2 due to current switching equipment.

The single local switching element concept is appropriate because cost differences are no longer significant enough to justify the rate disparity between LS1 and LS2, and because this disparity encourages carriers to continue to purchase FGA and FGB even after the central office has converted to Equal Access (FGD). Pacific states that the reason for ordering national Equal Access conversions was to enable other common carriers to compete with AT&T (FGC is exclusive to AT&T, FGD is the non-dominant carrier equivalent of FGC). Pacific observes that encouraging carriers to buy non-equal access products through price disparities contradicts the policy of equal access.

In August 1987, the FCC instituted a five year transition plan for combining LS1 and LS2 rates into one Local Switching rate element. Each year the LS1 rate will be increased until the LS1 equals LS2, which will be on July 1, 1993, for interstate access. This is to be accomplished by increasing the LS1 transition factor (the percentage relationship between LS1 and LS2) until it is 100%, i.e. LS1 equals LS2.

In Advice Letter No. 15785 Pacific proposes to institute a Local Switching transition in its 175-T tariffs, similar to the FCC's transition, in order to achieve parity between its interstate and intrastate tariffs. The following factors would be applied to the LS1 rate in order to gradually increase it (approximately 3.5% per year for three years) to equal the LS2 rate:

Current relation of LS1 rate to LS2 rate	86.2%
9-12-90 to 12-31-90	89.7%
1-1-91 to 12-31-91	93.1%
1-1-92 to 12-31-92	96.5%
after 1-1-93	100.00%

Pacific estimates that a LS1 to LS2 rate escalation will result in a revenue increase from 9-12-90 to 12-31-90 of approximately $325,000, from 1-1-91 to 12-31-91 an increase of approximately

$2.8 million, from 1-1-92 to 12-31-92 an increase of approximately $4.7 million and after 1-1-93 a revenue increase of approximately $7.2 million. This will result in a total accumulated rate increase above current rates of 13.7%. Both the LS1 transition rate and the new LS2 rate will include the line intercept and the line termination rate elements being eliminated (175-T 6.6.8.3.(A)).

2. Reduction of lead time for late payment charge.

Rule 9 of Pacific's current tariffs gives all customers, regardless of class, at least 21 days between the billing date and the due date of the payment. The payment date is also the date on which late payment charges begin. In Schedule No. 175-T, Sheet No. 22-A, the access service customer is given 31 days before the late payment charge becomes effective. On Sheet No. 22-B, 10 more days are added to that number, making the total 41 days. As proposed, this latter 10 days would be eliminated and the late charge would become effective on the 31st day. This proposed change may be seen as a restriction of an existing condition.

The elimination of the last ten days prior to the application of any penalty is reasonable because the remaining 31 days is greater than Pacific's Rule No. 9 requirement which specifies that all customers are subject to a 21 day minimum time period prior to the application of any penalty assessment.

FINDINGS

1. The protests of CALTEL and MCI are denied. These issues have previously been reviewed and adopted by the Commission in CPUC Decision No. 85-01-010 (Parity) CPUC Decision No. 87-12-063. (regarding Uniform System of Accounts).

2. The elimination of the differential between LS1 and LS2 rates is consistent with CPUC Decision No. 85-01-010 (Parity), FCC Docket 87-133 (Local Switching Transition Plan) and CPUC Decision No. 87-12-063 (regarding Uniform System of Accounts).

3. The 10-day reduction in the waiting period preceding late penalty application results in a grace period which is still greater than that specified in Pacific's Rule No. 9, which grants at least 21 days to all customers prior the assessment of any late penalty charge.

4. The rates, charges, terms and conditions proposed in Advice Letter No. 15785 are just and reasonable.

THEREFORE, IT IS ORDERED that:

1. Pacific's Advice Letter No. 15785 is authorized.

2. All tariff sheets under Advice Letter No. 15785 shall be marked to show that such sheets were authorized by this resolution, and its effective date.

3. The protests of CALTEL and MCI are denied.

4. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 25, 1990. The following Commissioners approved it:

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
PATRICIA M. ECKERT
Commissioners

Commissioner John B. Ohanian, being necessarily absent, did not participate.

Neal J. Shulman

NEAL J. SHULMAN
Executive Director