PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-14339
Telecommunications Branch May 8, 1991

R E S O L U T I O N

RESOLUTION T-14339. PACIFIC BELL. REQUEST TO REVISE SCHEDULE NO. 175-T TO REDUCE THE DIFFERENCE BETWEEN LOCAL SWITCHING 1 (LS1) AND LOCAL SWITCHING 2 (LS2) RATE ELEMENTS.

BY ADVICE LETTER NO. 15841, FILED ON NOVEMBER 16, 1990.

SUMMARY

This resolution authorizes Pacific Bell's (Pacific's) request in Advice Letter No.15841, filed on November 16, 1990, to further revise its Schedule Cal P.U.C. No. 175-T, intrastate access tariff, reducing price differences between Local Switching 1 (LS1) and Local Switching 2 (LS2) rate elements. Pacific has filed this Advice Letter as the second of four steps to gradually eliminate discounted local switching charges previously offered in offices not equipped with equal access. Over 99% of Pacific's end offices are presently equipped for equal access. During 1991, all remaining offices will offer equal access, thereby eliminating the need for discounted charges in non-equal access offices.

Commission Decision 87-12-063, Ordering Paragraph No. 2, adopted the Federal Communications Commission's (FCC's) Part 36 Separations Manual. This change resulted in non-traffic sensitive costs associated with Category 6 Central Office Equipment (COE) to no longer be distinguished from traffic sensitive costs (discussed at page 28 of D.87-12-063). Consequently, it was necessary for Local Exchange Companies (LECs) to consolidate local switching access service rate elements of line intercept and line termination into a single switching element. By Advice Letter No. 15785, filed on August 10, 1990, Pacific proposed 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, and to gradually increase the local switching rate for LS1 access service until it equals the LS2 access service rate on January 1, 1993. Commission Resolution T-14155 (September 25, 1990) authorized the first phase of eliminating LS1 rates by approving a 3.5% increase in this rate.

BACKGROUND

The Local Switching (LS) 1 (Feature Groups 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.

Advice Letter No.15841 requests Commission authorization to increase the LS1 (Feature Group A and B) access rate by 3.6% from $0.0111 (in effect since September 25, 1990) to $0.0115 per access minute.

NOTICE/PROTESTS

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

Notice of this Advice Letter was published in the Commission Calendar on November 30, 1990. On December 4, 1990, the California Association of Long Distance Telephone Companies (CALTEL) filed a protest to Pacific Bell's Advice Letter No. 15841. CALTEL objected to Pacific Bell's statement that Advice Letter No. 15841 was being filed "in accordance with Resolution T-14155 which authorized Pacific Bell, effective on September 25, 1990, to begin implementation of a transition plan to eliminate the difference in price between rate elements Local Switching 1 (LS1) and Local Switching 2 (LS2)." CALTEL states that Resolution T-14155 "did not authorize the entire transition plan but only specific tariff changes proposed by Pacific in Advice Letter No. 15785..."

Pacific responded on December 12, stating:

> "While Pacific's initial Advice Letter (15785) specifically requested the Commission's approval of the first step in the proposed transition plan for rate parity between LS-1 and LS-2 rates, the Commission thoroughly reviewed the entire transition plan ..." (at page 1).

CALTEL also protested Pacific's proposed escalation of LS1 to LS2 rates without an application and public hearing, stating such an increase was not "minor in nature" within the meaning of Part VI of G.O. 96-A. CALTEL states that "Pacific should be required to to file a formal application or, in the alternative, raise the issue of the transition planning [in] connection with the implementation hearings in Phase III of OII 87-11-033."

Pacific's response of December 12, 1990, indicated that the revenue increase of $2,800,000 resulting from the transition from LS1 to LS2 rates represented a 3.6% increase for the LS1 rate. Pacific also indicated on December 27, 1990, that the increase affects only Feature Group A and B access minutes, which comprise less than 17% of all switched access minutes. Thus, the increase represents a 0.6% increase for switched access revenues.

Pacific further stated that this issue should not be raised in the implementation hearings in Phase III of OII 87-11-033 because:

> "The proposal is limited in nature and small in its impact on IECs. Moreover, CALTEL has provided no reasoning suggesting that consideration of the changes now will interfere with the Commission consideration of redesigned rates in the Phase III proceeding. The proposal can be adopted without disturbing the Commission's later consideration of access rates in Phase III" (at page 4).

Finally, CALTEL protests that Pacific failed "to justify its assertion that the cost of providing LS-1 service is now the same as the cost of providing LS-2 service."

Pacific stated in its December 12, response that:

> "...even though the cost of provisioning LS1 versus LS2 service is approximately the same, it was not due to a difference in cost that the creation of distinct LS1 and LS2 rates occurred. The principle rationale behind the creation of the difference in rates was to account for the lack of equal access when access charges were established. This resulted in reduced access charges for carriers utilizing non-equal access Feature Groups (FG A and B). Today, however, equal access is widespread, and, just as discounted carrier common line charges do not apply in equal access offices, the differential for LS1 and LS2 switching should be eliminated. By doing so Pacific will move closer to cost based rates, conform the structure with that used by the FCC, and eliminate a differential that is no longer justified." (at page 3).

Pacific's December 12, response also contained "Average Message Costs" for 1989, which showed the weighted originating and terminating per call cost for FGB (LS1) was greater than for FGD (LS2).

Pacific's supplemental response of December 27, 1990 states:

> "A high percentage of terminating FGD [associated with LS2] is direct trunked from the carrier's POP to Pacific's end office. Conversely, a substantial percentage of terminating FGB [associated with LS1] service is not direct trunked but is routed from the

carrier's POP through Pacific's tandem. The cost to Pacific to switch the terminating traffic through its tandem is more than the cost to switch the direct trunked traffic. A disaggregated cost analysis of local switching will not pick up this additional tandem switching cost because this cost is not recovered through the LS1 rate." (at page 4).

On December 28, 1990, Pacific provided additional information on "Per Average Message 1989 Costs for Switched Carrier Access FGB and D".

DISCUSSION

The issues raised by CALTEL in Pacific Bell Advice Letter No. 15841 are:

1) whether the Commission (in Resolution T-14155) authorized the entire plan to transition LS1 to LS2 rates;

2) whether the change in rates resulting from this transition are "minor in nature" or require an application and hearings, or should be considered in Phase III of I.87-11-033; and

3) whether Pacific has provided sufficient cost data to justify its assertion that the cost of providing LS1 service is now the same as the cost of providing LS2 service.

1) Did The Commission Authorize The Entire Plan To Transition LS1 to LS2 Rates?

We first address the issue of what the Commission authorized in Resolution T-14155. In Advice Letter No. 15875, Pacific cited D.83-12-024 in support of its request. Upon investigation, it was found that this citation was in fact from D.85-06-115, which states:

> "...we acknowledged that parity offered 'clear advantages', including lower administrative costs, lesser incentives to misreport and inefficiently route traffic, and more predictable access revenues..." and "...that rate structure parity should be maintained to the greatest extent consistent with other important principles of ratemaking, including fairness, avoidance of unreasonable discrimination among or within classes of customers, protection of universal service, and maintenance of affordable basic rates." (page 90).

Also, Commission Decision 85-01-010 Findings of Fact 17, 18, and 19 state:

> "17. Operational parity between interstate and intrastate access tariffs simplifies exchange carriers' tasks in

providing access service and simplifies the operations of IECs.

"18. Operational parity will tend to promote the vitality of competition in interLATA services.

"19. It is reasonable to adopt the principle of strict operational parity as the starting point for construction of intrastate access tariffs." (pp. 85-86)

Commission Decision 85-01-010 Conclusion of Law 12 states:

"12. Pacific should be required to bring its intrastate access tariff into strict operational parity with its interstate tariff except to the extent disparate provisions have been or are expressly found reasonable, result directly from disparity of rate structures, are simply matters of wording to reflect the intrastate character of the tariff, or relate to tariff sections still under review by the FCC." (pp. 89-90)

Finally, D.85-01-010 Ordering Paragraph 10 states:

"10. Pacific Bell (Pacific) shall bring its intrastate access tariff Schedule Cal. P.U.C. No. 175-T ...into strict operational parity with its presently effective interstate tariff except to the extent disparate provisions have been or are expressly found reasonable in prior decisions..." (p. 93)

Clearly, the Commission supports the achievement of operational parity between the intrastate and the interstate access rates, and the elimination of the differential between the LS1 and LS2 rates is a step toward this objective. However, while we agree with the appropriateness of parity between LS1 and LS2 rates as requested in Advice Letter No.15785, Pacific specifically requested (and received in Resolution T-14155) the Commission's approval of the first step in the proposed transition plan.

Pacific's Advice Letter No.15785 states:

"This filing reflects changes in the attached tariff schedule sheets... The proposed changes are...[to] begin implementation of a plan to phase out the differential between Local Switching subelements LS-1 and LS-2..." (at page 1).

As stated in Ordering Paragraph 2 of T-14155:

"2. All tariff sheets under Advice Letter No. 15785 shall be marked to show that such sheets were authorized by this resolution..."

Had Pacific sought approval of the entire transition plan when it filed Advice Letter No. 15785, its filing should have so stated and included tariff sheets reflecting this transition.

However, as indicated in Ordering Paragraph 2 of Resolution T-14155, only the portion of the transition plan reflected in the tariff sheets accompanying Advice Letter No. 15785 was authorized.

Therefore, CALTEL correctly states that Resolution T-14155 "did not authorize the entire transition plan but only specific tariff changes proposed by Pacific in Advice Letter No. 15785..."

2) Are The Proposed Rate Changes Minor In Nature?

The question of whether the change in rates resulting from this transition are "minor in nature" or require an application and hearings was addressed in Resolution T-14155, and is restated here.

Modified Finding 1 of Resolution T-14155 states "[t]he changes proposed by Pacific Bell in Advice Letter No. 15785 comply with General Order 96-A, and are justifiably handled by the advice letter procedure." Inasmuch as Advice Letter No. 15841 is a continuation of the transition plan described in Advice Letter No. 15785, the advice letter process is equally appropriate in this instance.

In Phase III of I.87-11-033 we will consider the design of access and other rates, and this issue may be revisited as part of a comprehensive rate redesign. But we see no need to defer action on Advice Letter No. 15841 to that proceeding.

3) Has Pacific Provided Sufficient Cost Data?

Finally, we address the question of whether Pacific has provided sufficient cost data to justify its assertion that the cost of providing LS1 service is now the same as the cost of providing LS2 service. CALTEL believes that Pacific has failed to justify the transition from LS1 to LS2 rates based on differences in provisioning costs.

While Pacific states that LS1 and LS2 rates are not based solely on cost differences, provisioning costs for LS1 and LS2 are similar. Pacific indicates that network serving arrangements associated with LS1 result in higher average costs than with LS2 serving arrangements. On December 12 and December 28, 1990, Pacific provided "1989 per Average Message Costs" for Switched Carrier Access Feature Groups B and D. This study indicates the weighted average cost per call is higher for Feature Group B (FGB) than for Feature Group D (FGD).

Pacific's response of December 12, 1990, states,

> "...even though the cost of provisioning LS1 and LS2 service is approximately the same, it was not due to a difference in cost that the creation of distinct LS1 and

> LS2 rates occurred. The principle rationale behind the creation of the difference in rates was to account for the lack of equal access when access charges were established. This resulted in reduced access charges for carriers utilizing non-equal access Feature Groups (FGA and B). Today, however, equal access is widespread, and, just as discounted carrier common line charges do not apply in equal access offices, the differential for LS1 and LS2 switching should be eliminated." (p. 3)

Pacific indicated in discussions with Commission Advisory and Compliance Division staff that only three of its remotely located central offices are not equipped to provide equal access, and that during 1991 these remaining offices will be converted to equal access. With virtually all end offices offering equal access, there is little justification for maintaining a non-equal access price differential. Retaining the LS1 rate would result in a service bypass substitute for the functionally equivalent LS2 service.

FINDINGS

1. The elimination of the differential between the LS1 and LS2 rates is a step toward the achievement of operational parity between the intrastate and the interstate access rates, as directed by Ordering Paragraph 10 of D.85-01-010.

2. CALTEL's protest that Resolution T-14155 "did not authorize the entire transition plan but only specific tariff changes proposed by Pacific in Advice Letter No. 15785..." is accepted. Only the portion of the transition plan reflected in the tariff sheets accompanying Advice Letter No. 15785 was authorized by Resolution T-14155.

3. CALTEL's protest that Pacific Bell's request requires an application and hearings is denied. The changes proposed by Pacific Bell in Advice Letter No. 15841 comply with General Order 96-A, and are justifiably handled by the advice letter procedure.

4. CALTEL's protest that Pacific Bell's Advice Letter No. 15841 lacks sufficient cost support is denied. On December 28, 1990, Pacific provided "1989 per Average Message Costs" which sufficiently support its request.

5. The rates, charges, terms, and conditions proposed in Advice Letter No. 15841 are just and reasonable.

THEREFORE, IT IS ORDERED that:

1. Pacific Bell's Advice Letter No. 15841 is authorized.

2. All tariff sheets under Advice Letter No. 15841 shall be marked to show that such sheets were authorized by this Resolution, and its effective date.

3. The protests of California Association of Long Distance Telephone Companies, except as stated in Finding 2 above, are denied.

4. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on May 8, 1991. The following Commissioners approved it:

NEAL J. SHULMAN
Executive Director

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners