

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-14786
Telecommunications Branch January 10, 1992

R E S O L U T I O N

RESOLUTION T-14786. PACIFIC BELL. ORDER CONCERNING
PACIFIC BELL'S REQUEST TO PROVIDE CENTREX SERVICE TO
LOCKHEED CORPORATION UNDER A RENEGOTIATED CUSTOMER
SPECIFIC CONTRACT.

BY ADVICE LETTER NO. 16134, FILED ON DECEMBER 10, 1991.

SUMMARY

Pacific Bell (Pacific), by Advice Letter No. 16134, filed on December 10, 1991 requests authority under provisions of General Order No. 96-A (G.O. 96-A) and Decision Nos. (D.) 88-09-059 and 91-01-018 to deviate from filed tariff schedules in order to renegotiate contract pricing for an existing Centrex service provided to Lockheed Corporation (Lockheed) under a customer specific contract.

This Resolution authorizes Pacific to provide Centrex service to Lockheed under a contract at rates which are discounted from the tariff rates. Pacific estimated that the revenue impact of this filing is a decrease in annual revenue of \$1,724,244 for the first year of the contract. No protests to the 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.

The process and requirements for filing of advice letters to request authorization of customer specific contracts are set forth in Appendix A of D.88-09-059. Additional specifications for advice letter filings requesting authorization to provide Centrex service under contract are provided in Resolution Nos. T-13091 and T-13069.

D.90-04-031 further requires that special contracts comply with the principles of unbundling, nondiscriminatory access, imputation, and basing rate structures of monopoly utility services on underlying cost structures. However, D.91-01-018 has tempered this requirement until a further decision on this matter is issued. In the interim, LECs may file advice letters for Centrex contracts using the pricing methodology approved by the Commission in D.88-09-059.

The contract filed under Advice Letter No. 16134 covers the provision of Centrex service to Lockheed. 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 original contract authorized by Resolution T-14024 dated December 6, 1989, Pacific agreed to provide Lockheed 30,600 Centrex lines and features for five years at a monthly rate of \$444,312, and Lockheed is allowed to renegotiate the terms and conditions of the contract for due cause. Lockheed elected to exercise its right to renegotiate the contract because ~~adverse economic conditions within California have caused massive layoffs within Lockheed that were unforeseen.~~

Under the terms of the renegotiated contract, Pacific agrees to provide Centrex service (18,500 to 38,925 station lines and features) to Lockheed for a period of ten years. Monthly rates per line will vary between \$16.25 and \$12.52 depending on the total number of lines committed. Nonrecurring charges for growth lines will be at the prevailing tariff rate. Pacific indicates that Commission authorization of this contract will result in a decrease in annual revenue of \$1,724,244 for the first year of the contract.

NOTICE/PROTESTS

Pacific states that a copy of the Advice Letter and related tariff sheets was mailed to competing and adjacent utilities and/or other utilities and to the customer named in the contract. Also the Advice Letter was listed in the Commission's Daily Calendar of December 12, 1991.

No protests have been filed on Pacific's Advice Letter No. 16134.

DISCUSSION

A clause in the original contract gave Lockheed the option of renegotiating the contract to extend the terms and/or modify other conditions of the existing contract. It is also stated in the contract that Pacific, at Lockheed's request, shall analyze the current costs of providing the service and, to the extent that a change in the customer's rates and charges or terms and conditions is financially justifiable, legal and reasonable, Pacific and Lockheed will enter into a review to determine if a modification should be negotiated. Any modification negotiated shall be subjected to Commission approval.

Recent layoffs within Lockheed (which resulted in a need for less Centrex lines) dictated that the contract be renegotiated to allow Lockheed to start with a lower minimum number of lines and the flexibility to change the Commitment Level as their business needs fluctuate over a ten year period. The services provided under the renegotiated contract are similar to those provided under the original contract. The main differences between the contracts are the feature quantities, the minimum number of lines to be maintained and the length of the contract.

In reviewing Advice Letter No. 16134, we note the following:

- a. The contract contains the necessary language which conditions its approval upon Commission authorization.
- b. The Advice Letter and the contract are public documents.
- c. Pacific requests in the Advice Letter that the workpapers and supporting cost documentation associated with the 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 contract if such a party (Division of Ratepayer Advocates excepted from this requirement) first enters into a protective agreement.
- e. The 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 contract cover the direct embedded cost of providing the Centrex service offered under the terms of the contract.
- g. The monthly rate per line, excluding nonrecurring charges, for Centrex service under the terms of the contract is greater 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).
- h. The Advice Letter indicates that the costs and revenues associated with the contract will be tracked.
- i. A contract is required in this case because the customer requires a fixed price contract that is competitive with PBX alternatives; this requirement cannot be met by the Centrex service available under Pacific's present tariff.
- j. Pacific has offered to provide the customer deaveraged PBX trunk rates under contract, at rates determined by the same cost methodology used to determine the contract Centrex line rate.

We conclude that the Advice Letter meets the requirements set forth in the previously mentioned Commission orders and G.O. 96-A, and should be approved. However, we must emphasize that our approval is based on the specifics of the Advice Letter and the

associated contract, and does not establish a precedent for the contents or for Commission approval of similar requests.

FINDINGS

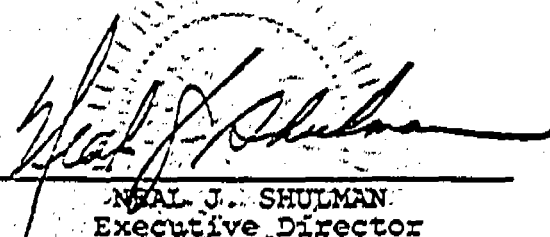
1. Pacific Bell filed Advice Letter No. 16134 on December 10, 1991 requesting Commission authorization to provide Centrex service to Lockheed under a customer specific contract.
2. The Advice Letter and the contract conform to the requirements of Decision Nos. 88-09-059 and 91-01-018, Resolution Nos. T-13069 and T-13091, and G.O. 96-A.
3. Authorization of the Lockheed contract will result in an estimated decrease in Pacific's annual revenue of \$1,724,244 for the first year of the contract.
4. Commission authorization of the Advice Letter and the contract does not establish a precedent for the contents of the filing, or the Commission approval of similar requests. Commission approval is based on the specifics of the Lockheed contract.
5. The rates, charges, terms and conditions of the Centrex contractual service in this Resolution are just and reasonable.

THEREFORE, IT IS ORDERED that:

1. Authority is granted to make Advice Letter No. 16134 and the contract between Pacific Bell and Lockheed Corporation effective on January 11, 1992.
2. The Advice Letter, tariff sheets 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-14786.

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 January 10, 1992. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

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