

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION RESOLUTION T-15074
Telecommunications Branch October 21, 1992

R E S O L U T I O N

RESOLUTION T-15074. PACIFIC BELL. REQUEST TO
ESTABLISH SWITCHED MULTI-MEGABIT DATA SERVICE AS A
NEW FLEXIBLY PRICED OFFERING.

BY ADVICE LETTER NO. 16283, FILED JULY 22, 1992.

SUMMARY

Pacific Bell (Pacific) requests authority under provisions of General Order No. 96-A (G.O. 96-A) to revise Tariff Schedule Cal. P.U.C. No. A18, Integrated Services, to establish Switched Multi-Megabit Data Service (SMDS), with flexible rates.

The California Association of Competitive Access Providers (CAL-CAP) filed a protest to Advice Letter No. 16283 on August 10, 1992. Pacific filed its response to CAL-CAP's protest on August 19, 1992. Based on a review of the allegations cited in the protest and Pacific's response to those allegations, we have determined that the protest is without merit and is denied.

This Resolution authorizes Pacific to revise Tariff Schedule No. A18, as requested. Pacific estimates the annual revenue effect of this filing to be an increase of \$81,000 for 1992.

BACKGROUND

SMDS is a high speed, wide-area, public packet, switched data service. The service accepts data from digital sources and transforms them into fixed-length cells for switching and transmission across a network. This service allows customer compatible applications and/or equipment to connect to the SMDS network through a T1/DS1 (1.544 Mbps[megabits per second]) or a T3/DS3 (44.736 Mbps) access line. These access lines are offered under tariff.

SMDS provides high-speed connectivity with dynamic bandwidth capability and low delay over a wide geographic area. Data from a customer location is transmitted to other predetermined locations using the software features of SMDS. There is little or no delay in the transmission and reception of the data to the predetermined locations.

Most data services offered by Pacific are point-to-point hardwired connections which require dedicated lines to connect customer locations. For customers with multiple locations, the large number of dedicated lines needed to interconnect locations result in a network that becomes unwieldy and cost prohibitive.

While a Digital Cross-Connect (DCS) System that allows customers to reconfigure their point-to-point connections would alleviate this complexity to some degree, a path would have to be established through the DCS to the centralized database or to some other company resource before any action could be taken. This set-up delay does not meet the requirements of seamless connectivity and simultaneous access to multiple locations that potential customers of SMDS seek. A potential SMDS customer would have applications that:

- o Require large amounts of bandwidth.
- o Are geographically dispersed.
- o Involve multiple locations.
- o Possibly require intercompany communication.
- o Involve a real-time need for information.
- o Could require group addressing capability.

Potential subscribers to SMDS are priority and major customers with 50 or more lines in three or more geographically separated locations within a given LATA (Local Access And Transport Area). SMDS will initially be deployed in San Francisco, Sacramento, Los Angeles and San Diego LATAs, where over 90% of the potential customers that match the SMDS profile are located. Based on actual demand, additional SMDS facilities may be added within these LATAs or in other LATAs.

Although Pacific will offer SMDS in several LATAs, customers will not be able to interconnect locations between LATAs, only locations within the same LATA. The network interface to an IEC (Interexchange Carrier) has not been standardized as yet. Pacific is currently conducting technology tests with IECs to develop this functionality.

Pacific states that there are alternative providers of public wide area switching at broadband speeds. Some competitors have already introduced their products (e.g., FDDI [Fiber Distributed Data Interface]) to the market place, while others have plans to do so in the near future.

The advantage that alternative providers have is their ability to respond quickly to changing market conditions through pricing flexibility. Pacific believes it needs the same pricing flexibility to stay competitive and therefore requests flexible pricing for SMDS.

Pacific indicates that Commission authorization of this service will result in an estimated increase in annual revenue of \$81,000.

NOTICE

Pacific has mailed a copy of the Advice Letter and related tariff sheets to competing and adjacent utilities and/or other utilities and interested parties.

Advice Letter No. 16283 was listed in the Commission's Daily Calendar of July 27, 1992. In addition, Pacific will be making customer-specific presentations to potential SMDS customers through direct contact.

PROTESTS

CAL-CAP filed a protest to Advice Letter No. 16283 on August 10, 1992. CAL-CAP stresses that, in principle, it does not oppose the introduction of SMDS since there will be a growing demand for this type service and this new technology should benefit end user customers. Nevertheless, CAL-CAP recommended that the Commission reject Advice Letter No. 16283 and require Pacific to refile Advice 16283 as an expedited application docket (EAD). The reasons given for this recommendation were:

- o SMDS is not eligible for Category II treatment.
- o AL 16283 does not satisfy the four basic requirements adopted in D.89-10-031 for services with flexibility: unbundling, nondiscriminatory access, imputation, and cost-based rates for underlying monopoly services.
- o SMDS is so new, and presents such major implications for future network service, that it can only be evaluated properly if the Commission allows full review (by EAD) of this service.

Pacific's response to the protest is summarized as follows:

- o SMDS is a competitive service and is eligible for Category II treatment. The service will be competitive because customers will be able to turn to other providers such as MFS (Metropolitan Fiber Systems) for broadband-type service. Moreover, the Commission previously designated high-speed digital private line services as Category II service. SMDS is high-speed digital private line service and should carry a Category II service designation.
- o Pacific states that the Commission's rules on unbundling, nondiscrimination, imputation and cost-based rates have been met. SMDS is an unbundled service in that customers can purchase the local loop access facility separately from the SMDS access charge. Also any business customer can buy SMDS at the same price, terms and conditions. In addition, Pacific is not using any monopoly building blocks and customers have the alternative of getting the high-speed dedicated facility from either Pacific or a competitor. SMDS rates are priced above costs and no SMDS service is provided free.

DISCUSSION

SMDS is a new technology in which the customer pays for two rate elements: the SMDS access facility, a facility customers can now purchase under existing tariffs, and the SMDS access charge, a new tariff offering. The SMDS access facility is a dedicated digital line from the customer premises to the local serving wire center. The SMDS access charge incorporates the cost of the SMDS switch and an average mileage component for the interoffice facility.

CAL-CAP protested the introduction of SMDS by Advice Letter, stating that SMDS is so new, and presents such major implications for future network services, that it can only be evaluated properly (e.g., revenue/cost analysis, categorization, and pricing flexibility) if the Commission allows full review by EAD.

In D.89-10-031, we agreed with the general concept that local exchange carriers (LECs) should have expanded pricing flexibility in order to respond to market conditions. Toward this end, we adopted three service categories (Category I for fixed-price services, Category II for flexibly priced services, and Category III for services with maximum pricing flexibility). We directed LECs to demonstrate that the new services comply with the unbundling, nondiscriminatory access, imputation and rate structure principles adopted in D.89-10-031 and that the utility should propose its categorization for pricing purposes in requesting authority for new services.

SMDS provides a viable alternative for customers requiring wide area network solutions and broadband connectivity with minimum delay. Pacific states that there are competitive alternatives (e.g., interexchange carriers) to SMDS and that it needs flexible pricing better to compete.

SMDS can be purchased unbundled (SMDS access facility or SMDS access charge) and on a nondiscriminatory access basis. The technology has not been standardized to interface IECs with the SMDS switch. There is, therefore, no need to unbundle the SMDS access charge at this time. Pacific has indicated that unbundling of the SMDS access charge will be done on an individual case basis when requested.

In determining the initial pricing categories for LEC services, we placed high speed digital private line service in Category II (flexibly priced services). Our rationale for this placement was that high speed digital private line services and high speed special access services should be placed in Category II for pricing purposes because pricing flexibility would allow LECs to be more responsive to market conditions for these discretionary or partially competitive services (see Conclusion of Law No. 13, D.89-10-031). SMDS, a high capacity digital service, is a Category II Service.

Noting in D.89-10-031 that "[u]tilities currently propose new services, except enhanced services and BSE's (Basic Service Elements) through the advice letter process set out in General Order 96-A", we concluded that "[t]his process appears to work fairly well and will continue for all new services. . . ."

The proposed SMDS tariff covers cost, is beneficial to Pacific and its customers, promotes competition in the market place, and is properly filed via the advice letter process. Therefore, we will authorize the revisions as requested.

FINDINGS

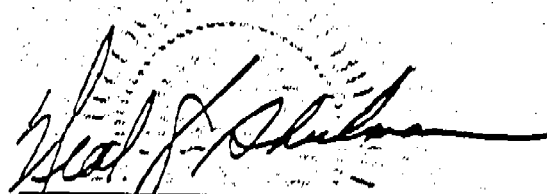
1. Pacific filed Advice letter No. 16283 on July 22, 1992, requesting Commission authorization to offer SMDS at flexible rates.
2. Pacific states that authorization of SMDS will result in an estimated revenue increase of \$81,000 in 1992.
3. SMDS is a Category II Service.
4. CAL-CAP's concerns cited in its protest to Advice Letter No. 16283 are without merit.
5. The rates, charges, terms and conditions authorized in this Resolution are just and reasonable.

THEREFORE, IT IS ORDERED that:

1. Authority is granted to make Advice Letter No. 16283 and the associated tariff sheets effective on October 22, 1992.
2. The SMDS monthly rate may be increased (not to exceed the maximum rate established), upon 30 days prior notice to the Commission and affected customers, or decreased (not below the minimum rate established), upon at least 10 days prior notice to the Commission and affected customers.
3. The Advice Letter tariff sheets authorized herein shall be marked to show that such sheets were authorized by Resolution of the Public Utilities Commission of the State of California No. T-15074.
4. CAL-CAP's protest to Advice Letter No. 16283 is denied.

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 October 21, 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