

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
COMMISSION ADVISORY & COMPLIANCE DIVISION RESOLUTION T-15083
Telecommunications Branch October 21, 1992

R E S O L U T I O N

RESOLUTION T-15083. GTE CALIFORNIA INCORPORATED.
REQUEST TO ESTABLISH MEGACONNECT SERVICE AS A NEW
FLEXIBLY PRICED OFFERING.

BY ADVICE LETTER NO. 5407, FILED JULY 29, 1992.

SUMMARY

GTE California Incorporated (GTEC) requests authority under provisions of General Order No. 96-A (G.O. 96-A) to establish Schedule Cal. P.U.C. No. A-44, MegaConnect Service (MegaConnect), with flexible rates.

The California Association of Competitive Access Providers (CAL-CAP) filed a protest to Advice Letter No. 5407 on August 18, 1992 and GTEC filed its response on August 28, 1992. Based on a review of the allegations cited in the protest and GTEC's response to those allegations, we have determined that the protest is without merit and is denied.

This Resolution authorizes GTEC to establish Tariff Schedule No. A-44, as requested. GTEC estimates the annual revenue effect of this filing to be an increase of \$592,305 for the first year.

BACKGROUND

Switched Multi-Megabit Data Service (SMDS) is a high speed, wide-area, public packet, switched data service. GTEC purposes to offer SMDS under the service mark MegaConnect. MegaConnect 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 MegaConnect network through a T1/DS1 (1.544 Mbps [megabits per second]) Customer Access Line. The Customer Access Line is offered under tariff.

MegaConnect 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 MegaConnect. There is little or no delay in the transmission and reception of the data to and from the predetermined locations.

Most data services offered by GTEC 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 MegaConnect seek. A potential MegaConnect service 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 MegaConnect are national and major account customers and ultimately interexchange carriers which are expected to make up 50-60% of the total system usage. MegaConnect will initially be deployed from a single location in LATA 5 (Local Access And Transport Area No. 5). Current plans call for MegaConnect switching capabilities to be added to GTEC's Ontario and Santa Monica Exchanges in early 1993. These plans will be affected by customer demand for the service.

GTEC states that there are multiple providers of high capacity services at broadband speeds. Some competitors have already introduced their products to the market place, while others have plans to do so in the near future.

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

GTEC indicates that Commission authorization of MegaConnect will result in an estimated increase in annual revenue of \$592,305.

NOTICE

GTEC 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. 5407 was listed in the Commission's Daily Calendar of July 31, 1992. In addition, GTEC will be making customer-specific presentations to potential MegaConnect Service customers through direct contact.

PROTESTS

CAL-CAP states that its grounds for protesting Advice Letter No. 5407 are largely the same as those stated in the protest of Pacific Bell's version of SMDS in Advice Letter No. 16283. CAL-CAP, although not opposing the introduction of MegaConnect, recommends that Commission reject Advice Letter No. 5407 and require GTEC to refile as an expedited application docket (EAD). The reasons for this recommendation are summarized as follows:

- o MegaConnect is not eligible for Category II treatment.
- o AL No. 5407 does not satisfy the four basic requirements adopted in D.89-10-031 for services seeking pricing flexibility: unbundling, nondiscriminatory access, imputation, and cost-based rates for underlying monopoly services.
- o MegaConnect 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 of the service through an EAD filing.

GTEC's response to CAL-CAP's protest is summarized as follows:

- o Competition comes in two forms, either competing providers of identical technology or competing technology. The service will be competitive because customers are able to obtain this type service from alternate providers. Moreover, the Commission previously granted Category II status to high speed digital private line services. MegaConnect should be given Category II status.
- o GTEC states that the Commission's Rules on unbundling, nondiscriminatory access, and cost-based rates have been met. MegaConnect has no monopoly building blocks. Any GTEC customer, including members of CAL-CAP, can buy MegaConnect at the same price, terms and conditions. Customers have the alternative of purchasing high-speed dedicated facilities from GTEC or from a competitor. MegaConnect rates are priced above costs and no MegaConnect service is provided free.

DISCUSSION

MegaConnect is a new technology in which the customer pays for two rate elements: The Customer Access Line, a facility customers can now purchase under existing tariffs, and the MegaConnect Connection, a new tariff offering. The MegaConnect Customer Access Line is a dedicated digital line from the customer premises to the local serving wire center. The MegaConnect Connection charge incorporates the cost of the MegaConnect switch and an average mileage component for the interoffice facility. The MegaConnect Connection can be purchased with or without the Customer Access Line.

CAL-CAP protested the introduction of MegaConnect by Advice Letter, stating that this service is so new, and presents such major implications for future network services that it can only be properly evaluated (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 better to market conditions. Toward this end, we adopted three service categories (Category I for fixed-priced 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 purpose its categorization for pricing purposes in requesting authority for new services.

MegaConnect provides a viable alternative for customers requiring wide area network solutions and broadband connectivity with minimum delay. GTEC states that there are competitive alternatives (e.g., Alternative Transport Providers) to MegaConnect and that it needs flexible pricing to compete.

MegaConnect can be purchased unbundled (MegaConnect Customer Access Line and MegaConnect Connection) and on a nondiscriminatory access basis. The technology has not been standardized to interface IECs with the MegaConnect switch. Therefore, there is no need to unbundle the MegaConnect service access charge at this time. GTEC has indicated that unbundling of the MegaConnect Connection 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). MegaConnect, a high capacity digital service, is a Category II Service.

Noting in D.89-10-031 that "[u]tilities currently purpose 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 MegaConnect tariff covers cost, is beneficial to GTEC and its customers, promotes competition in the market place, and is properly filed via the advice letter process. Therefore, we will authorize GTEC to establish Tariff Schedule A-44 as requested.

FINDINGS

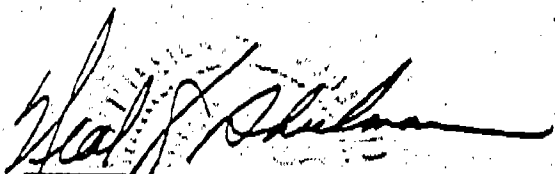
1. GTEC filed Advice letter No. 5407 on July 29, 1992, requesting Commission authorization to offer MegaConnect at flexible rates.
2. GTEC states that authorization of MegaConnect will result in an estimated annual revenue increase of \$592,305.
3. MegaConnect is a Category II Service.
4. CAL-CAP's concerns cited in its protest to Advice Letter No. 5407 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. 5407 and the associated tariff sheets effective on October 22, 1992.
2. The MegaConnect 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-15083.
4. CAL-CAP's protest to Advice Letter No. 5407 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