

customers are given the option of term discounted CentraNet Service, CentraNet Feature Package discounts and 25% discounts for GTE Long Distance Service for customers subscribing to term Centranet Service.

NOTICE

GTEC states that a copy of the Advice Letter was mailed to interested utilities and/or parties indicated in GTEC's letter to the Public Utilities Commission dated June 5, 1985. Notice of this Advice Letter appeared on the Commission's daily calendar of January 20, 1995.

PROTESTS

Protests were filed by AT&T and DRA. AT&T filed its protest on February 7, 1995. DRA filed a late protest on March 3, 1995. GTEC responded to AT&T's protest on February 28, 1995 and to DRA's protest on March 15, 1995.

AT&T and DRA protested GTEC's AL 5757 and 5757A for the following reasons:

- o AT&T protested GTEC's proposed offering of discounted GTEC Long Distance Service for CentraNet term customers because AT&T believes that this offering would discriminate against similarly situated PBX customers.

- o AT&T protested GTEC's proposal to establish new price floors and discounted term pricing to CentraNet but not PBX customers because AT&T believes this practice would also discriminate against PBX customers.

- o AT&T and DRA protested GTEC's costs associated with USOA Account 2423.10. The protestants argue that the reported costs are not consistent with similar lengths of cable reported in GTEC's cost study for PBX.

- o GTEC has not explained its decision to change its "Design Capacity Utilization Factor." The protestants maintain that GTEC's new utilization factor understates GTEC's CentraNet LRIC.

- o AT&T and DRA disagree with GTEC's use of a revised DID station to trunk ratio. The protestants believe that GTEC's revised station to trunk ratio understates the calculations supporting GTEC's CentraNet price floor.

- o DRA believes the weighted average cost for CentraNet circuit termination is understated by a significant amount.

- o AT&T believes GTEC's cost analysis is flawed due to numerous computational errors.

DISCUSSION:

Because much of the information supporting AL 5757 is proprietary in nature and protected under G.O. 66-C, we believe it is appropriate to limit our discussion to the conceptual basis for the parties' concerns and GTEC's underlying methodology.

I. Discounted Toll Service For Term CentraNet Customers

AT&T believes that GTEC's offering of Discounted Toll Service for term CentraNet customers is discriminatory. AT&T argues that D.91-01-018 precludes GTEC and the LECs in general from providing discounted pricing plans for CentraNet customers. AT&T cites ordering paragraphs 2 and 3 of D.91-01-018 which state:

2. For customers who prefer to purchase their own PBX, Pacific and the other California LECs shall offer equivalent trunk capability under contract rates and terms similar to those set forth in the example offerings contained in Appendix B to this order.

3. Insofar as this interim order permits Pacific and other California (LECs) to discriminate to the extent that the Centrex contract terms allowed under this order are less than equivalent tariff rates, such limited discrimination shall be deemed reasonable, provided that any similarly situated customer who so requests will be offered equivalent contract terms to those in Appendix B for similar services and features provided by trunks through a customer-owned PBX.

It should be noted that Appendix B summarized a calculation that would facilitate equivalent estimation of contract line rates for PBX and CentraNet.

GTEC's response to AT&T's protest stated that AT&T's assertions were without merit and cited page 192 of D.94-09-065 which states:

Thus, there are alternatives, including the LECs' business basic exchange service with added custom calling features, to Centrex/CentraNet services and PBXs. The decision to purchase Centrex/CentraNet services or a PBX trunk and equipment is a discretionary one. Centrex and CentraNet access lines and the LEC's provision of PBX trunks are therefore classified as category II services.

We do not find it reasonable to expect GTEC to offer like discounts for PBX customers in view of the discretionary nature of the two services and the ability of PBX customers to opt for an alternative toll plan or for that matter an alternative toll service provider. AT&T's protest is denied.

II. GTEC's Proposal to Offer New Price Floors and Term Pricing Also Discriminates Against Similarly Situated PBX Customers.

AT&T believes GTEC's proposal to offer discounted term CentraNet rates to CentraNet customers violates Public Utilities (PU) Code Section 453. Additionally, AT&T also argues that prior to the IRD decision, the Commission developed a strict set of standards to protect PBX customers from discriminatory LEC contracting practices.

Once again GTEC offers that it believes it is extending a discount pricing tariff to customers in a discretionary service. Though we agree with AT&T's characterization of D.91-01-018, we do not agree that PU Code 453 precludes GTEC or the LECs from offering term discounts to CentraNet customers while excluding PBX customers. If it were not for the discretionary nature of PBX and CentraNet Services we would find AT&T's concerns wholly reasonable. However, because PBX customers are free to negotiate terms and rates under our contracting procedures, we do not find merit in AT&T's protest.

III. AT&T and DRA Protest the Costs Associated with USOA Account 2423.10

Both DRA and AT&T disagree with the methodology employed by GTEC to reflect the investment costs associated with USOA Account 2423.10 (Buried Underground Cable). The protestants call attention to GTEC's practice of factoring CentraNet line utilization and dedication in order to capture the portion of all buried cable dedicated to CentraNet customers.

GTEC argues that this allocation is necessary in order to preclude overstating the investment costs associated with CentraNet.

We do not expect that 100% of the costs associated with buried underground cable should be allocated to CentraNet customers. At best we expect that only a portion of costs associated with USOA Account 2423.10 should be experienced by CentraNet customers because underground cable does not serve CentraNet customers exclusively. Therefore, we would not expect CentraNet customers to bear 100% of the incremental costs associated with buried cable.

We believe GTEC's allocation methodology to be reasonable.

IV. GTEC's Use of a Revised Design Capacity (DC) Utilization Factor Misrepresents GTEC's CentraNet Price Floor.

The protestants point out that GTEC applies a DC utilization factor that is higher than GTEC's IRD compliance filing utilization factor.

DRA believes that GTEC should be required to adhere to its IRD compliance filing DC utilization factor until it can demonstrate the reasonableness of its new factor.

GTEC argues that its switch utilization currently runs at a higher level than during the IRD and subsequent compliance filing. However, GTEC has not been able to demonstrate that this actually is the case other than to state that the industry standard is now approximately 90%.

We are genuinely concerned that GTEC has not adequately demonstrated that its network indeed does function at the level of utilization it states. Responses to data requests have done little to alleviate our concerns.

DRA and AT&T's protests are reasonable and should be granted.

V. GTEC's Revised DID Station to Trunk Ratio

GTEC's IRD testimony mirrored Pacific Bell's use of a Direct Inward Dialing Service (DID) station to trunk ratio of 5:1. GTEC's AL 5757 cost analysis included an updated DID station to trunk ratio of 10:1.

Both DRA and AT&T protested the use of a 10:1 DID station to trunk ratio because they believe the revised figure is without merit. DRA also argues that GTEC should be compelled to adhere to its IRD testimony rather than allowed to use a revised figure. Again we find this issue to be a matter of computational reasonableness. We do not believe that the IRD decision precludes the LECs from updating their cost analysis assumptions once they have met their burden under the November 15, 1994 compliance filing. GTEC has demonstrated through data requests and responses to CACD that its station to trunk ratio is reasonable.

Finally, a station to trunk ratio of 10:1 does not break new ground but rather is consistent with the rate design methodology employed in D.91-01-018 (Appendix B).

VI. The Weighted Average Cost for PBX Circuit Termination is Misstated by a Significant Amount.

DRA believes GTEC's monthly CentraNet termination cost is understated by a significant amount. DRA compared GTEC's reported costs for monthly circuit termination in the IRD compliance filing, several customer specific contracts and AL 5838. From this comparison DRA determined that the monthly circuit termination cost for customer-specific contracts was approximately 200% higher than in AL 5757.

DRA believes that an average monthly circuit termination cost for the customer specific contracts DRA analyzed should be applied to AL 5757. DRA argues that it would appear internally inconsistent for customer specific contracts to have higher circuit termination costs than similar costs for the servicewide profile.

GTEC argues that its LRIC analysis is correct because its analysis allocates switch costs associated with customer specific contracts to the specific customer. Conversely, GTEC allocates a portion of the central office line termination cost to CentraNet for a servicewide cost study.

We find GTEC's methodology to be reasonable, however we would expect that GTEC would also take into consideration servicewide unit costs in developing customer specific LRICs as discussed on page 229 of D.94-09-065.

VII. Computational Errors.

AT&T points out computational error as an issue that must be rectified. We agree. Therefore, GTEC should supplement its workpapers in order to demonstrate outstanding computational errors have been corrected.

FINDINGS

1. GTEC's AL No. 5757 filed January 18, 1995 and amended on February 10, 1995 proposes a \$5.75 million dollar revenue decrease associated with GTEC's request for a term discount CentraNet tariff and revised price floor.
2. AT&T protested GTEC's proposed CentraNet tariff due to what AT&T believes is prohibited under contracting guidelines established in D.91-01-018. AT&T requests that:
 - o GTEC be required to offer a term discount package to PBX customers.
 - o GTEC be required to offer toll discounts to PBX customers.
3. AT&T and DRA protested the cost recovery methodology employed in USOA Account 2423.10.
4. DRA and AT&T protested GTEC's use of a revised design utilization factor.
5. DRA and AT&T protested GTEC's revised station to trunk ratio.
6. AT&T protested GTEC's AL 5757 due to numerous computational errors.
7. DRA protested GTEC's monthly circuit termination cost calculation.
8. AT&T's protests with regard to GTEC's offering of discounted toll and CentraNet services should be denied.
9. AT&T's protest with regard to GTEC's computational errors is reasonable and should be granted.

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10. AT&T's and DRA's protests with regard USOA Account 2423.10, and station to trunk ratios should be denied.
11. DRA's protest with regard to GTEC's monthly circuit termination costs should be denied.
12. DRA's and AT&T's protest with regard to the appropriate level of switch utilization is reasonable.
13. We find GTEC's revised ContraNet price floor modified herein to be reasonable.
14. GTEC's ContraNet discount tariff should be adopted as proposed.

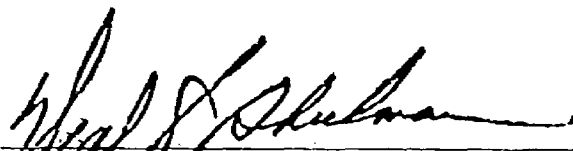
THEREFORE, IT IS ORDERED THAT:

1. GTE California Incorporated (GTEC) is authorized to file and make effective upon Commission Advisory and Compliance Division (CACD) approval a supplement to Advice Letter (AL) 5757 which meets the requirements set forth below.
2. GTEC's supplemented AL 5757 shall reflect its Decision (D.) 94-09-065 compliance filing design capacity utilization factor and shall correct computational errors as required by CACD.
3. GTEC's supplemented AL 5757 shall incorporate into its adopted ContraNet price floor its revised Long Run Incremental Costs for Direct Inward Dialing, Line Hunt and Private Branch Exchange as reflected in Resolution T-15727.

GTEC's AL 5757 as supplemented and its accompanying tariff sheets shall be marked to show that they were authorized by Resolution T-15728.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 05, 1995. The following Commissioners approved it:


NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners

I abstain.
/s/ HENRY M. DUQUE
Commissioner