

FLORIDA PUBLIC SERVICE COMMISSION  
Capital Circle Office Center • 2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

M E M O R A N D U M

December 5, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF COMMUNICATIONS (WIGGINS) RNT  
DIVISION OF LEGAL SERVICES (COX) WPC McB

RE: DOCKET NO. 961430-TL - PROPOSED TARIFF FILING TO  
INTRODUCE CUSTOMER-SPECIFIC CONTRACT SERVICE ARRANGEMENTS  
BY INDIANTOWN TELEPHONE SYSTEM, INC. (T-96-1028, FILED  
11/26/96)

AGENDA: DECEMBER 17, 1996 - REGULAR AGENDA - TARIFF FILING -  
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 30-DAY SUSPENSION DATE: DECEMBER 26, 1996

SPECIAL INSTRUCTIONS: S:\PSC\CMU\WP\961430TL.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Indiantown's tariff filing to introduce customer-specific Contract Service Arrangements?

RECOMMENDATION: Yes, the Commission should approve Indiantown's tariff filing to introduce customer specific Contract Service Arrangements.

STAFF ANALYSIS: On November 26, 1996, Indiantown Telephone System, Inc. (the Company) filed a tariff to introduce customer-specific Contract Service Arrangements (CSAs). If approved, this filing allows the Company to establish competitive rates under CSAs. CSAs are developed on an individual case basis in lieu of existing tariff offerings for specific competitive services when it can be shown that there is a reasonable potential for uneconomic bypass of such services. Uneconomic bypass occurs when alternative service arrangements are utilized by customers at prices below the Company's tariffed rates but above the Company's incremental cost. The Company requests CSA authority for the following existing tariff offerings: Centrex, Charges Applicable Under Special Conditions, Private Line Services and Channels. CSA authority was originally established by the Commission for BellSouth as specified

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in Order No. 13603 issued August 20, 1984, and was subsequently made available to other LECs as well. The Commission has approved CSA authority for GTE Florida, Sprint-Centel and Sprint-United.

Indiantown's proposed tariff mirrors tariffs approved for other LECs during past proceedings from 1984 to 1992. This filing does not extend to the level of CSA authority in BellSouth's recently approved tariff.

Order Nos. 13603 and 15317 (issued October 31, 1985) established reporting requirements for all companies offering CSAs (Attachment A). Companies were directed to file monthly reports for the first year, and quarterly reports thereafter. Therefore, Indiantown shall report the following information on the same schedule:

1. A brief description of all new contract service arrangements for the month.
2. The applicable rates, charges, and contract period involved (if applicable).
3. The comparable tariff rates and charges for each contract.
4. A cumulative total of the revenue generated by the contract service offerings, as well as those of the corresponding tariff rates.
5. The justification for this offering on a case-by-case basis.
6. The number of CSAs requested, the number of CSAs quoted, and the number of CSAs requested but canceled by the customer or Company prior to a price quotation. Also, the number of CSA offers accepted, the number of CSAs rejected, and the number of CSA offers expired.

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Staff recommends that the Commission approve Indiantown's tariff filing to introduce customer-specific CSAs, so that the Company will have the ability to prevent possible uneconomic bypass of its services. Staff believes that the approval of this filing will allow the Company to meet competitive offerings for the specific services for which CSA authority has been requested.

**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** Yes. If Issue 1 is approved, this tariff should become effective December 26, 1996. If a protest is filed within 21 days from the issuance date of the order, this tariff should remain in effect pending resolution of the protest. If no timely protest is filed, this docket should be closed.

**STAFF ANALYSIS:** If the Commission approves the recommendation in Issue 1, and no timely protest is filed, this docket should be closed. If a protest is filed within 21 days from issuance of the order, this tariff should remain in effect pending resolution of the protest. If no timely protest is filed, this docket should be closed.

REC'D DOCUMENT  
A.1

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY'S proposal for Contract Service Arrangements.

DOCKET NO. 840228-TL

ORDER NO. 13603

ISSUED: 8-20-84

The following Commissioners participated in the disposition of this matter:

GERALD L. GUNTER, Chairman  
JOSEPH P. CRESSE  
KATIE NICHOLS

ORDER APPROVING CONTRACT SERVICE ARRANGEMENTS TARIFF

BY THE COMMISSION:

On June 4, 1984, Southern Bell Telephone and Telegraph Company (Southern Bell or Company) filed revisions to its General Subscriber Service, Private Line Service and Access Service Tariffs to incorporate a provision for Contract Service Arrangements. The Company's proposed changes would allow it broad discretion to negotiate individual contracts for telephone service at rates other than those contained in its tariffs, in those instances where the Company faced the threat of uneconomic bypass. Upon review of the Company's filing, we find that the proposed Contract Service Arrangements should be approved with the limitation that they apply only to Private Line, Special Access facilities and WATS access lines.

The desirability of allowing Local Exchange Companies (LECs) the option of using contractual or bulk rate discounts as a means of responding to the threat of bypass in a competitive environment has previously been considered by this Commission. Order No. 12765, issued December 9, 1983, in Docket No. 820537-TP, dealing with intrastate access charges, we stated:

"We believe that the ability to contract or use bulk rate discounts with customers will allow the LECs greater flexibility in dealing with market situations and should be permitted in order for LECs to remain viable in a competitive environment."

We further found in Order No. 12765 that the use of special contractual or bulk rates would be appropriate if it were determined that the loss of the contractual or bulk rate customer would "result in a greater revenue loss than providing the service below embedded cost rates." We thus conclude that the Company is correct in its assessment of the current need for contract pricing flexibility in the competitive marketplace. However, we also believe that the standardization of rates is a goal which should be pursued and that the principles of fairness and nondiscriminatory treatment embodied in the tariffing process should not be wholly supplanted through contracts negotiated to meet the exigencies of competition. In approving the use of contract rates for the services listed above, we will, therefore, expect Southern Bell to work toward ultimately developing tariffed rates for large users. It is our view that after sufficient experience has been gained in the competitive market, contractual rates should evolve into a bulk discount or similar offering, to be contained in the Company's tariff.

This Commission has authority to approve special contract arrangements between a utility and its customers pursuant to Rule 25-9.34(1), Florida Administrative Code. However, under the Contract Service Arrangements proposed by Southern Bell, the Company will enter into and begin performance of the contract without the prior approval of the Commission. We agree with the Company that this will give it additional flexibility and allow it to respond more effectively to competitive conditions. However, we are concerned that the Commission be kept apprised of the effect of implementing this new plan of rate negotiation. To that end, we will develop a monitoring program for the Company's contract service offerings and will expect the following information to be submitted on a monthly basis:

1. A brief description of all new contract service arrangements for the month.
2. The applicable rates, charges and contract period involved (if applicable).
3. The comparable tariff rates and charges for each contract.
4. A cumulative total of the revenues generated by contract service offerings, as well as those of the corresponding tariff rates.
5. The justification for this offering on a case-by-case basis.

In addition to the above, we will expect the Company to provide, upon request, cost information supporting the rates and charges for specific Contract Service Arrangements. Southern Bell has expressed its belief that this information would be of a confidential nature and that its divulgence might harm its competitive position among suppliers of communications services. We believe that the appropriate treatment of this information would be submission pursuant to Section 364.183, Florida Statutes, and Rule 25-22.06, Florida Administrative Code, dealing with confidential information. This procedure should provide adequate protection to the Company and at the same time allow the Commission to make its necessary evaluation of the contract services program.

As a means of establishing the floor price for Contract Service Arrangements, Southern Bell has proposed to use the Resource Cost methodology. This methodology, which produces capital related as well as noncapital costs associated with investment, would be used to determine the lowest possible price at which a particular service would be offered. Although we recognize that this methodology has certain inherent weaknesses as a tool for repricing existing services, we believe that in this case involving prices for new offerings it will be an adequate analytical tool.

In its filing, the Company proposed to include not only Private Line and Special Access services under its Contract Service Arrangements, but also PBX trunks and WATS access lines. In addition, the Company raised the issue of offering contract rates for Centrex lines. We do not believe that it would be appropriate to include PBX Trunks in the Contract Service Arrangements since they constitute a link to the local network and as such are not facilities directly associated with the bypass threat. As for Centrex service, we will not consider the appropriateness of contract rates at this time. If the Company wishes to make this proposal, it should do so in a separate filing.

In approving contract rates for Private Line Services, Special Access facilities and WATS access lines, we do so with the intention that they basically apply to end users of Southern Bell services. It is this group and not other common carriers (OCCs) who will consider the potential of bypass which the contract rates are designed to combat.

The tariff revisions submitted with the Company's original filing contain language which is general in nature and in our opinion inadequate to clearly inform subscribers of the nature and purpose of the Contract Service Arrangements. We will, therefore, expect the Company to revise these sections to provide a clearer and more detailed explanation of the contract services offerings. The contract service provisions will become effective seven days after resubmitted tariffs have been reviewed and the staff has determined that they are adequately comprehensible and in the proper format.

Now, therefore, in consideration of the above, it is

ORDERED that the proposal of Southern Bell Telephone and Telegraph Company, to offer Contract Service Arrangements, be and the same is hereby approved as set forth above. It is further

ORDERED that the Company shall resubmit the affected tariff provisions for the staff's review and that these provisions shall become effective seven days after they are determined to be acceptable. It is further

ORDERED that Southern Bell shall submit the information set out in the body of this order for the purpose of monitoring the Company's offerings under the Contract Service Arrangements tariff. Any information deemed confidential by the Company will be submitted according to the applicable statutes and rules of the Commission, as explained above. It is further

ORDERED that this docket remain open for the purpose of carrying out the monitoring program.

By Order of the Florida Public Service Commission, this 20th day of August, 1984.

( S E A L )

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STEVE TRIBBLE  
Commission Clerk

By:

*Kay Flynn*  
Deputy Clerk

DES

The following Commissioners participated in the disposition of this matter:

*Attachment A*

JOHN R. MARKS, III, Chairman *PS.4*  
GERALD L. GUNTER  
KATIE NICHOLS  
MICHAEL MCK. WILSON

ORDER MODIFYING REPORTING REQUIREMENTS FOR  
SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
AND OTHER TELEPHONE COMPANIES OFFERING CONTRACT  
SERVICE ARRANGEMENTS AND CLOSING DOCKET

BY THE COMMISSION:

On August 20, 1984 we issued Order No. 13603 approving proposed modifications to Southern Bell Telephone and Telegraph Company's (Southern Bell or Company) General Subscribers Service, Private Line Service, and Access Service Tariffs. The purpose of these changes was to incorporate a provision for Contract Service Arrangements (CSA). The CSA option allows the Company broad discretion to negotiate individual contracts for telephone service at rates other than those contained in its tariffs in those instances where the Company faces the threat of uneconomic bypass. We extended the CSA option to other telephone companies in Order No. 13830, issued November 5, 1984.

Because the CSA option was a new type of offering whose performance was uncertain we found it necessary to establish a monitoring system to keep the Commission apprised of the effect of implementing the new plan. Southern Bell and other companies were required to submit monthly reports containing certain information set out in Order No. 13603.

Southern Bell has had the option of offering Contract Service Arrangements for approximately one year and has been filing the required monthly reports. We believe that it would be appropriate at this time to relieve Southern Bell of the monthly reporting requirements and instead allow the Company to file the reports on a quarterly basis. Monthly reports should be filed through December 1985 with the quarterly reporting requirement to take effect in January 1986.

We believe that other telephone companies who are offering the CSA option should report to the Commission on a schedule similar to the one adopted for Southern Bell. We will, therefore, expect companies whose CSA tariffs are approved by the Commission to submit monthly reports for the first year and quarterly reports thereafter. In addition to the specific reporting requirements set out in Order No. 13603 we will expand the information to be submitted to include the following:

1. the number of CSAs requested
2. the number of CSA prices quoted
3. the number of CSA requests which were cancelled by the customer prior to a price quotation.
4. the number of CSA offers accepted
5. the number of CSA offers rejected

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6. the number of CSA offers awaiting a decision by the customer.

These reporting requirements will be implemented on a case-by-case basis as the tariffs of the affected companies are approved.

With the establishment of quarterly reporting requirements for Southern Bell, we find no reason why this docket should remain open. The docket will, therefore, be closed with this order.

Now therefore in consideration of the above, it is

ORDERED by the Florida Public Service Commission that Southern Bell Telephone and Telegraph Company shall continue submitting Contract Service Arrangement reports on a monthly basis through December 1985. Thereafter, Southern Bell shall submit reports on a quarterly basis. It is further


ORDERED that other telephone companies implementing Contract Service Arrangements shall comply with the monthly and quarterly reporting requirements set forth above. It is further

ORDERED that in addition to the information required by Order No. 13603 all reports submitted shall contain the additional information listed in the body of this order. It is further

ORDERED that this docket be closed.

By ORDER of the Florida Public Service Commission this 31st day of October 1985.

( S E A L )

  
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STEVE TRIBBLE  
COMMISSION CLERK

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BY THE COMMISSION

On October 31, 1985, we issued Order No. 15317 in this docket. That order modified certain reporting requirements for Southern Bell Telephone and Telegraph Company and other telephone companies offering customers specific contract pricing arrangements for private line service pursuant to our Order No. 13603 issued August 20, 1984.

Order No. 15317 set out six specific items in addition to those originally required in our Order No. 13603. Item No. 3 set out in Order No. 15317 required the following information:

3. the number of CSA requests which were cancelled by the customer prior to a price quotation.

This item should have read:

3. the number of CSA requests which were cancelled by the customer or company prior to a price quotation.

Similarly, item No. 6 in Order No. 15317 requested the following:

6. The number of CSA offers awaiting a decision by the customer.

Item No. 6 should have read:

6. The number of CSA offers expired.

It was due to our inadvertence that these modifications to items Nos. 3 and 6 were not reflected in our Order No. 15317. We, therefore, find that these items should be restated as indicated above.

Now, therefore, in consideration of the above, it is

ORDERED by the Florida Public Service Commission that the reporting requirements stated in item Nos. 3 and 6 in our Order No. 15317 issued October 31, 1985 be and the same are hereby amended as set forth above. It is further

ORDERED that Order No. 15317 is herein confirmed in all other respects.

BY ORDER of the Florida Public Service Commission, this 25th day of FEBRUARY, 1986.

STEVE TRYBULE  
Commission Clerk

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by: Kary [Signature]  
Deputy Clerk