

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Proposed tariff by SOUTHERN BELL ) DOCKET NO. 881257-TL  
 TELEPHONE AND TELEGRAPH COMPANY to intro- )  
 duce new features for Digital ESSX Service) ORDER NO. 23872  
 and to provide structural changes for both )  
 ESSX Service and Digital ESSX Service ) ISSUED: 12-13-90  
 )

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, Chairman  
 THOMAS M. BEARD  
 BETTY EASLEY  
 GERALD L. GUNTER  
 FRANK S. MESSERSMITH

ORDER CONCLUDING REVIEW INITIATED BY  
ORDER NO. 21163

BY THE COMMISSION:

By Order No. 21163, issued May 4, 1989, we approved Southern Bell Telephone and Telegraph Company's (Southern Bell's or the Company's) tariff filing to introduce new features for its digital ESSX service and to provide structural changes for both its ESSX service and its digital ESSX service. However, as a result of concerns raised by the intervenors, we kept this docket open to collect and analyze data relative to the cost differences that exist between ESSX and the offerings with which it competes. In so doing, we directed Southern Bell, AT&T Information Systems, Inc. (ATT-IS), and MCI Telecommunications Corporation (MCI) to cooperate with our staff in the collection and compilation of the required data.

ESSX is Southern Bell's trademark name for a local exchange company (LEC) offering generically known as centrex. Centrex in Florida is a regulated central office based service which provides the LEC's customers with the types of features and call management techniques provided by unregulated customer premises equipment (CPE) providers through private branch exchanges (PBXs) and key systems. ESSX service is provided through main station lines which travel directly from each individual station on the customer's premises to the central office. The primary feature which distinguishes ESSX from either a key system or a PBX is that the software (i.e., switching, intercom features, etc.) for an ESSX system is contained in the central office, not in the equipment at the customer's premises.

DOCUMENT NUMBER-DATE

10998 DEC 13 1990

FPC-RECORDS/REPORTING

ORDER NO. 23872  
DOCKET NO. 881257-TL  
PAGE 2

At the time we approved Southern Bell's tariff filing, we found no reason to require Southern Bell to unbundle the monopoly elements from its ESSX offering. The arguments regarding unbundling involved three service elements of ESSX: 1) the provision of direct inward dialing (DID); 2) network access registers (NARs) and loops; and 3) touchtone. The intervenors argued that we should require Southern Bell to price these monopoly basic local exchange service elements separately from the competitive features and functions of ESSX service.

Monopoly services are those services which can reasonably be obtained only from the LEC. The monopoly services in the ESSX service package include touchtone, direct inward dialing (DID), and local exchange service (loop and network access). Competitive services, on the other hand, are those services that can be provided at reasonable prices and equivalent levels of service by other than the LEC. Examples of competitive services include call pickup, automatic callback, call forwarding and call hold, which the LEC or a PBX can provide equally well.

The rate elements that comprise Southern Bell's ESSX service are priced on a market basis. Pricing on a market basis involves some concern about cost, but primarily involves meeting the competitor's price. On the other hand, the LEC-provided rate elements used by PBX customers have been and are currently priced in a variety of ways. These elements include the PBX trunk, DID service and touchtone. Now, as in the past, PBX trunks are residually priced. That is, all other services are priced first to get maximum revenues from them, then basic local exchange service is priced to produce the company's revenue requirement. Basic local exchange service includes basic residential and business service, including PBX trunk rates, which are calculated as a percentage of the residential one party rate. DID service was repriced in 1989 so that its price more closely reflected its costs. DID service provided out of digital central offices is less expensive than out of analog, and more digital offices exist today than did in 1989. If DID service is correctly priced, that price should recover Southern Bell's estimate of the long run incremental cost of the product with some contribution. Touchtone service is currently priced on a "value of service" basis. Value of service pricing allows the company to charge a higher rate to customers who are willing to pay that price, with little regard for the actual cost to provide the service. The result is that the

ORDER NO. 23872  
DOCKET NO. 881257-TL  
PAGE 3

price for touchtone service to PBX trunks far exceeds the cost. ESSX customers are not charged separately for touchtone.

ESSX service directly competes with PBX service offerings from other vendors. This competition is based on the similarity of the two services from the customer's perspective. Even so, we believe there are clear differences in the way certain components of the two seemingly similar type services are provided. The variations in the two services are largely due to the technical provisioning of PBX trunks/ESSX loops and DID. The fact that a PBX trunk needs additional conditioning and equipment to meet the specified PBX trunk requirements, as opposed to that of an ESSX loop, contributes to the higher loop cost of the PBX trunk. Also, the additional hardware and software required when DID service is provided to a PBX system contributes to the cost differences. We believe that the technical differences in provisioning these components result in the relative cost difference that currently exists between the two services.

In addition, while we believe Southern Bell has used a cost methodology that permits a valid comparison to be made between the cost components of ESSX and PBX services, we do not believe it is appropriate to use this methodology to set tariffed rates.

We believe that where service offerings are functionally equivalent, and where competition exists between subscribers to these services and the LECs, then we must ensure the pricing of such services does not cause inequities in the marketplace. This principle is especially important in light of the 1990 changes to Chapter 364, Florida Statutes, particularly Section 364.338.

In general, in cases where the LEC acts as a wholesaler and a retailer in the same market, we believe we must take special care that the LEC, in its pricing of either the monopoly elements to the competition or the retail service to end use customers, does not confer an advantage on its own competitive offering that is not justified by cost. In competitive markets, for functionally and technically equivalent monopoly services which are necessary in the provision of the competitive service, such as loops (i.e., where the cost of providing the services is the same or very close), the prices should reflect that similarity. It goes without saying that in order to make reasonable cost comparisons, the cost methodology should be consistent between services.

ORDER NO. 23872  
DOCKET NO. 881257-TL  
PAGE 4

We note that we have not explicitly determined that ESSX is a service which is subject to effective competition. We have, however, recognized that ESSX has competition from other services.

We believe the issue of potentially inconsistent pricing of similar competitive business services is worth examining in depth. However, we do not believe it is appropriate to reprice PBX, DID, and centrex-type offerings or other competitive, functionally equivalent offerings in isolation. Where monopoly service offerings are provided identically and functionally equivalent, and they are provided as part of offerings that have competitive alternatives, they should be offered at the same prices as when offered separately. We will consider this as an issue when Southern Bell files its modified minimum filing requirements in March, 1991. Specifically, we plan to determine whether the local loop, performance of that loop, network usage and touchtone for ESSX, PBX trunks, B-1 lines and other business services should be priced on a similar basis.

Having considered the above, we find it appropriate to make no changes to Southern Bell's tariff at this time and to conclude the review initiated by Order No. 21163.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the review initiated by Order No. 21163 is hereby concluded. It is further

ORDERED that this docket shall be closed administratively following final disposition of any and all pending motions relative to Southern Bell Telephone and Telegraph Company's request for specified confidential classification of certain data filed in this docket.

ORDER NO. 23872  
DOCKET NO. 881257-TL  
PAGE 5

By ORDER of the Florida Public Service Commission, this 13th  
day of DECEMBER, 1990.

  
\_\_\_\_\_  
STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

ABG

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The



ORDER NO. 23872  
DOCKET NO. 881257-TL  
PAGE 6

notice of appeal must be in the form specified in Rule 9.900 (a),  
Florida Rules of Appellate Procedure.