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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division **RESOLUTION T-16687**
Carrier Branch **November 7, 2002**

R E S O L U T I O N

RESOLUTION T-16687. VERIZON CALIFORNIA INC (U-1002-C). REQUEST TO PROVIDE LOCAL PACKAGE STANDARD, LOCAL PACKAGE, AND LOCAL AND TOLL PACKAGE, WHICH INCLUDE CUSTOM CALLING AND CLASS FEATURES BUNDLED WITH BASIC RESIDENCE EXCHANGE SERVICE.

BY ADVICE LETTER (AL) NOS. 9952, 9952-A, AND 9952-B, FILED ON DECEMBER 21, 2001, JANUARY 14, 2002, AND JUNE 20, 2002, RESPECTIVELY.

SUMMARY

This resolution rejects Verizon California Inc.'s (Verizon) request in Advice Letter Nos. 9952, 9952-A and 9952-B (ALs) to offer three pre-defined packages that consist of flat-rate basic residence exchange service (1 FR) plus a bundle of custom calling and Custom Local Area Signaling System (CLASS) features because Verizon's proposals do not comply with the bundling requirements set forth in our decisions.

BACKGROUND

On December 21, 2001, Verizon filed AL No. 9952, supplemented by AL Nos. 9952-A and 9952-B on January 14, 2002 and June 20, 2002, respectively, to offer three pre-defined telephone service packages that include Custom Calling and CLASS features with flat-rate basic residence exchange service. The three packages are *Local Package Standard, Local Package,* and *Local and Toll Package*. The *Local Package Standard* consists of 1 FR service, unlimited Zone Unit Measurement (ZUM) service (an enhancement of

ZUM service and dependent on TD's approval of a ZUM price floor in AL No.10121, filed June 11, 2002), and a choice of up to three vertical features as follows:

Call Waiting/Cancel Call Waiting	Three-Way Calling
Distinctive Ring	Busy Redial
*69	Priority Call
Speed Dialing 30	Caller ID
Flexible Call Forwarding	Anonymous Call Block
Call Block	Do Not Disturb
Select Call Forwarding	

The *Local Package* includes 1 FR service, unlimited ZUM service, plus a choice of four or more of the vertical features indicated above. Finally, the *Local and Toll Package* includes 1 FR service, unlimited ZUM service, choice of any vertical features listed above, a Home Voice Mail Standard Package, and direct-dialed intraLATA regional toll allowance of 300 minutes of usage per month. However, intraLATA toll usage exceeding 300 minutes per month will be rated at $0.05 per minute. Under Verizon's proposal, a ULTS customer would not be eligible to subscribe to the packaged services unless they agree to be converted from a ULTS to a regular 1 FR service customer.

On January 22, 2002, the Office of Ratepayer Advocate (ORA) protested Verizon's AL No. 9952 because they believe, among other things, that Verizon's offerings redefine basic service, discriminate against ULTS customers, and that the packaged services do not cover their respective costs.

Verizon responded to ORA's protest on January 29, 2002. Verizon argues that the service offerings in its ALs do not redefine the basic definition of basic service and do not discriminate against ULTS customers. In addition, Verizon contends that each package covers its imputed costs, meets the Category (CAT) II and CAT III bundling requirements set forth in D.96-03-020 and that each service in the bundled packages is offered on a stand-alone basis at a higher rate.

NOTICE/PROTESTS

Verizon states that a copy of AL Nos. 9952, 9952-A, and 9952-B, and related tariff sheets were mailed to competing and adjacent utilities and/or other utilities. Notice of the ALs were published in the Commission Daily Calendar of December 28, 2001, January 18, 2002, and June 24, 2002, respectively. ORA timely protested the ALs.

DISCUSSION

In D.94-09-065, the Commission required that prior to a local exchange carrier (LEC) exercising pricing flexibility for CAT II services, it must first establish a price floor for the service. D.96-03-020 moved basic exchange services (i.e. 1 FR) from CAT I to CAT II service and thus this service is subject to price floor and imputation requirements established by D.89-10-031 (as modified by D.94-09-065) as well as the bundling requirements established by D.96-03-020.

Therefore, before Verizon can bundle 1FR service or unlimited ZUM with custom calling services and CLASS features indicated in the ALs, it must first establish a price floor for 1FR and ZUM. Because Verizon's 1 FR and ZUM services do not yet have Commission-approved price floors, Verizon's bundling of the 1 FR and unlimited ZUM services with other services is a clear violation of the bundling requirements set forth in D.96-03-020. Ordering Paragraph (OP) No. 32 of D.96-03-020 states:

> "CAT I services reclassified to CAT II by this order should be priced at their currently tariffed rates with no pricing flexibility until appropriate cost studies are completed, *and* CAT II price floors are adopted by the Commission." *[emphasis added]*

Verizon asserts that it has complied with the above statement because the company priced its 1 FR service at its current tariffed rate established by the Commission with no request for pricing flexibility. TD disagrees with Verizon's position on this matter. The Commission was very clear in D.96-03-020 that LECs may bundle CAT II and III services as long as (1) customers are able to purchase the individual services separately at tariffed rates; *and* (2) proper imputation of price floors for each separately unbundled CAT II service is verified. The ALs clearly do not meet the second bundling requirement, as there are no Commission-approved price floors established for either 1 FR or ZUM services.

D.99-12-018 granted Verizon authority to implement interim pricing flexibility through the AL process for those services reclassified as CAT II services (including basic exchange service (1 FR) and ZUM service) in D.96-03-020. However, Verizon has only requested price floor approval for ZUM service (a request that is currently being reviewed by TD staff and may be approved prior to Commission meeting of November 7, 2002), but not for 1 FR service (which is being addressed in the pending OANAD proceeding). Even if the staff approves the ZUM price floor by the November 7, 2002 Commission meeting, Verizon is still constrained from packaging 1 FR service with other telephone services because of the lack of a Commission-approved price floor for its 1 FR service.

In summary, TD believes that both of the requirements for bundling indicated above must be met before Verizon can offer the proposed packaged services in its ALs. Consequently, TD recommends that Verizon's proposals be rejected because they do not comply with Commission decisions as explained in the preceding paragraph.

Because Verizon's AL does not meet our price floor requirement, it is unnecessary to address ORA's contention that the proposed bundled services unduly discriminate against ULTS customers.

In light of the above discussion of the situation, we find TD's recommendation to reject Verizon's proposals in AL No. 9952 and its supplemental AL filing Nos. 9952-A and 9952-B to be appropriate and reasonable.

The draft resolution of the TD in this matter was mailed to the parties in accordance with PU Code Section 311(g). Comments were filed on (date) by (names of parties) and reply comments were filed on (date) by (names of parties). [disposition of comments/revisions to draft resolution]

Commission rejection of Verizon's proposals is based on the specifics of the ALs and does not establish precedent for the contents of future filings or for Commission approval of similar requests.

FINDINGS

1. Verizon's proposals in AL No. 9952 and its supplemental AL filing Nos. 9952-A and 9952-B do not comply with the bundling requirements set forth in D.96-03-020.

2. D.94-09-065 required that a LEC must first establish a price floor before it can exercise pricing flexibility for CAT II services.

3. D.96-03-020 moved basic exchange services (i.e. 1 FR) from CAT I to CAT II service and thus this service is subject to price floor and imputation requirements established by D.89-10-031 (as modified by D.94-09-065) and the bundling requirements established by D.96-03-020.

4. Verizon's bundling of its 1 FR and unlimited ZUM services with custom calling services and CLASS features is a clear violation of the requirements for bundling services set forth in D.96-03-020.

5. Verizon should not flexibly price or bundle 1 FR and unlimited ZUM services with other optional service features until price floors are established for both of these two services.

6. It is unnecessary to address ORA's contention that the proposed bundled services unduly discriminate against ULTS customers.

THEREFORE, IT IS ORDERED that:

1. Verizon's proposals in AL No. 9952 and its supplements are rejected because they failed to meet the second bundling requirement set forth in D.96-03-020. For clarity purposes, the requirements are as follows:

   (1) Customers are able to purchase the individual services separately at tariffed rates; and

   (2) Proper imputation of price floors for each separately unbundled CAT II service is verified.

2. Verizon shall not flexibly price or bundle 1 FR and unlimited ZUM services with custom calling services and CLASS features until there are Commission-approved price floors for both of these two services.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 7, 2002. The following Commissioners approved it:

WESLEY M. FRANKLIN
Executive Director