Act itself requires cost-based rates. If costs were shown to vary geographically, rates that were similarly varied could be a reasonable way to carry out the statute's mandate. The degree of price variation, of course, would be a matter of judgment, depending on the extent of cost variation and other pricing concerns. In some situations, the three or more zones contemplated by the FCC might be warranted; in other situations, different configurations might be proper.

Turning to questions of policy, the arguments in favor of deaveraging are fairly clear and straightforward. They start from the premise that the public interest is served by economically efficient prices, and that, generally speaking, the closer prices are to incremental costs, the more economically efficient they are. Average-cost pricing entails a risk of uneconomic bypass in low-cost areas, where above-cost prices for unbundled elements might make it economic for a competitor to build its own system even if its costs exceeded those of the LEC. Meanwhile, potential competitors who would want to purchase some elements rather than building entire new systems might be deterred from entering, impeding the development of competition, as the parties opposing New York Telephone here warn.

On the other hand, deaveraging element rates would give rise to questions regarding both the relationship of those rates to averaged retail rates and the potential effects on competition in rural areas of higher, deaveraged, element prices. In addition, the record suggests a degree of caution with regard to the cost differences among the zones considered, for the models showed greater unpredictability when deaveraged, and only one cost-driver, density, was selected to describe the cost variation among links even though other factors also appear to have been important in determining those cost differences. Nevertheless, the somewhat speculative considerations related to retail pricing do not warrant forgoing the efficiency gains associated with tying prices more closely to costs, nor do they justify incurring the risk that competition in relatively low-cost areas will be frustrated by above-cost pricing of network elements. The

potential effects of deaveraging on high cost areas, meanwhile, as well as the uncertainties regarding the data, pertain less to deaveraging in principle than to its pace and extent. They suggest that deaveraging be done gradually, but they do not warrant forgoing its benefits entirely.

Taking all these factors into account, we will require that rates for loops[1] be deaaveraged on a two-zone basis, one zone identical to New York Telephone's major cities zone (accounting for approximately 70% of all loops in the State) and the other comprising the remainder of the State (approximately 30% of the loops). The resulting loop prices are $12.49 in the major cities zone and $19.24 in the remainder of the State.[2] The major cities price is low enough to avoid discouraging competitive market entry in the denser urban markets where it is likely to develop soonest, and the price in other areas is not so high as to be disruptive to the development of competition there. (Indeed, it is still slightly below the current loop rate of $19.32.) As is often the case in rate design decisions, this gradualist approach represents movement in the right direction, but at a pace tempered by the need to avoid untoward side effects and by a recognition of imperfections in the data. We anticipate continued movement in that direction, and we will allow the parties the opportunity to present additional information on deaveraging issues, including whether Manhattan's cost

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[1] Costs for other elements appear to vary geographically little if at all, and deaveraging those prices is therefore unnecessary.

[2] Deaveraging was done on the basis of the distribution of access lines among geographic areas as shown in New York Telephone's study, a result consistent with current actual figures set forth in New York Telephone reports to the Commission. The Hatfield Model posited a greater total number of access lines and a higher percentage of that total in the major cities zone, a view of the future that has not been explained and justified adequately. The record now before us therefore suggests using New York Telephone's figures for present purposes, but these matters may be revisited in the continued inquiry into deaveraging referred to below.

characteristics warrant regarding it as a separate zone. That inquiry should proceed promptly, in the context of a continuation of this proceeding.

The Commission orders:

1. Within 20 days of the date of this opinion and order, New York Telephone Company (New York Telephone) shall file tariff amendments consistent with this opinion and order and serve copies of those tariff amendments on all active parties to these proceedings. The tariff amendments shall not take effect on a permanent basis until approved by the Commission, but may be put into effect on a temporary basis on one day's notice, subject to refund if found not to be in compliance with this opinion and order.

2. Any party wishing to comment on New York Telephone's tariff amendments should do so by submitting 10 copies of its comments to the Secretary within 15 days of their being filed.

3. These proceedings are continued.

By the Commission,

JOHN C. CRARY
Secretary

ACRONYMS USED IN THIS OPINION[1]

ADSL	Asynchronous Digital Subscriber Line. It can provide voice and wideband applications to residences over a single copper pair.
ARMIS	Automated Reporting Management Information System. A financial report filed by ILECs with the FCC.
BCM	Benchmark Cost Model. A series of models (BCM-1, BCM-2, BCM-PLUS) developed by various parties for the costing of telephone systems.
CBG	Census Block Group. An analytical unit used by the United States Census.
CSA	Carrier Serving Area. A feature of a Bellcore Document related to the characteristics of telephone networks.
CCF	Carrying Charge Factor. A device for converting investments into recurring expense levels.
DLC	Digital Loop Carrier.
DPU	(Massachusetts) Department of Public Utilities.
ECRIS	Engineering and Construction Records Information System. A data storage system used by New York Telephone.
FASB	Financial Accounting Standards Board.
GAAP	Generally Accepted Accounting Principles
G&A	General and Administrative. A category of joint and common costs.
HDSL	High-Bit-Factor Digital Subscriber Line. It can convert two copper pairs into a higher-capacity link.
IBES	Institutional Brokers Estimate System.
IDLC	Integrated Digital Loop Carrier. One of two ways (the other is Universal DLC) by which DLC loops can interface with a digital switch.

[1] Omitted from this list are some commonly used acronyms representing the names of parties or government agencies.

ILEC	Incumbent Local Exchange Carrier. The LEC, formerly a monopoly, that has historically served in a particular area.
ISDN	Integrated Services Digital Network. An advanced technology that permits end-to-end transmission of signals in digital format.
LEC	Local Exchange Company.
LRIC	Long Run Incremental Cost. A costing method that attempts to determine the cost of producing an additional amount of the good or service being studied, taking a view long-term enough to regard all costs as variable.
NID	Network Interface Device. A connection block to which a customer connects inside wire.
POTS	"Plain Old Telephone Service."
PRP	Performance Regulation Plan. The regulatory plan approved for New York Telephone in Case 92-C-0665.
RBOC	Regional Bell Operating Company.
SAI	Serving Area Interface.
SCIS	Switching Cost Information System. A model, maintained by Bellcore, for pricing switches.
SONET	Synchronous Optical Network. A system for deploying high capacity fiber optic systems.
SCP	Service Control Point. A database in which information used by the signalling network is stored.
STP	Signalling Transfer Point. A point at which signalling information is switched.
TELRIC	Total Element Long Run Incremental Cost. A term coined by the FCC for its adaptation of the TSLRIC costing standard to the costing of network elements.
TSLRIC	Total Service Long Run Incremental Cost. A costing construct that attempts to determine the cost of providing the entire increment of a service demanded by the firm's customers.

PROPOSED RATES
AT&T

ELEMENT	
Total Loop	
Manhattan	$3.63
Bronx, Brooklyn, Queens, Staten Island	$8.40
Nassau/Suffolk, Westchester, Putnam	$11.84
Upstate New York	$15.29
End Office Switching	
Port(per line per month)	$1.26
Usage(per minute)	$0.0023
Tandem Switching (per minute)	$0.00174
Signaling Links (per link per month)	$22.77
Signal Transfer Point (per message)	$0.000046
Signal Control Point (per message)	$0.001544
Common Transport (per minute per leg)	$0.00123
Dedicated Trasport (per DS0 per month)	$5.09

PROPOSED RATES
MCI

ELEMENT	
Total Loop	
Density Zone(lines per sq. mile)	
More than 2550	$8.94
850-2550	$11.92
550-850	$12.01
250-550	$14.81
5-250	$27.72
0-5	$85.09
End Office Switching	
Port(per line per month)	$1.27
Usage(per minute)	$0.0023
Tandem Switching (per minute)	$0.00180
Signaling Links (per link per month)	$22.98
Signal Transfer Point (per message)	$0.000050
Signal Control Point (per message)	$0.001560
Common Transport (per minute per leg)	$0.00124
Dedicated Trasport (per DS0 per month)	$5.13

PROPOSED RATES
NYT

		Major City	Urban	Suburban	Rural	State Avg
Total Loop	(Per Month)					
2 Wire Analog		$16.75	$20.26	$27.22	$30.48	$19.37
2 Wire Conditioned		$31.34	$36.17	$42.04	$45.02	$34.14
4 Wire Analog		$49.36	$57.00	$70.26	$74.96	$54.51
4 Wire Conditioned		$125.55	$125.13	$138.26	$176.98	$131.01
Local Switching						
Analog Line Port	(Per Month)	$6.46	$5.75	$4.38	$4.71	
Digital Port	(Per Month)	$6.10	$6.04	$5.51	$5.87	
ISDN-BRI Port	(Per Month)	$27.34	$27.47	$27.17	$27.64	
Ded. Digital Trunk	(Per Month)	$17.03	$15.80	$13.46	$14.02	
ISDN-PRI	(Per Month)	$430.84	$449.86	$445.19	$452.74	
Common Trunk-Day	(Per Minute)	$0.002859	$0.002907	$0.002589	$0.003296	
Common Trunk-Even.	(Per Minute)	$0.000696	$0.000707	$0.000630	$0.000685	
Common Trunk-Night	(Per Minute)	$0.000335	$0.000340	$0.000304	$0.000330	
Usage-Day	(Per Minute)	$0.007616	$0.009409	$0.011335	$0.009458	
Usage-Even.	(Per Minute)	$0.003219	$0.004772	$0.006796	$0.005275	
Usage-Night	(Per Minute)	$0.002487	$0.003998	$0.006040	$0.004577	
Port Additives						
CENTREX	(Per Month)	$0.94	$0.92	$0.93	$0.94	
Ringmate	(Per Month)	$1.07	$1.05	$1.06	$1.07	
Three-Way Calling	(Per Month)	$0.41	$0.40	$0.41	$0.41	
Speed Calling	(Per Month)	$0.00390	$0.00380	$0.00390	$0.00390	
Call Waiting	(Per Month)	$0.00180	$0.00178	$0.00178	$0.00178	
Call Forwarding-D/A	(Per Month)	$0.00036	$0.00036	$0.00036	$0.00036	
Call Forwarding-Busy	(Per Month)	$0.00036	$0.00036	$0.00036	$0.00036	
Call Forwarding-Var.	(Per Month)	$0.00094	$0.00094	$0.00094	$0.00094	

PROPOSED RATES
NYT

		Statewide
Tandem Switching		
Digital Dedicated	(Per Month)	$13.99
Common Trunk-Day	(Per Minute)	$0.009963
Common Trunk-Even.	(Per Minute)	$0.002424
Common Trunk-Night	(Per Minute)	$0.001167
Usage-Day	(Per Minute)	$0.003895
Usage-Even.	(Per Minute)	$0.002423
Usage-Night	(Per Minute)	$0.002175
Dedicated Transport		
OC-48	(Per Month)	$12,167.38
OC-12	(Per Month)	$5,163.06
OC-3	(Per Month)	$1,700.76
DS-3	(Per Month)	$1,134.70
DS-1	(Per Month)	$136.73
CO Muxing 3/1	(Per Month)	$278.42
Common Transport		
Usage-Day	(Per Minute)	$0.00096
Usage-Even.	(Per Minute)	$0.00051
Usage-Night	(Per Minute)	$0.00000
Signal Transfer Point		
STP Port	(Per Month)	$1,523.22
Signaling Link	(Per Month)	$52.71
Signaling Query		
800 Service	(Per Transaction)	$0.001286
LIDB Service	(Per Transaction)	$0.001576

AT&T and NYT Model Outputs[1]
(Based on Commission Adjusted Inputs)[2]
-Statewide Average-

Element	Unit	NYT Model Adjusted Inputs	AT&T Model Adjusted Inputs
Links	Line/Month		
2 Wire Analog		$ 14.57	$ 14.54
2 Wire Conditioned		26.37	
4 Wire Analog		41.92	
4 Wire Conditioned		102.71	
ocal Ports	Port/Month		
Analog		2.27	2.72
Digital Port		2.27	
ISDN-BRI Port		10.71	
Dedicated Digital Trunk Port		6.14	
ISDN-PRI Port		168.01	

[1] Outputs rounded to the nearest penny for costs expressed on a monthly basis.

[2] Within an element group (links, local ports and additives, local switching, tandem switching, common transport, and dedicated transport), New York Telephone's outputs are more finely disaggregated than AT&T's; thus, the studies display outputs in a manner which is not explicitly comparable in all cases. In those instances, except for links, the prices (as shown on Attachment D) for related elements within a group have been set by applying, to each input-adjusted New York Telephone output for which there is no directly corresponding AT&T figure, an adjustment proportional to the relationship between the input-adjusted New York Telephone output and the price set within the identified range for the element within the group for which there is a directly corresponding AT&T figure. Links were similarly adjusted to determine the statewide average, and the deaveraged prices (shown on Attachment D) were derived as described in the opinion.

Element	Unit	NYT Model Adjusted Inputs	AT&T Model Adjusted Inputs
Port Additives	Port/Month		
Centrex		$ .41	
Ringmate		.47	
Three-Way Calling		.15	
Speed Calling		.00	
Call Waiting		.00	
Call Forwarding-D/A		.00	
-Busy		.00	
-Var.		.00	
Local Switching (Includes Common Trunk Port)	MOU		
Day		0.003968	
Eve		0.001737	
Night		0.001357	
All Hours		0.003673	$ 0.005000
Tandem Switching (Includes Common Trunk Port)	MOU		
Day		0.004163	
Eve		0.001627	
Night		0.001202	
All Hours		0.003841	0.001900
Dedicated Digital Trunk Port	Port/Month	5.28[1]	

[1] In this one instance, no comparable element could be derived from the AT&T model. Accordingly, in lieu of the process described in Attachment C (p. 1, n. 2), the price has been set at New York Telephone's input-adjusted output.

Element	Unit	NYT Model Adjusted Inputs	AT&T Model Adjusted Inputs
Dedicated Transport	Line/Month		
DS-1			
Fixed		108.68	110.84[1]
Per Mile		0.7100	0.7241
DS-3			
Fixed		901.93	
Per Mile		19.90	
OC-3			
Fixed		1351.87	
Per Mile		59.71	
OC-12			
Fixed		4103.89	
Per Mile		238.82	
OC-48			
Fixed		9671.34	
Per Mile		372.09	
CO Multiplexing 3/1	Arrangement/Month	221.31	
Common Transport	MOU		
Day		0.000760	
Eve		0.000400	
Night		0.000000	
All Hours		0.000700	0.001200
Signaling Links	Line/Month	41.90	22.08
Signaling Query SCP (800)	Query	0.001031	0.001500
Signaling Query SCP (LIDB	Query	0.001321	0.001500
Signal Transfer Point	Port/Month	1020.43	524.88[2]

[1] Converted from AT&T input-adjusted output for a DS-0 equivalent ($4.92/DS-0).

[2] Converted from a per message basis to a per port basis based on AT&T's estimate of signaling links.

Adjustments to Hatfield Model

1. The fraction of structure assigned to telephone company was changed from 33% to 50%.
2. The switch installation multiplier was changed from 1.1 to 1.373
3. The fiber in the feeder crossover point was changed from 9,000 feet to zero feet.
4. A per line switch price of $192.67 was used for each of the Hatfield switch size data points.
5. The remote terminal fill factor for DLC inputs was changed from 90% to 80%.
6. The forward looking network operations factor was reduced from 30% to 10%.
7. FIT was reduced to 35%, state and local income taxes were set to 0%.
8. The variable overhead rate was changed to 15% from 10%.
9. The cost of capital was revised to reflect the Commission's determination.
10. Feeder cable fill factors in density zones 1 and 2 were increased to 80%.

Adjustments to NYT Model

1. The distribution cable fill factors were changed to 50% for all density zones except for the rural zone which remained at 65%.
2. Fiber feeder utilization was changed to 80% for all four density zones and all 3 cable categories (aerial, underground, and buried).
3. The digital switch installation factor was changed from 1.6077 to 1.373. This reflects the fact that a portion of the material investments used in developing the installation factor would be purchased at a lower discount on a forward going basis. (See Curbelo Workpaper, Part B, page 79 of 98).
4. The power factor for digital switching was adjusted from 0.0711 to 0.0703. This reflects the fact that a portion of the material investments used in developing the power factor would be purchased at a lower discount on a forward going basis. (See Curbelo Workpaper, Part B, page 79 of 98).
5. Switch material investment figures in Curbelo Workpapers, Part B, were adjusted by a factor of 0.5725. This factor is the ratio of $286.52 of installed switching investment (divided by a 1.373 installation factor) to $586 of installed investment (divided by an installation factor of 1.6077).
6. Annual carrying charge factors were adjusted as detailed on pages 2 and 3 of this schedule.

New York Telephone Company
Explanation of Adjustments to Annual Carrying Charge Factors

Maintenance

New York Telephone's factor was revised to remove all allocation of testing expense to pole lines, conduit and switching. Total testing expense identified by the company was allocated only to other plant accounts.

Depreciation

New York Telephone's proposed factor has been reduced to reflect the use of plant lives developed in the "triennial represcription" process rather than New York Telephone's proposal to use the plant lives it changed to when it went off Statement of Financial Accounting Standards Number 71.

Return, Interest and Federal Income Taxes (FIT)

New York Telephone's factor was based on the following Costs of Capital:

	%	Cost	After FIT	Pre-FIT*
Debt	24%	7.9%	1.9%	1.9%
Equity	76%	14.8%	11.3%	17.4%
Total	100%		13.2%	19.3%

The factor has been adjusted to reflect the following Cost of Capital:

	%	Cost	After FIT	Pre-FIT*
Debt	40%	7.3%	2.9%	2.9%
Equity	60%	12.1%	7.3%	11.2%
Total	100%		10.2%	14.1%

* Federal Income Taxes (FIT) were calculated using the current statutory rate (35%).

Directly Attributable Joint

NYT's factor has been adjusted to eliminate retail costs consistent with Commission Opinion No. 96-30 and reflect productivity at a rate of 10%. Also, the "Capital Requirements" component has been adjusted to reflect the rate of return adopted by the Commission.

Common

Same as Directly Attributable Joint.

New York Telephone Company
Annual Carrying Charge Factors for Unbundled Network Element Costs
Adjusted Statewide Average

Investment Type (A)	Maintenance (B)	Ad Valorem (C)	Depreciation (D)	Return. Interest & Income Taxes (E)	Revenue Loading (F)	TELRIC ACCF* (G)	Directly Attributable Joint (H)	Common (I)
Buildings	0.0403	0.0476	0.0190	0.1155	1.0157	0.2259	0.0000	0.0065
Central Office (CO)								
ESS Analog	0.1118	0.0029	0.0000	0.0000	1.0157	0.1165	0.0384	0.0065
ESS Digital	0.0715	0.0029	0.0630	0.0908	1.0157	0.2319	0.0384	0.0065
Radio Systems	0.0720	0.0029	0.1170	0.0830	1.0157	0.2793	0.0384	0.0065
Conduit - Analog	0.1126	0.0029	0.1060	0.0841	1.0157	0.3105	0.0384	0.0065
Digital Loops Electronics	0.0515	0.0029	0.1060	0.0841	1.0157	0.2484	0.0384	0.0065
Outside Plant (OSP)								
Information Org./Term Assets	0.0500	0.0244	0.2020	0.0782	1.0157	0.3605	0.0613	0.0065
Poles	0.0443	0.0244	0.0580	0.1074	1.0157	0.2380	0.0613	0.0065
Aerial & Block Copper Cable and Network Interface Device	0.1268	0.0244	0.0530	0.0988	1.0157	0.3081	0.0613	0.0065
Aerial & Block Fiber Cable	0.0291	0.0244	0.0470	0.0963	1.0157	0.2001	0.0613	0.0065
Underground Copper Cable	0.0535	0.0244	0.0700	0.0917	1.0157	0.2436	0.0613	0.0065
Underground Fiber Cable	0.0277	0.0244	0.0500	0.0963	1.0157	0.2017	0.0613	0.0065
Buried Copper Cable	0.0564	0.0244	0.0450	0.0954	1.0157	0.2249	0.0613	0.0065
Buried Fiber Cable	0.0279	0.0244	0.0440	0.0963	1.0157	0.1958	0.0613	0.0065
Submarine Copper Cable	0.0305	0.0244	0.0440	0.0963	1.0157	0.1984	0.0613	0.0065
Submarine Fiber Cable	0.0261	0.0244	0.0440	0.0963	1.0157	0.1940	0.0613	0.0065
Intrabuilding Copper Cable	0.1340	0.0244	0.0430	0.0954	1.0157	0.3017	0.0613	0.0065
Intrabuilding Fiber Cable	0.0270	0.0244	0.0470	0.0963	1.0157	0.1979	0.0613	0.0065
Aerial Wire	0.0477	0.0244	0.1430	0.0804	1.0157	0.3003	0.0613	0.0065
Conduit	0.0535	0.0244	0.0200	0.1169	1.0157	0.2184	0.0613	0.0065

* $G = (B + C + D + E) \times (F + (F-1) \times H$

Element Rates[1]

FCC Element	Rate Elements	Rate Unit	Final Rates	
LINK			Major City	Rest of State
	2 Wire Analog	Per Link/Mo	12.49	19.24
	2 Wire Conditioned	Per Link/Mo	24.27	31.04
	4 Wire Analog	Per Link/Mo	38.07	50.48
	4 Wire Conditioned	Per Link/Mo	98.32	112.29
SWITCHING				Statewide
LOCAL				
	Local Ports			
	• Analog Line Port	Port/Mo		2.50
	• Digital Port	Per DS0 equivalent/Mo		2.50
	• ISDN-BRI Port	Port/Mo		11.77
	• Dedicated. Digital Trunk	Per DS0 equivalent/Mo		6.75
	• ISDN-PRI	DS1 Port/Mo		184.64
	Usage			
	• Common Trunk-Day	Per MOU		.000879
	• Common Trunk-Even.	Per MOU		.000214
	• Common Trunk-Night	Per MOU		.000095
	• Usage-Day	Per MOU		.003806
	• Usage-Even.	Per MOU		.001837
	• Usage-Night	Per MOU		.001508
	Port Additives:			
	• Centrex	Per Port/Mo		.45
	• Ringmate	Per Port/Mo		.52
	• Three-Way Calling	Per Port/Mo		.16
	• Speed Calling	Per Port		Included in Local Port
	• Call Waiting	Per Port		Included in Local Port
	• Call Forwarding-D/A	Per Port		Included in Local Port
	• Call Forwarding-Busy	Per Port		Included in Local Port
	• Call Forwarding-Var.	Per Port		Included in Local Port

[1] See the opinion and Attachment C, Schedule 1, for a description of the method used to determine these rates.

FCC Element	Rate Elements	Rate Unit	Final Rates
TANDEM			
	Tandem Ports		
	• Digital Dedicated	Per DS0 equivalent/Mo	5.28
	Usage		
	• Common Trunk-Day	Per MOU	.001958
	• Common Trunk-Even.	Per MOU	.000476
	• Common Trunk-Night	Per MOU	.000229
	• Usage-Day	Per MOU	.001156
	• Usage-Even.	Per MOU	.000741
	• Usage-Night	Per MOU	.000670
TRANSPORT			
	Dedicated		
	• OC-48	Rate/Mo = Fixed + Per mile Charge	9,768 + 375.81/mile
	• OC-12	"	4,145 + 241.21/mile
	• OC-3	"	1,365 + 60.31/mile
	• DS-3	"	911 + 20.10/mile
	• DS-1	"	110 + .72/mile
	• CO Multiplexing 3/1	Per arrangement per central office/Mo	223.52
	Common		
	• Usage-Day	Per MOU	.001040
	• Usage-Even.	Per MOU	.000548
	• Usage-Night	Per MOU	.000000
SIGNALING			
	Signal Transfer Point		
	• STP Port	Per port/Mo	775.22
	• Signaling Link	Per DS0/Mo	31.97
	Signaling Query		
	• 800 Service	Per query	.001265
	• LIDB Service	Per query	.001411

ATTACHMENT 2

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

OPINION NO. 97-14

CASE 95-C-0657 - Joint Complaint of AT&T Communications of New York, Inc., MCI Telecommunications Corporation WorldCom, Inc. d/b/a LDDS WorldCom and the Empire Association of Long Distance Telephone Companies, Inc. Against New York Telephone Company Concerning Wholesale Provisioning of Local Exchange Service by New York Telephone Company and Sections of New York Telephone's Tariff No. 900.

CASE 94-C-0095 - Proceeding on Motion of the Commission to Examine Issues Related to the Continuing Provision of Universal Service and to Develop a Regulatory Framework for the Transition to Competition in the Local Exchange Market.

CASE 91-C-1174 - Proceeding on Motion of the Commission Regarding Comparably Efficient Interconnection Arrangements for Residential and Business Links.

OPINION AND ORDER CONCERNING
PETITIONS FOR REHEARING OF OPINION NO. 97-2

Issued and Effective: September 22, 1997

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

OPINION NO. 97-14

CASE 95-C-0657 - Joint Complaint of AT&T Communications of New York, Inc., MCI Telecommunications Corporation, WorldCom, Inc. d/b/a LDDS WorldCom and the Empire Association of Long Distance Telephone Companies, Inc. Against New York Telephone Company Concerning Wholesale Provisioning of Local Exchange Service by New York Telephone Company and Sections of New York Telephone's Tariff No. 900.

CASE 94-C-0095 - Proceeding on Motion of the Commission to Examine Issues Related to the Continuing Provision of Universal Service and to Develop a Regulatory Framework for the Transition to Competition in the Local Exchange Market.

CASE 91-C-1174 - Proceeding on Motion of the Commission Regarding Comparably Efficient Interconnection Arrangements for Residential and Business Links.

OPINION AND ORDER CONCERNING
PETITIONS FOR REHEARING OF OPINION NO. 97-2

Issued and Effective: September 22, 1997

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PUBLIC SERVICE COMMISSION

COMMISSIONERS:

John F. O'Mara, Chairman
Eugene W. Zeltmann
Thomas J. Dunleavy
Maureen O. Helmer

CASE 95-C-0657 - Joint Complaint of AT&T Communications of New York, Inc., MCI Telecommunications Corporation, WorldCom, Inc. d/b/a LDDS WorldCom and the Empire Association of Long Distance Telephone Companies, Inc. Against New York Telephone Company Concerning Wholesale Provisioning of Local Exchange Service by New York Telephone Company and Sections of New York Telephone's Tariff No. 900.

CASE 94-C-0095 - Proceeding on Motion of the Commission to Examine Issues Related to the Continuing Provision of Universal Service and to Develop a Regulatory Framework for the Transition to Competition in the Local Exchange Market.

CASE 91-C-1174 - Proceeding on Motion of the Commission Regarding Comparably Efficient Interconnection Arrangements for Residential and Business Links.

OPINION NO. 97-14

OPINION AND ORDER CONCERNING
PETITIONS FOR REHEARING OF OPINION NO. 97-2

(Issued and Effective September 22, 1997)

BY THE COMMISSION:

INTRODUCTION

On April 1, 1997, we issued Opinion No. 97-2, setting New York Telephone Company's (New York Telephone's) rates for a group of network elements comprising most of those that incumbent local exchange companies (ILECs[1]) are obligated to make available pursuant to the rules of the Federal Communications Commission

[1] A list of acronyms used in this opinion appears as Attachment 1.

(FCC)[1] implementing the Telecommunications Act of 1996 (the 1996 Act). Petitions for rehearing of various aspects of that decision have been filed by New York Telephone Company (New York Telephone), AT&T Communications of New York, Inc. (AT&T), MCI Telecommunications Corporation and MCImetro Access Transmission Services, Inc. (MCI), Sprint Communications Company, L.P. (Sprint), and MFS Intelenet of New York, Inc. (MFS). Replies have been filed by the foregoing parties except for MFS and by the New York Clearing House Association (NYCHA).[2]

The proceedings that culminated in Opinion No. 97-2 considered two competing views of New York Telephone's pertinent costs--one based on New York Telephone's own study, and another based on the Hatfield Model sponsored by AT&T and MCI. Both models were said by their proponents to be consistent with the Total Element Long-Run Incremental Cost (TELRIC) construct propounded by the FCC in the First Report and Order. We found that if the inputs to the competing studies were properly adjusted, the results produced by the studies tended to converge or even cross, and we therefore set rates at a point within the narrowed range that resulted from this convergence analysis. We then required that rates for unbundled loops be geographically deaveraged into two zones, and we expressed an interest in further deaveraging in the future.

New York Telephone's petition accepts the "basic framework" of the decision but contends that a wide range of specific errors resulted in element rates that are too low. The other petitions take a contrary position, asserting, for various reasons, that the decision is fundamentally flawed and that the

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[1] 47 C.F.R. §51.319, adopted in the FCC's CC Docket Nos. 96-98 and 95-105, First Report and Order (released August 8, 1996) (First Report and Order). This section of the rules remains in force, not being among those vacated by the Eighth Circuit Court of Appeals in Iowa Utilities Bd. et al. v. FCC.

[2] Though styled and submitted as a response, NYCHA's filing does not oppose any of the petitions for rehearing and simply reiterates, with some elaboration, several of AT&T's and MFS's points.

rates are so high as to seriously jeopardize the development of facilities-based competition in New York.

This opinion begins with a general discussion of method, first elaborating on the new TELRIC method and its implications for this proceeding and then providing additional explanation of the method we used in deciding the case. Next it takes up the predominant issue raised by the parties who believe the prices we set are too high: the decision to cost out New York Telephone's system on the premise that all loop[1] feeder would employ fiber optic, rather than copper, technology. Next discussed is deaveraging, an issue also raised by several parties. Thereafter, the remainder of the specific issues raised by the various petitions (primarily, New York Telephone's) are considered in sequence. Finally, we turn to the parties' general concerns about the effects of the decision on the development of competition in the local service market.

Overall, we are modifying our earlier decision in one minor respect, related to the pricing of digital loops; and we are taking the opportunity to correct some analytical errors that do not affect the ultimate result and to explain more fully some aspects of our method. In all other respects, Opinion No. 97-2 is being fully reaffirmed.

GENERAL ISSUES OF METHOD

TELRIC and Its Implications

The TELRIC costing method and its alternatives were discussed at pages 7-15 of Opinion No. 97-2. Briefly, TELRIC is the term coined by the FCC to describe its application of Total Service Long Run Incremental Cost (TSLRIC) analysis to network elements rather than services. TSLRIC, in turn, is defined in our Toll and Access Costing Manual as "the difference in the total costs of the company when it produces the service in

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[1] The terms "loop" and "link" are often used interchangeably and sometimes confused. The distinction is that the link includes the network interface device (NID) while the loop does not.