

ORDER NO. 74365

IN THE MATTER OF THE PETITIONS FOR *
APPROVAL OF AGREEMENTS AND *
ARBITRATION OF UNRESOLVED ISSUES *
ARISING UNDER SECTION 252 OF THE *
TELECOMMUNICATIONS ACT OF 1996. *

BEFORE THE
PUBLIC SERVICE COMMISSION
OF MARYLAND

* CASE NO. 8731
* PHASE II

Glenn F. Ivey, Chairman
Claude M. Ligon, Commissioner
E. Mason Hendrickson, Commissioner
Susanne Brogan, Commissioner
Gerald L. Thorpe, Commissioner

ISSUED: July 2, 1998

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Introduction

On July 18, 1996, the Commission instituted Case No. 8731 to consider various agreements and to arbitrate unresolved issues between local exchange carriers and other telecommunications providers pursuant to the provisions of Section 252 of the Telecommunications Act of 1996 ("the Act").¹ Order No. 73010² was subsequently entered on November 18, 1996 in this case, which Order set interim rates for various elements of interconnection between local exchange carriers and other telecommunications companies, and further determined that a Phase II should be instituted to consider appropriate cost studies utilized in setting permanent interconnection rates. Accordingly, by Order No. 73707 entered on September 22, 1997 in Phase II of this case, the Commission concluded that neither of the cost models presented³ should be adopted as the sole methodology for

¹ 47 U.S.C. Section 252.

² 87 Md. PSC 212 (1996).

³ The competing cost models presented in this case concerned a Bell Atlantic model and a Hatfield model which was jointly sponsored by AT&T and MCI.

determining the permanent cost of unbundled elements. Instead, input values were determined for the most important disputed input issues, and parties were authorized to file proposed costs for unbundled elements utilizing the Commission-determined inputs.⁴

In accordance with our directive authorizing the filing of proposed costs using the Commission-determined inputs, two separate compliance filings were made on October 22, 1997 which represent model runs with the Commission-determined inputs. One compliance filing was filed by Bell Atlantic-Maryland, Inc. ("BAMMD," "Bell" or "Bell Atlantic") utilizing the Bell Atlantic model with the Commission-set inputs, and a second compliance filing was jointly sponsored by AT&T Communications of Maryland, Inc. ("AT&T") and MCI Telecommunications Corporation ("MCI") which utilized the Hatfield model with the Commission-determined inputs. In addition, while the Commission previously determined input values for many of the most important disputed input issues in Order No. 73707, the Commission also directed that the compliance filings could utilize a range of common overhead inputs for consideration by the Commission, as no specific value for overhead was determined in the prior order.

The Commission has extensively reviewed the two compliance filings which propose permanent rates for numerous unbundled elements for interconnection services. In this regard, we note that the proposed rates include four overhead inputs

⁴ By Order No. 74181 entered on April 15, 1998, a Petition for Reconsideration filed by Bell Atlantic-Maryland, Inc., which requested reconsideration of the determined inputs, was denied.

pursuant to our direction in this case. These overheads range from an 8 percent overhead which is the overhead that Staff advocated for switch elements utilizing the Bell Atlantic cost model, a 10.4 percent overhead which is the overhead utilized in the Hatfield model and is generally supported by the competing local exchange carriers ("CLECs") in this proceeding, a 12 percent overhead which was advocated by Staff for loop costs when utilizing the Hatfield model, and a higher overhead which is proprietary and is supported by Bell Atlantic as being the appropriate overhead when utilizing forward-looking studies.

In our deliberations in this matter, we note that the costs for unbundled elements that must be determined in this proceeding are derived from the inputs utilized in the two competing models that have been presented on the record in this case, the Bell Atlantic model and the Hatfield model. As noted in our prior order in this case, Order No. 73707, we expressed skepticism that either of these two competing models advocated in this proceeding can be properly adopted as the sole model on which to determine the appropriate costs for unbundled elements of telecommunication services. We specifically noted that each model is subject to strong criticism by its opponents, and each model includes numerous judgments and assumptions in reaching the ultimate pricing outcomes that result from application of the models. Furthermore, we noted that the Commission has traditionally expressed reservations regarding the propriety of relying on any one cost study for definitive establishment of

appropriate rates⁵ and also acknowledged that cost of service studies are merely a tool to be utilized in giving guidance for decisions. In Order No. 73707, we concluded that the record shows serious and legitimate concerns with respect to the propriety of relying solely upon either model in this case. Our review further reinforced our traditional view of utilizing cost models primarily as a guide rather than the sole methodology which can correctly determine costs for telecommunications or other utility services. Accordingly, the Commission was not persuaded that either model could confidently be used as the appropriate methodology, and we declined to accept either of these models as the primary method to establish prices in this proceeding.⁶

Our further review of the record has not persuaded us to effect any change in our prior determination with regard to the use of the models presented. That is, we reaffirm our prior decision that neither model presented should be utilized as the sole methodology for determining the appropriate costs for unbundled elements in this proceeding. Therefore we will look upon these models as useful guides but will not rely solely upon either methodology. Accordingly, we deny the Motion to Exclude the Hatfield model filed by Bell Atlantic on June 8, 1998, which Motion seeks to exclude the Hatfield model from further consideration in this case. Rather, the Commission declines to

⁵ See Case No. 7973, Re Baltimore Gas and Electric, 78 Md. 129, 156 (1987).

⁶ See Order No. 73707, at pages 16-20 (September 22, 1997).

exclude either of these models, including Hatfield, but also declines to adopt either model. The Commission is aware of the criticisms of the models, and will utilize the models as guides only, bearing in mind their deficiencies.

Our review and reaffirmation of our decision to utilize the models as guides without adopting either specific model impacts upon our view of the appropriate overhead input that should be utilized in this proceeding. Of the four competing overheads which the parties were authorized to use in their compliance filings, we note that the testimony on the record indicates the potential for a different overhead factor under the Hatfield and Bell Atlantic models as evidenced by Staff's utilization of differing overhead factors when advocating the Hatfield model for loop rates and the Bell Atlantic model for switch rates.

While we have determined to utilize both models as guideposts in determining the proper costs of unbundled elements, we disagree that varying overheads should be utilized as the appropriate input in this proceeding. The overhead factor that should be utilized represents the proper proportion of overhead expenses that should be reasonably allocated to costs for unbundled elements and should not vary depending upon the specific element. Furthermore, while we are utilizing both the Hatfield and Bell Atlantic models as guides, the final costs which will be derived in this proceeding will basically represent a melding of these models as extensively modified by our determination of the appropriate inputs, including overhead. Therefore, the resulting rates may most accurately be

characterized as resulting from Commission-determined inputs, and these Commission-determined rates that we find to be the appropriate charges for unbundled elements are not the product of either of the two competing models in this proceeding, but a Commission-determined result based on our findings.

Therefore, having determined that a single overhead is the most appropriate to be applied in this proceeding, we further find that a 12 percent common cost factor should be used as the appropriate overhead factor. We find that such a level of overhead is a reasonable factor to be included in determining costs in this proceeding, and provides a reasonable recovery for forward-looking common costs while also representing an appropriate allowance for an efficient provider of telecommunications services. We note that this level of overhead is significantly less than that utilized in Case No. 8584, Phase II,⁷ as a more forward-looking overhead should reflect more efficient operations in the more competitive environment. We further note that the 12 percent factor appears within the bounds of reasonableness when utilizing the Hatfield model. It also appears to be a reasonable allowance when considering the higher proprietary figure advocated by Bell Atlantic when utilizing their cost study and the lower 10.4 percent overhead advocated by the CLECs under Hatfield when utilizing its cost study. Accordingly, we believe the 12 percent overhead is a reasonable figure that comports with our determination in this case to not adopt either cost study as the sole methodology, and we believe

⁷ See Order No. 72348, 86 Md. PSC 467, 479-480 (1995).

that such amount of overhead will be fair to both Bell Atlantic as the incumbent local exchange carrier ("ILEC") and to the CLECs in this proceeding.

Having determined the appropriate amount of overhead that will be allowed as an input, we will now consider the costs for various unbundled elements. Our considerations will focus on the Bell Atlantic and Hatfield models' compliance filings using the 12 percent overhead factor, as well as comparing changes in the Hatfield results from Model 3.1 to Model 4.0. In considering the disputed charges advocated by the parties in this case, we are mindful of other related pricing proceedings and note our prior directive instituting Case No. 8786 as a separate proceeding for investigation into non-recurring costs for interconnection services,⁸ and the establishment of Case No. 8766 for investigation of Bell Atlantic's Collocation Tariffs.⁹ We therefore decline at this time to determine the non-recurring charges and collocation charges proposed during the course of this proceeding pending the completion of Case Nos. 8786 and 8766 as we consider those cases the primary vehicles for determination of non-recurring and collocation charges. Also, with respect to Operations Support Systems, the parties dispute whether certain elements are properly priced as recurring or non-recurring. This threshold issue is one more properly addressed in Case No. 8786 and we will await the completion of that case with the expectation that this matter will be resolved in that proceeding.

⁸ See Order No. 74214 entered on May 1, 1998 in Case No. 8786.

⁹ See letter dated July 16, 1997 in Case No. 8766.

Loop Pricing

Perhaps the most disputed element in this proceeding concerns the appropriate pricing for the cost of unbundled loops which involves setting the prices for the transmission facilities between the distribution frame in the Bell offices and the customer premises. With the inputs that we have determined, the weighted average price for loops advocated in this proceeding ranges from \$11.37 under the Hatfield model to \$16.59 under the Bell Atlantic model.¹⁰ We note that our use of common inputs has considerably reduced the range between these two models, as the parties' initial proposals contained a much wider range. For example, in their initial proposals, the cost for Basic Loop for a customer in Density Cell 1 is proposed at \$8.50 under Hatfield and \$16.85 by Bell. In reviewing the cost for loops, we are encouraged by the fact that the common inputs have reduced the disparity between the parties. After inclusion of our Commission-determined inputs, the cost for Basic Loop for a customer in Rate Group A1 now ranges from \$9.58 under Hatfield 3.1 to \$13.80 under Bell. We also note that the Hatfield 4.0 model results, which were developed subsequent to the hearings in this case but which the parties were allowed to file for comparison purposes, generally show a further narrowing of the gap with a slight increase in the average cost of loops from the Hatfield 3.1 version which was utilized during the hearings.

¹⁰ This weighted average results from the cost for basic loop of the rate groups A1, A2, (plus Hagerstown, Cumberland and Salisbury), B1 and B2.

In setting the cost for this important element, we have carefully reviewed the results presented on the record. In our deliberations, we consider that the proper costs for this element must allow the incumbent local exchange company to recover legitimate and proper forward-looking costs while enabling the competing local exchange companies to compete with the incumbent. Competition must be promoted to the extent possible while assuring fairness to all parties. We therefore conclude that a statewide average loop cost of \$14.50 per month would be fair and reasonable based on the record in this proceeding, and shall be adopted as the statewide average cost at this time. We further note that this cost is slightly above midway between the proposed statewide average cost of the Hatfield 3.1 model (which is \$11.37) and the Bell model (which is \$16.59).¹¹ All loop costs, as well as the network interface device ("NID"), should be calculated in a similar fashion. That is, all loop costs should be set to the same percentage between the Hatfield 3.1 model and the Bell Atlantic model for the loop rates noted in the compliance filings for these models. Accordingly, the average price of \$14.50 per loop, which we find to be a reasonable price based upon the record, shall be implemented as the reasonable cost for such loop pricing, with all other loop prices and the NID price determined utilizing the same percentage differential between the Hatfield and Bell models based on the 12 percent

¹¹ These statewide average prices are contained in the Staff letter dated January 21, 1998. It is interesting to note that the Staff letter shows a wide discrepancy between CLEC running of models and BA-MD running of models, which lends further credence to our decision that such models are to be used as guides only.

overhead and October 22, 1997 compliance filings. For example, the NID price shall be \$0.56 per month, based on the difference between the Hatfield price of \$0.46 and the Bell model price of \$0.62.

Unbundled Switching

In addition to the dispute regarding the appropriate loop prices, perhaps the next most contested issue in this proceeding concerns the appropriate pricing for switching usage costs,¹² especially for plain old telephone services ("POTS") usage. In this case, Bell Atlantic proposes a cost of \$0.0066371 for switching Originating with Vertical Services per minutes-of-use ("MOU") and \$0.0038181 for switching POTS usage Terminating with Vertical Services per MOU.¹³ In contrast, the Hatfield 3.1 model recommends one cost for switching per MOU POTS usage, for both originating and terminating services, which rate is \$0.002814.¹⁴

According to the record, the primary difference between the Bell model and Hatfield model with regard to switching costs concerns treatment of "vertical features," as Bell includes costs for these extra features that are available in switches as part of the basic switching rate whereas Hatfield does not include

¹² Switching is the network element that provides a carrier the ability to use the switching functions of an incumbent's end office switch, including all features, functions, and capabilities of the switch. It has both a usage element and a port element.

¹³ These figures are based on the 12 percent overhead determined earlier.

¹⁴ The Hatfield 4.0 model shows a decrease in the switching costs, with the 4.0 model representing revised and updated figures that were filed in the October 22, 1997 compliance filing for comparison purposes.

such costs in the basic switching rate for POTS service. Staff has filed comments in this proceeding which implicitly criticize the Hatfield position, as Staff contends the Hatfield methodology would effectively not provide for the ability of all switches to provide vertical services to all customers. Staff believes that an adjustment to the Hatfield model is necessary to enable all customers to realize the enhanced services, which adjustment results in an approximate 16 percent increase to the Hatfield figures, according to Staff.

In advocating that unbundled switching should include all features in the switch, Bell Atlantic states that this methodology is required by the FCC and is also appropriate as the customers have access to all vertical features in the switch, and therefore switching costs should so reflect this ability. In pricing the switching costs, Bell has also produced studies with respect to switching and use of vertical features. Bell has selected 11 originating features and 15 terminating features for study in estimating the cost of POTS usage. Bell further makes assumptions about the level of usage per minute of unbundled switching for each of the selected features and estimates the cost for such features and total of such costs.¹⁵

In contrast, the CLECs argue that the Bell methodology and cost study overstate the cost of local switching as Bell greatly overstates the incidence with which customers of new entrants would use vertical features. Furthermore, the Hatfield

¹⁵ Among features that are included in the Bell study are items such as call forwarding, call waiting, calling number delivery, home intercom and many other specific features.

study further assumes that not all lines utilize features at the same time, and therefore the Hatfield model provides a much lower switching cost.

As noted above, we have declined to adopt either the Hatfield or Bell models as the sole methodology for determining costs in this proceeding. With respect to switch prices, we will utilize a similar methodology as used in determining the proper price for loop costs in this proceeding. Therefore, we find that a reasonable cost for switching should not be based totally on either the Hatfield or Bell methodologies but fall somewhere between these parameters. Accordingly, based on our consideration of the record, we believe a cost of \$0.0038 per minute represents a fair and reasonable switching cost for POTS usage that should apply to both originating and also to terminating services. We believe that this price constitutes a fair price to both Bell Atlantic and the competing carriers in this proceeding, as well as the customers involved, and we also note it compares favorably to the FCC proxy rate for switching costs. It is this rate that we therefore adopt.¹⁶

In addition to the primary issue of the switching usage costs per minute-of-use, switching costs for the port elements on a monthly basis are also proposed in this proceeding. However, we note that our prior decision with regard to common inputs for the respective models has greatly narrowed differences for the

¹⁶ In this regard, we also observe that the rates for loops have a greater potential effect on competition, as competitors can provide their own switches more easily than providing competing loops to the existing system.

proposed port prices. We further determine the port prices which are reasonable and should be utilized constitute a compromise between the parameters of the Hatfield and the Bell models and are adopted as follows:

Port-Per Month

POTS/PBX/CTX	\$ 1.895
ISDN-PRI	113.315
ISDN Single line BRI or CTX Port	10.545
Public/Semi-Public	2.695
DID	5.325

The Bell model also contains numerous specific costs for POTS features such as PBX, as well as for Centrex and ISDN. In contrast, the Hatfield model does not contain separate costs for these features, as Hatfield states that the costs associated with these features are included in the Hatfield result for different elements, such as inclusion in the port costs.¹⁷ However, it is clear that some elements of cost are associated with these services, and we therefore will accept the Bell results at this time as the only alternative presented for costing these features. In this regard, it is unclear in what other elements Hatfield accounts for these costs. After implementation of these rates, parties may petition for modification if they can document where such costs are otherwise recovered and can demonstrate that such charges are excessive.

¹⁷ See ATT/MCI Compliance Filing dated October 22, 1997, where "NA" designates that the costs associated with an element are included in the Hatfield result for a different element. Therefore, no distinct rate is recommended.

Transport and Termination

Transport and Termination involves the transmission and switching of traffic from one carrier to the end office of the other carrier, and can terminate at either a tandem or end office.

In considering the proposed transport and termination rates that are included in the parties' compliance filings, it is interesting to note that for many of those elements, the proposed Bell rates are less than those proposed by the Hatfield model. We have reviewed the rates of the parties for the transport and termination elements, and generally have determined reasonable rates for each element to be those falling between the Bell and Hatfield parameters. In this consideration, we have reviewed the Bell model, the Hatfield 3.1 model, and changes to the Hatfield 3.1 as compared to Hatfield 4.0. Accordingly, we find the following rates to be reasonable based on the record of this proceeding:

<u>Transport and Termination</u>	
Termination at Tandem	\$.0033
Termination at End Office	.00225
<u>Tandem Transit Switch</u>	
Tandem Switching MOU	.000695
<u>Common Transport (per MOU)</u>	.000353
Tandem Switching MOU	.000695 ¹⁸

¹⁸ In reviewing the common transport costs proposed by the parties, there have been differences between the Bell and Hatfield models in that the Bell model also has a "charge per mile" and for "fixed-common." In contrast, the Hatfield model believes that these costs have been included in its common transport rates, whereas Bell does not have a basic common transport per MOU charge but divides it into the tandem switching, fixed-common and per mile charges. We find the rate of 0.000353 common transport per MOU, in addition to the tandem switching

<u>Dedicated Transport - per circuit</u>	
Entrance Facilities	
DS-1 Channel Term.	125.32
DS-3 Channel Term.	918.37
Voice Grade Channel Term. 2W	11.02
Voice Grade Channel Term. 4W	17.63
DS-3 to DS-1 Multiplexing	216.05
DS-1 to Voice Grade Multiplexing	63.20

MOU charge, appropriately account for the cost for these items of common transport.

I0F (interoffice facilities)	
DS-3 Fixed includes both ends	414.74
DS-3 per mile	10.45
DS-1 Fixed includes both ends	30.61
DS-1 per mile	0.375
Voice Grade Fixed includes both ends	8.54
Voice Grade per mile ¹⁹	0.018
DDS Fixed includes both ends	8.70
DDS per mile	0.020

Digital Cross-connection

As noted above, the Commission defers consideration of disputed collocation charges that have been presented in this proceeding pending the completion of Case No. 8766 in which collocation tariffs are being investigated. We view Case No. 8766 as the primary vehicle for determination of collocation charges and tariffs, and expect the decision in that case, which is focused specifically on collocation tariff charges, to resolve many if not all disputed collocation issues. In the event that specific collocation and related cross-connection elements have not been determined in that case and remain in contention by the parties after conclusion of that case, parties may then petition the Commission for resolution of any unresolved remaining issues.

While we defer decision on collocation elements and charges pending the completion of Case No. 8766, the parties

¹⁹ The Bell model included separate charges for "voice grade per mile" and "DDS per mile," whereas Hatfield believes these costs have been included in the dedicated transport rates by Hatfield that are point-to-point and do not include a separate mileage component. The Commission will accept the Bell proposal to include a separate mileage charge, as it is unclear where Hatfield recognizes these costs. However, as noted earlier, with respect to "NA" designated rates, parties may petition for modification of these rates if they can document where such costs are otherwise recovered and can demonstrate that such charges are excessive.

indicate that one cross-connection²⁰ dispute is pending in this proceeding that will not be resolved in the collocation proceeding and therefore should be decided at this time. In this case, the Digital Cross-Connect System port cost per month charge is disputed in the Bell and Hatfield models, with contested charges for DSO termination and DS-1 termination. This cross-connect issue concerns the provision by Bell Atlantic of its IntelliMUX Service to allow customer access to Bell Atlantic's digital cross-connection equipment. By such access a CLEC can reconfigure its circuits to meet immediate needs. In reviewing the proposed charges advocated by the parties, we note Bell proposes monthly rates of \$21.06 and \$73.38 for DSO and DS-1 termination, respectively, compared to Hatfield's \$13.00 and \$45.70 proposed charges. The CLECs consider the Bell rates to be undocumented and inflated, noting in part Bell's reliance on a single vendor's quote in a Gaithersburg installation for much of Bell's proposed rates. We share these concerns regarding the reliability of the Bell figures. The Commission determines that the reasonable price for such port cost per month falls in the midpoint between the parameters of the proposed connecting charges, and therefore finds the DSO termination rate shall be \$17.03, while the DS-1 termination rate shall be \$59.54.

Signaling

In reviewing the costs for unbundled elements in this proceeding, the Hatfield and Bell models have often produced

²⁰ "Cross-connections" refer to the facilities which establish a connection between ILEC and CLEC facilities.

various recommended charges but have generally utilized the same or similar method of measurement. With respect to the signaling rates proposed in this proceeding, however, Bell proposes a monthly STP²¹ port termination charge of \$628.77 whereas the Hatfield proposal involves a charge of \$0.00009 which would apparently be implemented on a per-minute-of-use basis. Due to the large discrepancy in the methodology and rate proposed, the Commission authorized additional post-hearing written comment by the parties to explain why the signaling rate recommendations are so different between Bell and Hatfield, which resulted in additional filings in this case entered on May 20, 1998.

In Bell Atlantic's filing, Bell notes that the STP unbundled port termination allows carriers to directly connect to Bell Atlantic's SS-7 network to provide SS-7 signaling for the entire setup of a call. Bell claims that in an unbundled environment, carriers can directly connect to a Bell Atlantic STP via a small access or link facility or a carrier-provided link facility. Furthermore, the STP port termination rate element provides a carrier with a dedicated port on Bell Atlantic's STP, which element is not usage sensitive as the STP port is dedicated to each customer, according to Bell.

In ATT/MCI's response to the Commission post-hearing query, these CLECs note that their proposed rate is stated on a per-minute-of-use basis which would effectively allocate the costs upon a usage basis compared to the flat rate structure

²¹ "STP" refers to Signaling Transfer Point, which acts as a signaling switch and enables the exchange of Signaling System-7 (SS-7) messages among and between switching elements, database elements, and STP switches.

proposed by Bell Atlantic. The CLECs claim that the Bell structure does not reflect an appropriate measure of cost and could retard the development of competition by imposing higher costs on new entrants in the early stages of competition when usage is relatively low.

The Commission appreciates the efforts made by the parties to provide additional information subsequent to the hearings and their briefings in this case. However, in determining the fair and appropriate rates that should be applied for unbundled signaling, the Commission finds it very difficult to compare the flat rate monthly charge advocated by Bell with the much smaller usage-based charge advocated by the CLECs in this proceeding. We therefore request that the parties provide further comment to assist us in resolving this issue. Comments should address comparisons of each parties' proposed methodology with the opposing parties' methodology. That is, in the event that Bell Atlantic would change its per-month charge to a usage-based charge, and correspondingly in the event that Hatfield and the CLECs would propose a fixed charge rather than the usage charge, to what extent would those alternative recommended charges compare with the existing proposals? The parties are to provide such additional information within 10 days of the date of this Order. Accordingly, we defer decision on this element pending the receipt of such further information.

Signaling Database

In this case, rates are proposed with respect to the 800/888 Database and the Line Information Database (LIDB)

service. With respect to the 800/888 database, the parties have proposed rates in close proximity with respect to a basic query, which represents the ability to identify the carrier to whom an 800 call should be routed. We will adopt a rate of \$0.00082 per query as a reasonable charge for this service. We will also accept the Bell rate of \$0.000291 for a vertical query as Hatfield does not propose any alternative rate to the Bell proposal.

In regard to the LIDB per query proposals, this service provides the ability for a telecommunications carrier to access telephone subscriber information such as name and address and calling card validation. This database contains a record of every working line number and billed number group served by Bell Atlantic. Other carriers who store data in the Bell Atlantic database are required to provide such data as well. With respect to the Calling Card per query charge and the Billed Number Screening charge, Hatfield proposes the same rate as the basic query whereas the Bell model contains a rate approximately 20 times the amount of the basic query.

With regard to these services, the Calling Card charge involves a billing validation service that allows a carrier to verify a customer's calling card so that the customer can then charge the cost of a telephone call to the calling card. With respect to Billed Number Screening, this service allows a carrier to bill the charges of a telephone call to a third number. The vast difference between the two models' rates for these services involves in large part the inclusion by Bell Atlantic of costs for the "fraud control center." These fraud control center costs

constitute the overwhelming majority of the differential between the Bell and Hatfield models.

Based on the record, we will accept the inclusion of fraud control costs at this time. Therefore, we accept the Bell proposals of \$0.016352 per LIDB query for both Calling Card and Billed Number Screening.

Directory Assistance

With respect to unbundled directory assistance charges, CLECs generally consider the Bell Atlantic charges and costs to be vastly overstated in the Bell cost study and have proposed significant discounts to generally reduce such charges by half. Even after implementation of the common inputs determined by the Commission, the charges for "Direct Access Per Call" and "Cost Per Call" vary significantly between the two models, whereas Directory Assistance Transport costs have significantly narrowed so that there is no longer a major difference between the parties. We will therefore, adopt the following DA Transport charges:

Tandem switched transmission cost per call:	
Fixed	\$0.000099
Per mile	0.000001
Tandem switching cost per call	0.000577

With respect to the Direct Access Per Call and Cost Per Call charges, the former service provides directory number listing service to customers via the use of customer-provided access facilities to the directory number database, which

listings are contained in the Bell system's regional database of directory listing information. The "Direct Access Per Call" charge involves a proposed charge for each call made to the regional database. The "Cost Per Call" charge involves proposed charges for the cost of each call made by a CLEC customer to the directory assistance platform.

In reviewing these charges, we note that the Commission has previously determined in administrative action to cap the directory assistance service calls for residential customers at a level of 25 cents per call, which rate is contained in the Bell Atlantic Resale Directory Assistance Service General Regulation Tariff PSC-MD-No. 201, Section 7A, page 1. Also, business directory assistance service calls were set at a level of 32.05 cents per call. In the instant case, the proposed Bell charge of 34.37 cents "Cost Per Call" would exceed the existing limit and we will retain the prior cap for these calls to limit directory assistance charges to the amounts currently in effect. With respect to the Direct Access Per Call charge, we will accept a compromise between the Bell and Hatfield proposals, and set such charge at \$0.02650 per call.

Customized Routing per Line

Customized routing per line involves transmission of certain calls such as operator assisted and directory assistance calls from a CLEC customer to the CLEC wherein it is necessary to determine which local service providers' end user is originating the call and where to route the call once the determination is made. Bell Atlantic has developed a proposed rate for customized

routing which results in a per line charge of \$0.215298. In developing this charge, approximately 75 percent of the costs involved concern costs for the Specialized Routing Node ("SRN"). These SRN costs, in the Bell Atlantic studies, represent approximately {**PROPRIETARY (___)**} cents per call of a total cost per call of (**PROPRIETARY (___)**) cents. The Bell proposal would impose these customized routing costs on the CLECs whom Bell considers to have caused these costs rather than apply these costs on a per-minute-of-use basis to switching charges of both CLEC and Bell Atlantic customers.

In contrast to the Bell proposal, ATT/MCI propose that customized routing costs should be recovered by a per-minute additive to the Hatfield-based per-minute switch usage charge in an unbundled element environment.²² In addition, the CLEC proposal would apply this small add-on factor for these costs to all Bell Atlantic local switching minutes, so that the charge would also apply to Bell customers.

In reviewing the record on this issue, the primary dispute concerns the fundamental differences between Bell and the CLECs in applying this charge, as Bell would impose the charge upon those who created the need for the service whereas the CLECs propose an additive to all switching minutes-of-use that would apply to both Bell and CLEC customers for payment of the customized routing costs. The other major dispute concerns SRN costs. Bell claims the SRN was in fact developed to meet the

²² ATT/MCI also contend that, in a resale environment, Bell Atlantic should impose a monthly charge per line which includes an additive for the customized routing charges.

needs of AT&T. CLECs such as AT&T are now disputing the SRN methodology after Bell has expended the money which Bell argues was made at the specific request of AT&T. Since the expenditure of over 10 million dollars to provision the customized routing as requested by AT&T, Bell claims AT&T has changed its mind and desires alternative routing that would avoid the SRN previously developed.

In reviewing the record, it appears that Bell Atlantic initially developed the SRN to meet the needs of AT&T, while the SRN may also have been intended to be utilized by Bell Atlantic to a certain extent. It further appears that Bell has subsequently found different technical solutions for routing certain calls outside the SRN, which leads us to question the propriety of allocating the entire costs (as well as the amount of such costs) as advocated by Bell Atlantic in this proceeding. Upon consideration of the record on this issue, we conclude that the costs for customized routing should generally be placed upon those entities that will utilize the service, and we therefore believe that a per call charge should be implemented which will apply only when the customized routing platform has been utilized. We question, however, the amount of the charge for the SRN built into the Bell Atlantic calculations, specifically whether the entire amount for this platform should be allocated only to the usage of CLEC customers. Therefore, we reduce the SRN cost per call calculation from (**PROPRIETARY (___)**) cents per call to (**PROPRIETARY (___)**) cents per call, which results in a total charge of 5.939 cents per call which shall be applied when

the customized routing is activated for directory assistance, operator services, or other calls utilizing the customized routing service.

Uncontested Recurring Rates

In the October 22, 1997 compliance filings, there are a large number of rates for unbundled elements for which only Bell Atlantic proposed a charge, while AT&T and MCI stated they were not able to analyze such element and therefore have no alternative rate to recommend ("NR").²³ As there is no alternative presented, we find there is no genuine dispute with respect to these uncontested charges. Accordingly, we will accept the Bell Atlantic proposals for which the CLEC compliance filing lists "NR" and does not contest such charges.

Conclusion

Based on the record of this case, we authorize the above charges which we have determined in this proceeding to be implemented for unbundled rate elements as noted in this Order. We recognize, however, that many of these charges result from our considerations of the cost models presented in this proceeding, which models contain many judgments and calculations that may not accurately represent the actual costs that are incurred or that

²³ This "NR" differs from the elements for which AT&T and MCI did not specify a price but state the costs associated with such element are included in the Hatfield result for a different element. That designation, "NA," has been addressed previously in this order. In many instances the Commission has set a rate for the NA elements as we have indicated uncertainty where Hatfield includes the cost for such elements, but such issues may be revisited at a future time if parties demonstrate different costs should apply.

will actually result in the rapidly changing world of telecommunications. Based on the record before us, however, we find that the charges we authorize constitute the most reasonable and just charges for unbundled elements that may be implemented at this time. Parties may petition the Commission for modification or adjustment if the specific charges determined herein prove to be unreasonable or otherwise unjust in light of new evidence or changed circumstances. At this time, however, we find the charges determined herein to be the most appropriate charges for such unbundled elements based on the record.

IT IS, THEREFORE, this 2nd day of July, in the year Nineteen Hundred and Ninety-eight, by the Public Service Commission of Maryland,

ORDERED: (1) That parties may file with the Commission to implement charges for unbundled elements as determined in this Order for the pricing of interconnection services.

(2) That the parties shall file additional comments with respect to the appropriate charge for signaling services as noted above in this Order.

(3) That all other motions not specifically granted by action herein are hereby denied.

Glenn F. Ivey

Claude M. Ligon

E. Mason Hendrickson

Susanne Brogan

Commissioners

Commissioner Gerald L. Thorpe
concur

IN THE MATTER OF THE PETITIONS FOR *
APPROVAL OF AGREEMENTS AND *
ARBITRATION OF UNRESOLVED ISSUES *
ARISING UNDER §252 OF THE *
TELECOMMUNICATIONS ACT OF 1996. *

BEFORE THE
PUBLIC SERVICE COMMISSION
OF MARYLAND

CASE NO. 8731
PHASE II

CONCURRING OPINION OF
GERALD L. THORPE, COMMISSIONER

I dissented from Order No. 74181, which denied reconsideration of certain input issues raised by Bell-Atlantic-Maryland, Inc.. My specific concerns in that dissent related to the need to reconsider the calculation of proper distribution fill factors, switch discount rates, and switch utilization rates. I stated then and reiterate now that, in my view, it is very important for cost models to utilize the most sound inputs available, because the inputs into such models largely determine the costs produced by the model's algorithms. I continue to opt for real world experience over evolving and imperfectly understood theoretical models.

The prices set for those inputs of concern to me in that dissent are now reflected in the final prices established in this order. Consequently, I continue to have concern that certain prices established in this order are inappropriately low.

Given these concerns, my concurrence with this order comes with reservations. If actual experience justifies these reservations, I would respectfully urge my fellow Commissioners to review and revise this order where appropriate.

Commissioner