

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI



**** HIGHLY CONFIDENTIAL ****

In the Matter of AT&T Communications of the Southwest, Inc.'s Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement Between AT&T Communications of the Southwest, Inc. and GTE Midwest Incorporated.)
) Case No. TO-97-63
)
)
)

FINAL ARBITRATION ORDER

Issue Date: July 31, 1997

Effective Date: August 20, 1997

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 31st
day of July, 1997.

In the Matter of AT&T Communications of the)
Southwest, Inc.'s Petition for Arbitration Pursuant)
to Section 252(b) of the Telecommunications Act of) Case No. TO-97-63
1996 to Establish an Interconnection Agreement)
Between AT&T Communications of the Southwest, Inc.)
and GTE Midwest Incorporated.)

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FINAL ARBITRATION ORDER

I. Procedural History

The Commission issued its Arbitration Order¹ in this case on December 10, 1996, establishing interim rates for unbundled telecommunications network elements and an interim resale discount rate for the resale

¹ Arbitration Order issued December 10, 1996, hereinafter "First PSC Order."

of basic local telecommunications services pursuant to the Telecommunications Act of 1996 (the Act). The Commission issued a further order on January 15, 1997, which established a procedure for the establishment of permanent rates for unbundled network elements and resold services.² That order provided for an extensive review and analysis by the Commission's Arbitration Advisory Staff of the supporting documentation for AT&T Communications of the Southwest, Inc.'s (AT&T's) and GTE Midwest Incorporated's (GTE's) costing models and rate proposals. The procedure called for the Staff to present a report to the Commission, followed by a Commission order setting out proposed permanent rates, comments by the parties on those proposed permanent rates, and a permanent rate order to be issued on June 30. The Commission issued a notice on June 11 stating that there would be some delay in the Commission's issuance of proposed permanent rates.

The Commission's Advisory Staff spent several weeks reviewing the inputs used by GTE in its costing model and comparing the results of both GTE's and AT&T's costing models using various inputs. Staff submitted its initial report to the Commission for review before May 30. Staff's final report is Attachment C entitled Missouri Public Service Commission Costing and Pricing Report.

II. Discussion and Findings

The Commission has reviewed Staff's report and recommendations and finds that some modifications in its order establishing interim rates are necessary in order to establish permanent rates for this arbitration. In

² Order Granting Extension of Time, Clarification, and Modification and Order Denying Rehearing (issued January 15, 1997), hereinafter "Second PSC Order" at page 10, "VII. Schedule for Development of Permanent Rates."

addition, there are certain issues that of necessity remain unresolved. In some cases the services have not yet been developed and therefore the costing information is not available. In other cases further action by the Federal Communications Commission (FCC) is expected. The modifications to the current interim rates and the unresolved issues are discussed below.

A. Resale Discount Rate

The Commission finds that the discount rate for resold services should be reduced from 31.08 percent to 25.4 percent. In light of the extensive review and analysis by the Commission's Advisory Staff (see Attachment C), the Commission finds that a 25.4 percent discount rate results in just and reasonable rates for resold basic local telecommunications services. The parties shall prepare an interconnection agreement that incorporates the rates reflected in Attachment A to this Final Arbitration Order which is entitled "Resale Cost Study for GTE."

B. Pricing of Unbundled Network Elements

The Commission finds that, in light of the extensive review and analysis by the Commission's Advisory Staff (see Attachment C), certain modifications should be made to the interim rates previously ordered for unbundled network elements (UNEs). The Commission finds that the permanent rates for UNEs, included with this Final Arbitration Order as Attachment B entitled "Unbundled Network Elements - Permanent Rates," results in just and reasonable rates. The parties shall prepare an interconnection agreement that incorporates the rates reflected in Attachment B.

C. Report of Advisory Staff

The Commission's Arbitration Advisory Staff submitted a comprehensive report reflecting its data collection, review, analysis, and

recommendations regarding the establishment of permanent rates for this arbitration case. Two of the issues discussed by Staff call for further discussion: SS7 and unbundled signaling elements, and technology mix.

(1) SS7 and Unbundled Signaling Elements — Issue 38, First PSC Order

The First PSC Order set interim prices for Signaling System 7 (SS7) signaling elements at federal tariffed rates (see Attachment B to First PSC Order, Database and Signaling Systems). GTE does not currently have the mated signal transfer point (STP) pairs needed to provide SS7 Access Service in Missouri. However, GTE can provide access to its SS7 network for Missouri exchanges by means of links with mated STP pairs in Illinois for Out of Band Signaling, and with mated STP pairs in Indiana for Line Information Data Base Query Service. GTE provides this service in accordance with the provisions and rates in its Federal Access Tariff, GTOC #1. GTE's recommendation is that these rates remain in effect until STP pairs are installed and operational in Missouri, at which time GTE will develop Missouri-specific rates.

The Advisory Staff's recommendation is that GTE provide SS7 access at the lower of either the Interstate Tariffed Rates, or the rate at which GTE provides the service to other entities within Missouri. When GTE has developed Missouri-specific facilities, either party could request that the Commission order the preparation of cost studies to develop permanent prices should pricing become a disputed issue.

(2) Technology Mix

Staff and GTE made differing proposals regarding the forward-looking technology mix on which the costs for certain switching elements should be based. The full discussion appears on page 53 of the Advisory Staff's Report (Attachment C), with the proposals set out in

graphic form on page 54. The Advisory Staff recommended that the forward-looking technology mix for the switch costing studies reflect: .39 percent, SESS switches; 29.80 percent, DMS10s; 48.08 percent, DMS100s; and 21.23 percent, GTD5 switches.

After reviewing both proposals the Commission finds that GTE's proposal should be adopted. GTE proposed that the forward-looking technology mix for the switch costing studies reflect: .90 percent, SESS switches; 26.57 percent, DMS10s; 48.14 percent, DMS100s; and 24.37 percent, GTD5 switches. The use of GTE's technology mix has affected the rates for local switching, tandem switching, 2-wire basic ports, and DS1 ports.

D. Unresolved Issues

(1) Interim Number Portability (INP) — Issue 6, First PSC Order

The First PSC Order did not set prices for Interim Number Portability (INP) in part because the FCC had not yet settled upon a method for cost recovery. The Commission ordered that the companies track their costs pending clarification from the FCC. The FCC's requirement that costs be recovered on a nondiscriminatory basis makes it likely that costs will ultimately be recovered from all telecommunications providers and not exclusively from the interconnecting company that initially requests INP. The Advisory Staff recommends that AT&T and GTE continue to track the costs of Interim Number Portability and that rates for INP not be established at this time.

(2) Operational Support System (OSS) — Issue 44, First PSC Order

The First PSC Order did not establish interim prices for the Operational Support System (OSS) but called for GTE to submit cost studies

to support pricing of the service once it had been developed. Since, at this date the system has not yet been developed, the appropriate costing studies are still not available. Accordingly, the Advisory Staff recommends that costing and pricing the OSS be done once the system is developed and appropriate costing studies are available.

(3) Operational Support Systems (OSS) Access — Issue 47, First PSC Order

Similarly, since the Operational Support System and direct computer access to the system have not yet been developed, the appropriate cost studies are not yet available. The Advisory Staff recommends that costing and pricing OSS access be done once the requisite access systems are developed and cost studies available.

(4) Sub-Loop Unbundled Elements — Issue 33, First PSC Order

The parties filed stipulations regarding sub-loop unbundling issues that were included as Attachment C to the First PSC Order. The Commission further ordered unbundling of loop distribution plant, loop concentrator/multiplexer, and loop feeder via a bona fide request process to the extent that there were remaining areas of disagreement. Staff stated in its report that the parties are now in agreement that the issues regarding sub-loop unbundling costing are no longer in dispute in this proceeding. Accordingly, the Advisory Staff recommends that the Commission make no further orders on these issues.

(5) The Pricing of Collocation — Issue 7, First PSC Order

The First PSC Order did not establish interim prices for collocation but found that, until adequate costing studies are available, collocation should be priced on an individual case basis (ICB). The Commission stated that the ultimate goal was to develop standardized

pricing that is competitively neutral. GTE supplied cost studies for Staff review, but indicated that the study method was undergoing revision and that it was preferable to continue the ICB pricing arrangement. AT&T has not expressed opposition to ICB pricing. Staff stated that because collocation entails segregation of existing office space, construction and arrangement for power supplies, and network access as well as security, it is difficult to develop a simple list of rate elements that can be supported by cost studies. Accordingly, the Advisory Staff recommends that the pricing of collocation continue to be done on an ICB basis.

(6) Billing and Usage Recording System — Issue 68, First PSC Order

The First PSC Order did not establish interim prices for the billing and usage recording system. However, the Commission directed GTE to track its costs and ordered the parties to submit proposed rates for these functions once a billing and usage recording system became operative. Since the system has not yet been developed, the appropriate costing studies are still not available. Accordingly, the Advisory Staff recommends that costing and pricing the billing and usage recording system be done once the system is developed and appropriate costing studies are available.

E. Procedural Issues

In the Second PSC Order the Commission envisioned issuing "proposed permanent rates" and accepting comments by the parties before issuing a final order. However, the review and analysis process has taken longer than anticipated and the Commission concludes that it would be more appropriate to issue permanent prices in a final order. In the interests of due process and to permit parties an adequate opportunity to be heard,

the Commission will allow the parties twenty days to move for reconsideration or clarification.

IT IS THEREFORE ORDERED:

1. That the rate schedules attached to this Final Arbitration Order as Attachments A and B shall be the approved permanent rates for all the elements and services listed therein.

2. That the parties shall have until August 20, 1997 to move for reconsideration or clarification.

3. That the parties shall prepare and submit to the Commission for approval an interconnection agreement reflecting the findings embodied in the prior orders issued in this case and the permanent rates embodied in Attachments A and B.

4. That the agreement described in Ordered Paragraph 3 shall be submitted to the Commission no later than September 30, 1997.

5. That the parties shall comply with the Commission's finding on each and every issue.

6. That any proposed interconnection agreements filed herein are rejected, and all pending motions which have not been previously addressed are hereby denied.

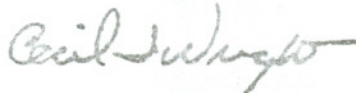
7. That this Final Arbitration Order shall become effective on August 20, 1997.

(S E A L)

Zobrist, Chm., Crumpton,
Drainer, Murray and Lumpe,
CC., concur.

ALJ: Wickliffe

BY THE COMMISSION



Cecil I. Wright
Executive Secretary