STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

OPINION NO. 00-02

CASE 98-C-1357 - Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements.

OPINION AND ORDER IN MODULE 1
(DIRECTORY DATABASE SERVICES)

Issued and Effective: February 8, 2000

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BY THE COMMISSION:

INTRODUCTION AND BACKGROUND

Origin of the Proceeding; State and Federal Legal Context

This first module of the Second Network Elements Proceeding has examined the prices to be charged by New York Telephone Company d/b/a Bell Atlantic-New York (Bell Atlantic-New York) and other incumbent local exchange carriers for certain directory information database (DDB) services they provide to other carriers and to non-carrier directory assistance (DA) providers and directory publishers.[1] Consideration of these pricing issues here grows out of earlier orders ("the DDB Order"[2]

[1] A special accelerated track for certain digital subscriber line charges was decided last month. (Opinion No. 99-12 [issued December 17, 1999]).

[2] Cases 94-C-0095, et al, Local Competition Proceeding, Order Regarding Directory Database Issues (issued July 22, 1998).

and the "DDB Rehearing Order"[1]) in which we considered various issues related to these services.

In the DDB Order, we determined, among other things, that, to promote competition, incumbent local exchange companies (ILECs) should provide access to their directory databases to other telephone service providers and to non-carriers requesting such access for the purpose of publishing a directory or providing directory assistance. Access was to be on the same terms as the access provided to the ILEC's own directory publisher or DA provider, and the data were to be offered in both paper and electronic formats. Pricing was to be cost-based and non-discriminatory, with specifics referred to the then-still-pending First Network Elements Proceeding (Cases 95-C-0657 et al.). When DDB information was sold, all companies that contributed listing information to the database were to be compensated in proportion to their contributions.[2]

Various parties requested rehearing of the DDB Order as well as expedited review of Bell Atlantic-New York's compliance tariff, which had been allowed to take effect on a temporary basis. In the ensuing DDB Rehearing Order, we reaffirmed the basic determination that the public interest was served by a competitive directory assistance and directory listing market and that the development of that market required ILECs to offer all directory information service providers access to their directory databases--which we regarded as a "bottleneck" item[3]--at tariffed, non-discriminatory prices based on forward-looking incremental, costs. We directed certain modifications (including substantial price reductions) in the tariffs that had been filed,

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[1] Cases 94-C-0095, et al., supra, Order Resolving Petitions for Rehearing and Clarifying July 22, 1998 Order Regarding Directory Database Issues and Directing the Refiling of Tariffs (issued January 7, 1999).

[2] DDB Order, p. 5. That compensation requirement is the subject of dispute over its precise meaning.

[3] DDB Rehearing Order, p. 13.

and specified that the rates, as so modified, remain temporary pending further examination in this proceeding.

We also clarified the treatment of non-published telephone numbers.[1] We determined that LECs (including competing local exchange carriers [CLECs]) could exchange such numbers among each other, as ILECs had always done, with a notation that the number is to be withheld at the customer's request. In contrast, non-carrier DA providers were to receive only the names and addresses of non-published customers, with the telephone numbers masked; and they were to receive those data only if they agreed (1) to be bound by our privacy principles[2] and (2) not to use the information for any purpose other than informing callers that the telephone number is not published.

The provision of these services is subject to federal law as well. Section 251(b)(3) of the Telecommunications Act of 1996 (the 1996 Act) requires all local exchange carriers "to permit all [competing exchange and toll service providers] to have nondiscriminatory access to telephone numbers, operator services, directory assistance, and directory listing, with no unreasonable dialing delays." The FCC has held that the statute, among other things, "prohibits providing [local exchange carriers] from providing directory assistance database information in a manner that is inferior to that which they

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[1] Several categories of non-disclosed listings need to be delineated. The most concealed are "special non-published" listings, which appear nowhere in the directory assistance database. "Non-listed" listings, used for the most part when customers have multiple numbers in a roll-over group, are included in the directory assistance database but their existence is not disclosed to directory assistance callers. Finally, "non-published" listings (sometimes colloquially and imprecisely referred to as "unlisted") are those withheld from disclosure at the customer's requests; the existence of the number is acknowledged in response to a directory assistance inquiry, but the inquirer is told that number is not published at the customer's request.

[2] Case 90-C-0075, Privacy in Telecommunications, Statement of Principles Regarding Privacy in Telecommunications.

supply to themselves."[1] The pricing of directory listings provided to other carriers other must be nondiscriminatory as among them.[2] Federal law at present imposes no obligations with regard to the provision of DDB information to non-carrier DA providers, though the FCC has a rulemaking pending on that subject.[3]

With respect to directory publishing, §222(e) of the 1996 Act requires "a telecommunications carrier that provides telephone exchange service [to] provide subscriber list information gathered in its capacity as a provider of such service on a timely and unbundled basis, under nondiscriminatory and reasonable rates, terms, and conditions, to any person upon request for the purpose of publishing directories in any format." In applying that provision, the FCC has set "presumptively reasonable" rates for listings provided to directory publishers.[4]

The Services and How They Are Provided

Bell Atlantic-New York offers three services whose costs are examined here:

Directory Assistance Listings Transfer (DALT). This service, limited to carriers, provides a copy of Bell Atlantic-New York's directory listings, including non-published and non-

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[1] Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, et al., Third Report and Order in CC Docket No. 96-115, Second Order on Reconsideration of the Second report and Order in CC Docket No. 96-98, and Notice of Proposed Rulemaking in CC Docket No. 99-273 (rel. September 9, 1999)(the "FCC Subscriber Listings Order"), ¶152.

[2] Implementation of the Local Competition Provisions of the Telecommunications Act of 1996 et al., CC Docket No. 96-98, Second Report and Order and Memorandum Opinion and Order (rel. Aug. 8, 1996), ¶101; FCC Subscriber Listings Order, ¶125.

[3] FCC Subscriber Listings Order, ¶170 et seq.

[4] FCC Subscriber Listings Order, ¶103.

listed numbers,[1] from its Automated Telephone Listing Address System (ATLAS) in machine-readable format. It offers a download of the entire set of relevant listings as well as daily updates. At case end, Bell Atlantic-New York's proposed rates are $28,678 for the download and $5,347 per month for daily updates;[2] the rates advocated by INFONXX are $219 for the initial download, an annual charge of $1,274, and a monthly charge of $167.[3]

Directory Assistance Listings Service (DALS). This service, available to non-carriers, is identical to DALT except that non-published numbers are masked (i.e., only names and addresses are provided, along with a notation that the number is non-published at the customer's request) and non-listed information is excluded. Proposed pricing (by both parties) is identical to that for DALT, except that Bell Atlantic-New York's update rate is $5,229 per month.[4]

Directory Publishers Listing Service (DPLS). This service, offered to publishers of telephone directories, provides a one-time requested subset of listings, excluding non-published and non-listed information, along with periodic updates if requested. Bell Atlantic-New York's proposed pricing is $.20 per listing in the one-time request and $.20 per listing in each update; INFONXX did not propose DPLS rates. The FCC's presumptively reasonable rates for these services are $.04 and $.06 per listing, respectively.

To state the matter most generally, the provision of each service entails extracting the proper set of data from ATLAS, formatting it in the required manner, and transferring it to the database customer. Some further details of the process

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[1] The DALT tariff states that non-published information is provided solely for directory assistance purposes.

[2] Bell Atlantic-New York's Initial Brief, Attachment A(1).

[3] INFONXX's Initial Brief, p. 62.

[4] Bell Atlantic-New York's Initial Brief, Attachment A(1).

should be noted, however, since they are pertinent to INFONXX's critique of Bell Atlantic-New York's estimated costs.

The ATLAS database contains listings for both New York and New England. An initial data transfer ("full load") comprises two steps: (1) extraction from ATLAS of the pertinent set of data (i.e., for DALT and DALS, all New York State data; for DPLS, the set of data requested by the customer) and (2) reformatting of the data as needed, such as to mask non-published numbers from DALS customers.[1] Daily updates also require several steps: (1) extraction from ATLAS of the updates of DA listings (which excludes "special non-published"); (2) extraction from that file of the New York data (which exclude New England); (3) extraction from that file of the DALT and DALS data, as the case may be; DALT and DALS data both exclude listings for the portion of southwestern Connecticut (in area code 203) served by Bell Atlantic-New York,[2] while DALS also excludes "non-listed" listings and masks "non-published" listings.[3]

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[1] Tr. 177-178; Exhibit 8, Part A, p. 2 of 6.

[2] These listings, though geographically within New England, are not removed with the New England listings because they are served by Bell Atlantic-New York and included in the database used by Bell Atlantic-New York's own DA service. They are nonetheless excluded from DALT and DALS, which are New York-specific services. Bell Atlantic-New York regards this as a matter outside our jurisdiction, inasmuch as it involves out-of-State listings; INFONXX believes we could direct Bell Atlantic-New York to avoid discrimination by either providing its area code 203 listings to DALT and DALS users or withholding it from its own DA function. The matter is not within the scope of this pricing proceeding, except insofar as special treatment of the area code 203 listings is said to impose added costs.

[3] Tr. 177-178; Exhibit 8, Part A, p. 3 of 6, Exhibit 12. Non-listed listings are provided to DALT customers but not to DALS customers so that all carriers have access, for use in emergencies, to all listings in the Bell Atlantic-New York listings database even where the existence of the listing is not disclosed to DA callers.

In addition to DALS, DALT, and DPLS, Bell Atlantic-New York provides access to listings databases on a "per dip" basis through its Directory Assistance Direct Access (DADA) service, the price for which was set, in the First Network Elements Proceeding, at $.0419 per search. That rate is not at issue here. It also provides access to listings through its electronic white pages service, available to carriers and non-carriers alike; that price also is not at issue here.

Frontier Telephone of Rochester (Frontier) also presented rates for DALS and DPLS. In addition, it proposed a change, opposed by Bell Atlantic-New York, in the existing pricing of inter-ILEC database information exchanges.

Procedural History

Following our institution of the Second Network Elements Proceeding, Staff and the parties engaged in a collaborative process to consider its scope. That process comprised separate modules for directory database issues, collocation issues, and unbundled network elements generally, and Administrative Law Judge Joel Linsider confirmed that trifurcation in a ruling issued last June, setting this module to be considered first.[1] In that ruling, the Judge determined as well that even though DALT costs had been studied in Phase 3 of the First Network Elements Proceeding, our assignment of directory database rates to this proceeding contemplated a plenary review that encompassed not only the DALS and DPLS rates never before studied but also DALT costing, which has a bearing on DALS and DPLS.[2]

A hearing before Judge Linsider was held in Albany on September 30, 1999; testimony was submitted by Bell Atlantic-New York, Frontier, and INFONXX. The record comprises 368 pages of stenographic minutes (numbered 49-416) and 35 exhibits

[1] Case 98-C-1357, Order on Scope and Schedule (issued June 10, 1999).

[2] Ibid., p. 6.

(numbered 1-35). Briefs were filed by the three parties who had submitted evidence and by the New York State Telecommunications Association, Inc. (NYSTA); those parties, except for Frontier, also filed reply briefs. In addition, INFONXX submitted a letter responding to new arguments that Bell Atlantic-New York had raised in its reply brief on the basis of the FCC Remand Order, and Bell Atlantic-New York submitted a reply.

OVERVIEW OF PARTIES' POSITIONS

Bell Atlantic-New York and INFONXX submitted competing cost studies and pricing proposals. Frontier also submitted a cost study, which Bell Atlantic-New York questioned in several ways; Bell Atlantic-New York's interest in it grows out of Frontier's proposal to charge other carriers (including Bell Atlantic-New York) at DALS rates for listings.

Bell Atlantic-New York disputes the premise that DDB provisioning is a monopoly service of the incumbent LEC and asserts that they are available from a variety of sources other than itself. In its view, therefore, they should not be subject to TELRIC pricing as a matter of policy; and the FCC Remand Order now clarifies that they are not subject to it as a matter of law. In the absence of that clarification of law earlier in the case, Bell Atlantic-New York presented a TELRIC-based cost study; with the clarification now in hand, it proposes that we remand the matter for additional evidence and argument on the proper costing standard and pricing method. Pending that review, it would leave its proposed rates in place. It regards INFONXX's cost study as grossly flawed, in that it fails to take account of the costs incurred in providing a high quality, highly reliable database service.

Regardless of the costing measure that is used, Bell Atlantic-New York would add to its result, for purposes of setting a price, an above-cost "contribution," so that the price would be set nearer to a market-based level reflecting the value of the service. Consistent with the DDB Order, it would share that contribution with other companies providing directory listings, but it would in that event increase the price to recover the "clearinghouse" costs of administering that contribution disbursement.

INFONXX challenges Bell Atlantic-New York's presentation in a variety of ways, contending that these services remain monopolized, that above-cost rates therefore are improper, and that TELRIC-based pricing remains appropriate even if not required by the FCC. It maintains Bell Atlantic-New York failed to conduct a proper TELRIC study and that its cost estimate is inflated by, among other things, its premise of an expensive mainframe computer construct rather than a much cheaper personal computer-based network. INFONXX urges rates based on its own cost study, adjusted, however, to recognize some of Bell Atlantic-New York's cost factors that it acknowledges should be included. As a less favored alternative, it offers a series of adjustments to be applied to Bell Atlantic-New York's cost study should we decide to use it as the starting point.

Frontier submitted studies of its DALT and DALS costs. In a more controversial proposal, opposed by Bell Atlantic-New York and INFONXX, it would require Bell Atlantic-New York to begin paying DALS rates for the listings it receives from Frontier. This would change the existing "barter" arrangement, under which Bell Atlantic-New York receives listings from all carriers gratis in exchange for publishing directories.

NYSTA raises several issues related to how independent ILECs that provide data for the DDB are to be compensated and to the reimbursement of Bell Atlantic-New York for its clearinghouse costs incurred in providing that compensation.

CONTRIBUTORY PRICING

Introduction

Bell Atlantic-New York proposes to set rates not on the basis of its calculated TELRIC costs (or the potentially higher non-TELRIC costs that might be determined in a remanded proceeding free of any TELRIC constraint) but at a higher level that includes a "contribution," representing a "reasonable profit."[1] The contribution would be shared proportionally with all carriers that provide listings to Bell Atlantic-New York's database.

As Bell Atlantic-New York acknowledges, we determined, in the DDB Rehearing Order, that DALT, DALS, and DPLS should be priced on a similar basis at forward looking incremental costs, i.e., without "contribution." We did so on the basis of our findings that "directory databases are controlled by LECs because of their monopoly status [and that] pricing access to the database and directory listings at forward looking incremental costs allows LECs to earn a reasonable profit without taking advantage of their monopoly status."[2] Bell Atlantic-New York nevertheless urges contributory pricing here, arguing, first, that the earlier decision was "explicitly interim," leaving open the possibility of modification on the basis of fuller examination.[3] Second, it points to the statement, in the DDB Order, that "when directory database information is sold, all companies that contribute information to the database should be compensated in proportion to their listing contribution,"[4] and it asserts that shared compensation of this sort would be inconsistent with the pricing of listings at incremental cost, in which case there would be no profit available to share with

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[1] Bell Atlantic-New York's Initial Brief, p. 32. In there explaining its proposal, Bell Atlantic-New York asserts that the allowed return on capital included in its carrying charge factors is, in fact, a cost. But as INFONXX correctly notes in its reply brief (p. 9), return on capital has always been recognized as a "cost," and its status as such has never been a basis for setting utility rates at a level allowing some higher level of "profit." Stated differently, as long as allowed costs include a fair return on capital, there is no reason to suggest that rates need be set above costs in order to avoid confiscating a utility's assets.

[2] DDB Rehearing Order, p. 13.

[3] Bell Atlantic-New York's Initial Brief, p. 10.

[4] DDB Order, p. 5.

others. Finally, Bell Atlantic contends that the cost-based pricing decision reflected the premise, incorrect in its view now, if not also then, that the services at issue were monopoly services. Bell Atlantic-New York claims to have shown that the services are no longer monopoly services, if ever they were, and that its contributory pricing proposal therefore reflects changing circumstances without being inconsistent with the earlier Order.[1] And it asserts that, in determining the proposed level of contribution, it sought to balance the interests of carriers, including but not limited to itself, in being compensated for the value of their listings against the interest of DA providers and directory publishers who would like the listings at the lowest possible cost.

INFONXX disputes all three prongs of Bell Atlantic-New York's argument. It contends, first, that in leaving DDB rates temporary pending evaluation of the underlying cost studies, we did not mean to imply that there was anything tentative about the finding that DDB was a bottleneck. As for the expectation that carriers would be compensated for their listings when DDB information is sold, INFONXX contends there is no sale here and that, in any event, it is illogical to use an inference from one part of an order (on inter-carrier compensation) to dispute a clear statement elsewhere in the order (that prices should be set at cost). Finally, INFONXX vigorously disputes Bell Atlantic-New York's claim to have shown that DDB is not a bottleneck.

INFONXX is clearly correct on the first point; in no way did we suggest that our decision in favor of cost-based pricing was tentative. The remaining two issues require closer examination.

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[1] Bell Atlantic-New York appears to be arguing in the alternative; its third argument posits new circumstances warranting contributory pricing even if the earlier orders precluded it on the theory that the database was a bottleneck. The second, meanwhile, appears to see contributory pricing as contemplated by the earlier orders in order to compensate carriers for their listings.

The Bottleneck Nature of DDB Service

1. Argument

Stressing the need to restrict the price of only bottleneck services, for which competitors have no feasible alternatives, Bell Atlantic-New York insists that "the availability of alternate data sources, the winning track record of non-carrier [directory assistance] providers in the marketplace, and the cost structure of the [directory assistance] business all support a finding that provision of directory listings is not a bottleneck service."[1] It cites in this regard INFONXX's own success in the market and its emphasis in its marketing materials on the quality of its service, all of which INFONXX achieved without subscribing to DALS. And while INFONXX may have to go through a few more steps and incur some additional costs to compile its database using the alternative sources of information available to it, (including Bell Atlantic-New York's database, accessed through the electronic white pages), it is not thereby precluded from competing effectively, inasmuch as its other inputs--such as labor costs, which INFONXX's witness testified were the most significant cost element in providing directory assistance--may be lower than Bell Atlantic-New York's.

Bell Atlantic-New York adds that once INFONXX subscribes to DALS, INFONXX will no longer incur the cost of its alternative sources of information, and its resultant savings will substantially exceed the costs it will incur under the proposed DALS rate. Therefore, Bell Atlantic-New York argues, "under the proposed DALS rate, INFONXX will receive a premium service (by being able to avoid compiling and updating commercial listings) at a much lower cost than it is paying presently for its allegedly inferior sources of data."[2] Finally, Bell Atlantic-New York argues that providing its database to INFONXX at "bargain basement prices that may not even cover [its] actual

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[1] Bell Atlantic-New York's Initial Brief, page 34.

[2] Ibid., p. 37.

costs of providing the listings"[1] will dampen INFONXX's incentive to innovate, with respect to which it claims a proven track record.

In its Reply Brief, Bell Atlantic-New York finds support for its position in the FCC's determination, in the Remand Order, that healthy competition in the operator service and directory assistance markets obviated the provision of those items as unbundled network elements subject to TELRIC pricing. It asserts that the FCC recognized that the differences in cost, timeliness, and quality among the services offered by OS/DA providers did not warrant a conclusion "that lack of unbundled access to the incumbent's OS/DA service would materially diminish a requesting carrier's ability to offer the services it seeks to provide";[2] similarly, it reasons, differences in quality and price among directory database services do not make Bell Atlantic-New York's service a bottleneck. It cites, among under things, the FCC's statement that "third party OS/DA providers are often able to purchase incumbent LEC OS/DA database information and updates. We are therefore not persuaded that lack of unbundled access to incumbent LEC databases used in the provision of OS/DA necessarily results in quality differences that would materially diminish a requesting carrier's ability to offer service."[3] In sum, Bell Atlantic-New York sees "no basis in economic theory, federal law or public policy for interfering with" what it regards as a working wholesale directory assistance market by requiring it to provide listings at a price limited to forward-looking incremental cost or (in a reference to the other

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[1] Ibid., p. 38.

[2] FCC Remand Order, ¶441, cited at Bell Atlantic-New York's Initial Brief, p. 19.

[3] FCC Remand Order, ¶457 (footnote omitted) cited at Bell Atlantic-New York's Reply Brief, page 20.

aspect of the issue) by "prohibiting reasonable compensation to all carriers for use of their valuable listings."[1]

INFONXX, in contrast, sees no basis for reversing the earlier finding that DDB is a bottleneck. It recounts the history of our determinations in this regard, going back to 1995, including our rejection of Bell Atlantic-New York's claims that the availability of alternative sources of listings should preclude a finding that DDB is an essential facility. It suggests that Bell Atlantic-New York's arguments here could be rejected simply for failure to present any new evidence or changed circumstances, but it goes on nevertheless to address them on their merits.

According to INFONXX, allowing Bell Atlantic-New York to price DDB access above TELRIC would abandon the interest in promoting competition in favor of what INFONXX sees as the traditional regulatory practice of extracting value from monopoly services in order to collect revenues that can be used to price other services below cost.[2] INFONXX also disputes Bell Atlantic-New York's premise that INFONXX's ability to thrive under the existing arrangements demonstrates the absence of any need to change. It asserts that the purpose of TELRIC prices is not "to favor INFONXX, but rather to foster competition in the [directory assistance] market."[3] It adds that it is not now making do without Bell Atlantic-New York's directory database, which remains more accurate than any alternative; rather, it has access to that database but, because that access is through the electronic white pages, it is more costly and less efficient than Bell Atlantic-New York's own access, thereby increasing INFONXX's cost and diminishing the quality of its service. It was precisely this inequality that led to the creation of DALS and DALT, thereby equalizing access to the database; and allowing

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[1] Bell Atlantic-New York's Reply Brief, page 20.

[2] INFONXX's Initial Brief, p. 55.

[3] Ibid., p. 56.

Bell Atlantic-New York to price that access above cost, INFONXX says, would impair that equality and allow Bell Atlantic-New York to continue to enjoy the benefits of its monopoly control. That INFONXX can achieve other cost savings--primarily in labor costs--provides no basis in its view for requiring it to pay contributory prices for DDB access; on the contrary, doing so would impair competition by, in effect, rewarding Bell Atlantic-New York, rather than INFONXX itself, for INFONXX's ability to achieve those efficiencies. Nor is above-cost pricing needed to avoid dampening INFONXX's incentive to innovate productively; that incentive would continue to flow from the prospect of other DA providers being able to cut into INFONXX's market share should INFONXX fail to maintain its efforts.

Inverting Bell Atlantic-New York's claim that we should not require a premium service to be sold at a TELRIC rate, INFONXX argues that the service is premium only because it is unique, and, accordingly, a bottleneck that must be priced at TELRIC in order to prevent Bell Atlantic-New York from using its market influence to extract premium value from the service. Only in that way, it says, can the interest in competition be advanced. INFONXX recognizes that cost-based pricing also might drive competitors to use other, inferior means of access, but it maintains that if they were to choose those forms of access because the price for equal access had been set to recover contribution, neither efficiency nor competition would have been served.

Finally, in its letter responding to Bell Atlantic-New York's reply brief, INFONXX asserts Bell Atlantic-New York misreads the FCC Remand Order. The FCC found that the OS/DA did not have to be made available as an Unbundled Network Element because alternatives existed, and INFONXX stresses that the alternatives on which the FCC relied are supported by the existence of non-discriminatory access to the directory assistance database of the incumbent carriers' DDBs. It adds that the FCC did not prejudge the issue of whether non-carrier directory assistance providers should be granted non-discriminatory access (at the same prices) to incumbent carriers' DDBs, and says the FCC may yet determine that TELRIC pricing should be applied to directory database services. In any event, it contends, this Commission has made that determination under New York law.

Bell Atlantic-New York responds that the FCC in fact did determine that directory database services are not network elements, inasmuch as it omitted them from the list of call related databases that must be provided as Unbundled Network Elements. All that the FCC required, according to Bell Atlantic-New York, was non-discriminatory access under the 1996 Act §251(b)(3); and non-discriminatory access, which Bell Atlantic-New York already provides, does not require TELRIC pricing. In Bell Atlantic-New York's view, the FCC Remand Order confirms its position by recognizing the competitive nature of the markets for directory database and directory assistance services. It urges us to adapt our rules to reflect changes in the markets and "to stay focused on the mission of promoting competition--and not to be swayed by pleas to protect competitors, particularly unregulated competitors, from having to compete fairly in the healthy market for directory assistance-related services."[1]

With specific reference to DPLS, Bell Atlantic-New York's proposed rate of $.20 per listing[2] is considerably higher than the rate for DALS and DALT, a distinction Bell Atlantic-New York defends in light of the different underlying costs and the much smaller extractions that DPLS customers typically order. Noting that no directory publisher participated in the proceeding or challenged the proposed rate, Bell Atlantic-New York asserts that the directory market was competitive before the rate was reduced and will continue to be so if it is restored. It notes as well that the FCC recently set presumptively reasonable rates

[1] Bell Atlantic-New York's December 14, 1999 letter, pp. 3-4.

[2] This is the rate that Bell Atlantic-New York had charged for DPLS before the DDB Rehearing Order directed its reduction to $.03 per listing.

for this service of $.04 per listing for initial loads and $.06 per listing for updates but did not bar carriers from charging higher rates if they were cost-justified. It asserts further that under the FCC's applicable standard, it should be allowed to charge some amount above TELRIC-based costs for sale of listings to directory publishers. It asks that if we decline to approve its proposed $.20 per listing rate, we at least set rates at the presumptive levels approved by the FCC.[1]

2. Discussion

Only one year has elapsed since we determined that directory databases were a bottleneck service that had to be priced at forward-looking incremental cost if competition was to be fostered. Bell Atlantic-New York contends circumstances have changed enough to warrant reversing that finding, but it has not borne the burden of proving that to be so. While other sources of listings are available, none is as reliable and (especially) as timely updated as its own DDB; and while competitors can gain access to Bell Atlantic-New York's DDB through the electronic white pages, that mechanism is less convenient and more costly, thereby impeding the competitor's operations. Bell Atlantic-New York itself characterizes its DDB as "premium," and there is merit to that characterization; but the very qualities that make it premium led us to regard it as a bottleneck last year, and it is no less so now. Accordingly, pricing it at forward-looking incremental cost remains warranted as a means to encourage its efficient use and to avoid potential discrimination between Bell Atlantic-New York's retail DA services and those of competitors.

Bell Atlantic-New York overstates the significance for its position of the FCC Remand Order. The FCC has determined that operator services and directory assistance need not be offered as TELRIC-priced unbundled network elements, and it has clarified that DDB is not within the definition of call-related

[1] Bell Atlantic-New York's Initial Brief, pp. 39-40.

databases that must be provided as unbundled elements.[1] But of greater significance here is the FCC's conclusion, in finding OS/DA services to be competitive, that requesting carriers can obtain non-discriminatory access to ILECs' directory databases pursuant to §251(b)(3), thereby permitting them to provide OS/DA similar in quality to that of the ILEC itself.[2] The FCC's emphasis on the importance of access to the ILEC's directory database, as elaborated on in the FCC Subscriber Listing Order, bears out the conclusion that incremental-cost-based pricing is appropriate to help ensure non-discrimination.

Accordingly, we reaffirm our view that DDB access is a bottleneck and that competition is furthered by subjecting it to cost-based pricing. Removing contribution from the rates proposed by Bell Atlantic-New York would have the effect of reducing its proposed one-time rates for DALT and DALS by about 50%, its proposed monthly rate for DALT and DALS by about 20%, and its per listing rate for DPLS by about 90%.[3]

Compensation for Listings

1. Argument

In urging contributory pricing, Bell Atlantic-New York refers as well to our statement that "when directory database information is sold, all companies that contribute information to the database should be compensated in proportion in their listing contribution."[4] It contends that if there is no profit above cost, there is no compensation to be distributed. INFONXX disputes the applicability of that decision here, contending that the premise for compensation was the sale of the listings and that no sale occurs here inasmuch as the listings remain the property of Bell Atlantic-New York and customers of these

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[1] FCC Remand Order, ¶403.

[2] FCC Remand Order, ¶457.

[3] The actual rates being set are discussed further below.

[4] DDB Order, p. 5.

services simply use the data to provide directory assistance. It adds that we have shown no intention to change the existing system, under which carriers share their listings with Bell Atlantic-New York, and that creating a compensation system would hinder our pro-competition agenda in that it would, among other things, require the creation of a cumbersome clearinghouse for distributing compensation (discussed below), whose costs would have to be borne solely by DALS or DALT customers.

Bell Atlantic-New York responds that INFONXX's claim that listings that are not here sold represents "legalistic hair splitting."[1] While INFONXX believes that the existing barter system for listings (described below in connection with Frontier's proposal) fully compensates carriers for their listings, INFONXX itself contributes neither listings nor services to that system. Bell Atlantic-New York urges us to deny non-carrier DA providers a free ride on the directory database and to allow contribution above the TELRIC cost of the listings.

NYSTA, too, disputes INFONXX's claim that there is no sale of listings here that would invoke the directive that carriers be compensated when listings they have provided are sold. It contends that "when listings are acquired by a DA provider or directory publisher, a sale for use of those listings for a specific purpose has occurred and the carrier whose listings are sold is permitted to be compensated."[2] It argues that INFONXX recognizes as much in its readiness to pay a reasonable rate for its use of Bell Atlantic-New York's listings (i.e, for DALS service); and it sees an inconsistency between INFONXX's willingness to compensate Bell Atlantic-New York for that carrier's listings and its request to receive gratis the listings of other carriers (even though those carriers, who lack economies of scale, may incur costs higher than Bell Atlantic-New York's in providing the listings) simply because Bell Atlantic-

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[1] Bell Atlantic-New York's Reply Brief, p. 21.

[2] NYSTA's Reply Brief, p. 3.

New York is acting as a middleman. NYSTA adds that DALS service was designed as a convenience for DA providers, to spare them the burden, added cost, and risk of inaccuracy that they would incur if they had to develop their databases by approaching each carrier for listings individually; and it sees no basis for allowing INFONXX to avoid paying for a product it needs.

2. Discussion

As a threshold matter, INFONXX urges us to hold that there is no "sale" here for purposes of sharing compensation. We disagree; DALS, and not some transfer of actual title to the information, is among the types of transaction contemplated.

Bell Atlantic-New York argues that if there is no above-cost profit, there is nothing with which to compensate other companies that provide listings; it implies, in effect, that to require the sharing of purely cost-based revenues would unfairly deny it recovery of its costs. Bell Atlantic-New York makes a fair point that warrants attention, but the issue, in fact, is more complex than the arguments in this case, taken alone, might suggest.

The sharing provision pre-dates the DDB Order and DDB Rehearing Order, going back to our treatment of directory listing matters in the Local Exchange Competition Proceeding, where we said that CLECs would be compensated for providing their listings by receiving "the value of a comprehensive directory, without charge," and that "any additional revenues related to the sale of directory listings to third parties should be shared between the new entrant and incumbent (staff has recommended this be based on a pro rata share of revenues)."[1] We did not then set the rates for the sale of directory listings on an incremental (or any

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[1] Case 94-C-0095, Local Exchange Competition Proceeding, Order Requiring Interim Number Portability, Directing a Study of the Feasibility of a Trial of True Number Portability, and Directing Further Collaboration (issued March 8, 1995), p. 6. The staff recommendations referred to had been set forth a staff report, "Level Playing Field Issues: Number Portability, Directory, and Intercarrier Compensation" (February 15, 1995).

other) cost basis, having not yet come to regard them as bottleneck elements in a fully competitive OS/DA market. In that context, it would certainly be fair for carriers that provided listings to share pro-rata in the revenues derived from their sale. We viewed these sharing arrangements as "equitable during the transitional period" but authorized parties to negotiate alternative, mutually satisfactory terms.[1] Consistent with a later order regarding such transitional policies, these arrangements are subject to review later this year.[2]

Meanwhile, in the DDB Order, we required cost-based pricing of DDB services, but also carried forward the provision for sharing revenues with providing carriers. The relationship between these provisions is among the matters that may be considered when these issues are revisited later this year, but even when rates are set to be cost-based, actual revenues may exceed (or be less than) actual costs. For now, accordingly, we will simply direct Bell Atlantic-New York to submit a proposal for sharing, with carriers that provide listings,[3] a portion of any revenues substantially in excess of costs that it may receive. The plan would provide for after-the-fact reconciliation of costs and revenues and take account of whether revenue sharing arrangements such as these remain reasonable or should be re-examined when we take up these issues again in the Local Exchange Competition Proceeding. The required submission

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[1] Id.

[2] Case 94-C-0095, supra, Opinion No. 96-13 (issued May 22, 1996), mimeo p. 39, order clause 2.

[3] NYSTA raises a concern about the implication, in a Staff report on the collaborative sessions that examined the scope of this proceeding, that only CLECs, and not other ILECs, would receive compensation for listings. (Case 98-C-1357, Summary of Collaboratives (letter from Kathleen Burgess and Timothy Zakriski to Joel A. Linsider, May 7, 1999, attached to Ruling Inviting Comment on Report (issued May 10, 1999)), p. 4.) It requests clarification that when compensation is provided, it would go to ILECs contributing listings as well as CLECs. That indeed was our intention.

is discussed further below, with additional factors to be taken account of in the reconciliation.

COSTING STUDIES

Bell Atlantic-New York's Study

1. The Study

Starting with its existing mechanisms for providing directory database services, Bell Atlantic-New York asserts that it uses "state-of-the-art mainframe computers . . . operated within a first-class, efficient data center system"[1] that satisfies the TELRIC standard of "most efficient technology currently available." Its ATLAS database, which runs on a processor purchased in April 1999,[2] contains approximately 16 million listings (ten million for New York and six million for New England) and provides data not only for the DALT, DALS, and DPLS services but also for Bell Atlantic-New York's own directory assistance, for DADA, for the electronic white pages, and for the yellow pages. Data are extracted from ATLAS for DALT, DALS or DPLS through a two-step process comprising extraction and reformatting of the data. Different reformatting is needed for DALS and DALT, given the need to mask non-published numbers in DALS; a still different process is required for DPLS. Bell Atlantic-New York asserts that "the ATLAS system maximizes sharing of computer processing (and thereby reduces the cost of each service) to the full extent possible."[3]

To extract and update the data, Bell Atlantic-New York uses an IBM mainframe computer, and it vigorously defends its use of that hardware against INFONXX's claim that it would be more efficient to use a server-based, distributed system. Rejecting the premise that mainframe computers are obsolescent, Bell

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[1] Bell Atlantic-New York's Initial Brief, p. 12.

[2] Ibid., pp. 13-14, providing additional data on ATLAS's operations and size.

[3] Ibid., p. 16.

Atlantic-New York contends that the choice between the two systems depends on which is better suited to the applications at hand and that a mainframe system is better here "because of its superior reliability, availability, processing power, system compatibility, and disaster recovery characteristics."[1] It offers data on all of these qualities, asserting that the system's various attributes permit ATLAS to achieve 99.9 percent reliability and availability and to be totally restored and fully operable within 72 hours of a total system disaster. In addition, the system can grow as needed, avoiding the need to replace entire processors. Bell Atlantic-New York maintains further that it achieves economies of scope and scale by concentrating multiple processing capabilities in its three data centers and spreading shared costs across all applications and processors; an ATLAS system operating in isolation, it contends, would be more costly.

Turning specifically to questions of TELRIC compliance, Bell Atlantic-New York argues that its studies are forward-looking, reflecting investments in the most efficient, latest technology, and applying forward-looking reductions to wage and non-wage related expenses. As TELRIC requires, the increment used for purposes of analysis was the entire service, i.e., the provision of directory listings. To isolate ATLAS processing costs, the study divided total expenses and capital costs (comprising computer related investment, building investment, and wage and non-wage expense) for Bell Atlantic-New York's data centers in New York and New England by their total processor usage (measured in million service units [MSU]) to derive an average cost per MSU, which was then applied to calculate the incremental costs associated with DALT, DALS, and DPLS. To this, Bell Atlantic-New York added product-specific expenses associated with technical support, product management, and other activities it regarded as necessary to provide the services in question.

[1] Ibid., p. 17.

Consistent with TELRIC practice in the First Network Elements Proceeding, Bell Atlantic-New York also applied a joint and common expense factor, but it did so in a novel way. In the First Network Elements Proceeding, the joint and common expense factor was applied only to investments. Bell Atlantic-New York now proposes to apply it against expenses, in order to avoid recovering too much of the joint and common expense from investment-intensive services and too little from services that are not investment intensive. The joint and common expenses themselves are determined in a manner consistent with the First Network Elements Proceeding. Bell Atlantic-New York says it will adjust other network element rates in Module 3 to reflect the new method for applying joint and common expenses, thereby ensuring there is no double counting.

2. Criticisms and Responses

INFONXX denies that Bell Atlantic-New York's cost study meets TELRIC requirements and challenges it on other grounds as well. With respect to TELRIC compliance, INFONXX contends that by considering the costs of its entire data center--which performs services other than those related to DDB--Bell Atlantic-New York failed to limit its study to the incremental costs of providing DDB services. It regards the MSU analysis as, in effect, an embedded cost study that allocates total historical data center costs to the services being examined here. Contending that "the fatal flaw in the [Bell Atlantic-New York] approach is that the $88.90 cost per MSU is not a measure of incremental cost, but instead an allocation of total cost,"[1] INFONXX contends that the embedded nature of the measure is demonstrated by the fact that the costs assigned to DALS and DALT would increase if some other major processing activity were eliminated from the data center operation, causing the total costs to be allocated over a smaller number of users. INFONXX regards this flaw as overwhelming in its impact, inasmuch as the

[1] INFONXX's Initial Brief, p. 15.

$88.90 per MSU figure has a substantial effect on the costs assigned to the services at issue, and it sees no basis for Bell Atlantic-New York's claim that treating DDB related data processing costs separately would increase those costs.

INFONXX challenges as well the forward-looking nature of the study, citing Bell Atlantic-New York's witness's admission that it was not based on a hypothetical system designed to provide only DALS and DALT services using only the most efficient, least cost technology available.[1] Even if Bell Atlantic-New York is using state of the art mainframe technology--a premise INFONXX regards as asserted rather than proven--it has not shown that its existing mainframe technology is the best way to provide DDB services. Bell Atlantic-New York's witnesses had no direct involvement with the data centers, INFONXX says, and they were not technically competent to show that the less costly, PC-based system that INFONXX offered as an alternative was, in fact, insufficiently reliable to be used.

In response, Bell Atlantic-New York insists its studies are forward looking and says they followed the method used for studying OS/DA and DALT costs in Phases 2 and 3 of the First Network Elements Proceeding. We accepted that method there and, in Bell Atlantic-New York's view, INFONXX has shown no basis to depart from it here. It also defends its MSU analysis, contending that it, too, was consistent with methods approved in Phase 2 of the First Network Elements Proceeding and that the costs reflected in the per-MSU figure were properly calculated.

More generally, Bell Atlantic-New York disputes the premise that it should adopt the least-cost technology designed solely to serve a very limited purpose, even if doing so would increase the overall cost of data center operations by forgoing economies from shared facilities and services. INFONXX, it says, uses its server-based computer system only to replicate directory listings created by others; in contrast, Bell Atlantic-New York's

[1] Ibid., pp. 16-17, citing Tr. 315-316.

system must permit the ATLAS data base to interface with other mainframe-based systems and must be able to dispatch large amounts of data to multiple users simultaneously. It notes that IBM, which provided both Bell Atlantic-New York's own system and INFONXX's, proposed the mainframe-based system knowing the requirements that would have to be met.

In its reply brief, INFONXX insists arguments such as this, based on the prudence of Bell Atlantic-New York's existing system in light of its full range of uses, betoken a failure to understand the TELRIC notion of examining the costs of a hypothetical system designed to provide only the service being studied. It continues to argue that Bell Atlantic-New York is seeking to recover not only the incremental costs of the DDB services here under study but also a portion of the embedded costs of its existing data system. INFONXX asserts these costs already are being recovered through retail rates (set on the basis of rate base and forecast expenses) and that allowing them here would provide for their double recovery.[1] Bell Atlantic-New York maintains, however, that it limited the data center costs reflected in its MSU figure to those properly associated with the services under study.[2]

INFONXX further argues that Bell Atlantic-New York's costs are inflated by its inefficient method for extracting and reformatting data in order to withhold information (including that on area code 203 and non-published and non-listed listings) that it wishes not to share with its DALT and DALS customers. It argues that the multi-step extractions consume large amounts of computer time, imposing correspondingly high costs in view of the high cost per MSU. It insists that Bell Atlantic-New York has failed to show that its two-step initial load process discharges its "obligation to develop the most efficient, least costly

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[1] INFONXX's Reply Brief, pp. 6-8.

[2] Bell Atlantic-New York's Reply Brief, p. 9.

program possible" for populating the DALS database,[1] and it contends that these reformattings "do not benefit either DALS or DALT customers; in fact they primarily benefit [Bell Atlantic-New York] by screening out area code 203 listings and [Bell Atlantic-New York's] proprietary [directory assistance] fields as well as masking non-published numbers for DALS."[2]

Not only does the multiplicity of steps exaggerate the costs, INFONXX says; but the costing method itself--which assigns the cost of each reformatting to the customers using the reformatted data--results in greater costs being assigned to the reformatted DALS and DALT than to Bell Atlantic-New York's own directory assistance function, thereby requiring Bell Atlantic-New York's DA competitors to pay the costs incurred in order to deny them information that Bell Atlantic-New York wishes not to share with them. INFONXX sees this costing concern as compounding the discriminatorily inferior access afforded to DALT and DALS customers insofar as the area code 203 data are excluded, and it asks us to direct Bell Atlantic-New York to provide those data to both services. In addition, INFONXX requests reconsideration of our earlier determination that non-published listings should be masked from DALS users, noting that Bell Atlantic-New York has the right to terminate DALS service for privacy violations just as it can terminate DALT service; that there is no basis for regarding non-carrier DA providers as less trustworthy in this regard than carriers; and that non-carriers may, in fact, be more reliable than carriers, inasmuch as their sole business is the provision of DA service and they would have more to lose by committing privacy violations that could deny them access to Bell Atlantic-New York's database.[3]

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[1] INFONXX's Initial Brief, p. 21. It notes in this regard that the second step of the initial load process accounts for about 41% of the computer cost.

[2] Ibid., p. 23.

[3] INFONXX's Initial Brief, p. 31.

In response, Bell Atlantic-New York defends its extraction process. It explains that it started with the method used to provide listings for its own directory assistance and simply added the additional step needed to provide data in a format suitable for DALS; and it disputes INFONXX's premise that a separately designed one-step program would have been more efficient and less costly. It contends that its approach shares the cost of common search and extraction functions among a larger number of users, thereby reducing the cost for each, and insures that DALS customers receive the same data as Bell Atlantic-New York does, except for non-published and unlisted listings (and except for the Connecticut listings that, according to Bell Atlantic-New York, are not before us with respect to access or pricing). It adds that it is not now seeking recovery of the additional programming costs incurred in order to achieve the reformatting of the DALS and DALT data.[1]

Next, INFONXX maintains that unit costs are inflated by reason of Bell Atlantic-New York's understatement of the number of DDB access users. For the first step in the extraction of data from ATLAS, Bell Atlantic-New York's study assumed five users: Bell Atlantic-New York itself, one existing DALT customer under contract, one existing DALT customer under tariff, one existing DALS customer under contract, and one potential DALS customer under tariff. INFONXX would add Bell Atlantic-New England, which also receives data from ATLAS through the same extraction process, as well as what it sees as a reasonable forecast of new DALT and DALS customers. Because the second extraction screens out Bell Atlantic-New England listings, INFONXX reasons that it produces, in addition to the Bell Atlantic-New York listings pertinent here, a separate Bell

[1] Bell Atlantic-New York's Reply Brief, pp. 11-12. It reserves the right to seek recovery of those costs in the consideration of network element development costs generally, which are to be the subject of a separate inquiry related to compliance with the NYNEX/Bell Atlantic merger conditions on which their recovery depends.

Atlantic-New England database and that Bell Atlantic-New England accordingly should be added as a customer for the second step as well. INFONXX asserts that Bell Atlantic-New York made no effort to forecast customer interest in DALS and DALT even though the price had dropped from its initial level, and it suggests that a conservative forecast would add two additional customers for each service.

Bell Atlantic-New York responds that INFONXX has no factual basis for doubling the number of customers and thereby halving the cost that would be allocated to INFONXX itself. With regard to including Bell Atlantic-New England as a user, Bell Atlantic-New York asserts that it already excluded the costs of New England listings from the initial extraction step.[1] Nor does it see any basis for increasing the forecast number of DALS and DALT customers, asserting that INFONXX's witness did not name a single prospective customer; that the decrease in price should have little effect on demand for the service, given that DALS costs are a relatively small portion of the total cost of the DA provider; and that the estimate of its own professional product manager regarding future demand is the best evidence in the record. Recognizing that faulty estimates of demand can result in overstated or understated costs, Bell Atlantic-New York suggests we could direct it to adjust the price of DALS (downward or upward, as the case might be) anytime a new customer signs on or an existing customer leaves.[2]

Finally, INFONXX charges that Bell Atlantic-New York has inflated the labor expenses allegedly incurred specifically to support the three DDB services. According to INFONXX, the

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[1] More specifically, it included only the annual $8,560 cost of creating the New York portion of the file rather than the $18,067 cost of creating the entire file that includes New York, New England, and area code 203 listings. Bell Atlantic-New York's Reply Brief, p. 12, citing Exhibit 30.

[2] Ibid., p. 14. Bell Atlantic-New York would not apply this approach to DPLS; its greater number of customers would make such adjustments more complicated and less significant.

activities accounting for these costs are either activities already undertaken to support Bell Atlantic-New York's own directory assistance operation or else activities related to initiating DALS and DALT services but not related to their ongoing administration. The former costs, it argues, should not be recovered from DALS and DALT users at all, while the latter costs, which can be expected to diminish over time, should not be built into recurring monthly fees. INFONXX also compares Bell Atlantic-New York's claimed labor expenses to its own, noting that transferring daily updates from its central database to the production servers at its call centers requires only one hour of labor per day or (at six days a week) 312 hours per year. Applying Bell Atlantic-New York's hourly labor rate to that figure produces an annual labor cost of $16,380, in contrast to Bell Atlantic-New York's combined labor costs for DALS and DALT of $137,365.[1]

Bell Atlantic-New York responds that it has simply allocated costs to cost causers; for without the services here at issue, it would need no technical and administrative support for them. It notes that in Phase 3 of the First Network Elements Proceeding, we approved the cost associated with one full-time equivalent employee in connection with DALT service; in the present filing, the cost of that same employee has been allocated among all three services. With respect to INFONXX's comparison of labor times, Bell Atlantic-New York asserts that its employees do more than simply extract updates. It explains that they provide technical support for directory services, 24 hours a day, seven days a week, and have responsibilities such as troubleshooting problems from users, coordinating disaster recovery, and maintaining technical documentation and user passwords. Bell Atlantic-New York notes that this coverage permits it to provide the high quality data that INFONXX says it needs, and it insists that INFONXX should be required to pay its

[1] INFONXX's Initial Brief, p. 29.

fair share of the associated costs.[1] Bell Atlantic-New York similarly disputes INFONXX's claim that product management costs are front-loaded and should not be recovered through recurring fees; it describes what it sees as ongoing product management functions including negotiating, testing, and delivering services, implementing billing processes, responding to ongoing inquiries, providing monthly revenue reports, and resolving product related issues. It asserts that the costs "do not go away simply because INFONXX would rather not pay them."[2]

INFONXX's Study

INFONXX's study was based on its own method for replicating data within its system, which employs linked personal computers rather than a mainframe. Its nationwide database, maintained in its reference server located in Bethlehem, Pennsylvania, includes 150 million listings, ten times the number in ATLAS and 15 times the number in Bell Atlantic-New York's New York database. Updates are made daily at the reference server and then transferred each night to INFONXX's four call centers around the country.

INFONXX analogizes two of its operations to those performed by Bell Atlantic-New York in providing DALS and DALT. It believes Bell Atlantic-New York's extraction of an initial directory database load for a first-time DALS or DALT customer may be compared to INFONXX's full extraction of its reference server database in a situation in which the database in one of its call centers has been damaged and needs to be replaced in full. The only difference, it maintains, is that because it has no need to screen out any data before copying it, INFONXX runs a single program in a single step in contrast to Bell Atlantic-New York's multi-step process. It asserts, however, that the

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[1] Bell Atlantic-New York's Reply Brief, p. 15.

[2] Ibid., p. 16.

additional step should impose little "true incremental cost"[1] if that cost is measured properly rather than by the allocation of embedded charges, as it claims Bell Atlantic-New York has done. For full extraction, INFONXX calculated a cost of two hours of labor at $14 per hour and $90 for the purchase and shipping of ten tapes. For the daily update, it calculated a cost of one hour of labor at $14 per hour. It also calculated investment-related costs of $2,760 in labor and $36,500 for hardware and software associated with building a new or replacing an existing production server (call center).

INFONXX's study did not include overhead and joint and common costs; it later proposed to apply Bell Atlantic-New York's TELRIC carrying charge factor, joint and common cost factor, and labor rates. On that basis, and after applying a gross revenue loading factor of 1.0157,[2] it calculates a non-recurring initial load charge of $219, a recurring annual investment related charge of $1,274, and a recurring monthly charge for daily updates of $167.[3]

INFONXX contends that the processes it studied are analogous to those performed by Bell Atlantic-New York and that Bell Atlantic-New York's expressed concerns about the inadequate reliability of the INFONXX system are based not on proof but on the opinion of Bell Atlantic-New York's cost witnesses who have had no direct involvement even with Bell Atlantic-New York's own system; who relied merely on conversations with the product manager; and who were not knowledgeable about the DA industry as a whole. INFONXX asserts that its "data extraction and replication system is a highly efficient, low cost technology"; that it "maintains, updates and transfers a listing database

[1] INFONXX's Initial Brief, p. 46.

[2] The gross revenue loading factor was developed by Bell Atlantic-New York in Phase 1 of the First Network Elements Proceeding and has been used consistently since. It is intended to recover the PSC assessment and uncollectibles.

[3] INFONXX's Initial Brief, pp. 49, 61.

containing 150 million listings at minimal incremental cost"; and that "the high degree of the reliability can be inferred from the simple fact that DA service is INFONXX's core business and its customers have readily available alternatives."[1] INFONXX insists Bell Atlantic-New York has simply described its own system, without explaining why it had to be configured as it was and without proving that its method for providing the services at issue here produced lower costs.

In its Initial Brief, Bell Atlantic-New York maintained that INFONXX's study failed to include "the vast majority of costs associated with providing directory listings, including: investment related capital (depreciation, return) for the server-based computer, building space, software, federal income tax, gross revenue loading, electricity, air conditioning, heating, computer maintenance, and personnel associated with the reproduction, updating, and distribution of listings" and omitted as well any allocation of joint and common costs.[2] It therefore urged dismissing INFONXX's cost study as failing to comply with TELRIC and for failing to identify the actual costs that would be incurred if Bell Atlantic-New York used the technology favored by INFONXX.

In its brief, INFONXX corrected for some of these criticisms, as already noted, by applying Bell Atlantic-New York's labor rates, carrying charge factor, joint and common cost factor, and gross revenue factor. Nevertheless, in its reply brief, Bell Atlantic-New York contends that INFONXX's cost proposals still fail to comply with applicable requirements. It asserts, among other things, that no costs are included for investments in disaster recovery systems and backup power systems needed for reliable provision of directory database services, and it criticizes INFONXX allocation of annualized investment cost over ten "mythical" users instead of the five users that Bell

[1] Ibid., p. 47.

[2] Bell Atlantic-New York's Initial Brief, p. 30.

Atlantic-New York expects to use the services.[1] Bell Atlantic-New York contends that INFONXX allows for no recovery of product management costs and provides for only one hour a day of technical support.

Discussion

We have already concluded that DDB services should be priced on the basis of forward-looking incremental costs, without contribution, and that the use of TELRIC, though permitted, is not here required by the FCC. The costing studies must be examined in that light.

Turning first to the applicable costing standard, while TELRIC pricing of DDB services is not required by the FCC, we have directed that the services be priced at forward looking incremental cost.[2] In applying that determination, there is no reason to depart from the use of TELRIC, which we used to set DALT rates in Phase 3 of the First Network Elements Proceeding. TELRIC (or, more precisely, TSLRIC [Total Service Long-Run Incremental Cost], since a service rather than an element is being priced), affords a better mechanism than the alternative forward-looking method (Long-Run Incremental Cost) for setting prices over the long term, on the basis of the entire demand for the service. Accordingly, we deny Bell Atlantic-New York's request for a remand to consider other costing methods.

INFONXX's study, advanced by its sponsor as a proper application of TELRIC, has been shown by Bell Atlantic-New York to be seriously flawed. INFONXX sought to remedy some of the worst flaws--the omission of entire categories of costs--during the course of the proceeding by adopting some of Bell Atlantic-New York's own cost factors, but the resulting hybrid, and INFONXX's initial failure to recognize the clear need to take these costs into account, call its effort into question. Beyond

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[1] Bell Atlantic-New York's Reply Brief, p. 17.

[2] DDB Rehearing Order, p. 13.

that, INFONXX proceeds on the unproven premise that a system configured like its own could replicate the functions performed and services provided by Bell Atlantic-New York. As discussed in the previous section, Bell Atlantic-New York's DDB is unique in its reliability and timeliness, and their achievement imposes costs that must be recognized in setting cost-based prices. It simply cannot be concluded that a system based on INFONXX's stand-alone computer technology affords a cheaper way of providing the kind of service INFONXX itself says it needs from Bell Atlantic-New York's database.

But while INFONXX's own study does not provide a reasonable basis for identifying the costs of these services, its criticisms of Bell Atlantic-New York's study raise legitimate issues that must be considered. Our acceptance, in Phase 3 of the First Network Elements Proceeding, of Bell Atlantic-New York's method for pricing DALT provides important support for that method; but INFONXX was not a party to that proceeding, and no other party directed much attention to the service.

A fundamental aspect of INFONXX's critique is the claim that Bell Atlantic-New York's calculation and allocation of MSUs makes its study, in effect, one of embedded costs. But Bell Atlantic-New York has explained how its million-service-unit calculation was based on the incremental costs of serving the total demand for the services at issue, how the data center costs taken into account were properly limited to costs associated with those services, and how the cost per MSU was applied only to service units associated with DDB services. Moreover, the computer equipment whose costs were reflected appears to be state-of-the-art and properly forward-looking. There is no basis for concluding that Bell Atlantic-New York has simply allocated its historical or embedded costs to these services.

Nor has INFONXX shown Bell Atlantic-New York's extraction process to impose unreasonable additional costs. While the initial extraction from ATLAS contains New England and area code 203 data as well as the New York data that move to the later extractions, Bell Atlantic-New York has shown that it takes account only of the costs of producing the New York portion of the file.[1] Beyond that, there is no reason to believe that a hypothetical single-step extraction process, going directly from ATLAS to DALS, would be less costly, at least per customer; its costs would be assigned only to DALS customers instead of being spread to all DDB service customers, as are the costs of the existing multi-step extraction process. Finally, the added costs associated with creating separate DALT and DALS formats could not fairly be disallowed, since they are incurred to comply with our mandate to deny certain information to non-carriers. (INFONXX's request to revoke that requirement is beyond the scope of this proceeding.)

INFONXX makes a valid point about the sensitivity of price to the forecast number of customers over which costs are spread, but it does not argue persuasively that the customer base should be doubled from that contemplated by Bell Atlantic-New York. In particular, the current price for DALS and DALT service, substantially reduced pursuant to the DDB Rehearing Order, has been in place for some time and has not called forth additional customers. As noted, Bell Atlantic-New York has suggested a price adjustment mechanism to take account of changes in the number of DALS customers. We direct it to submit a specific plan for such a mechanism with respect to both DALT and DALS, on which we will invite comment. The mechanism should incorporate as well, as discussed above, provisions for sharing above-cost revenues with CLECs and other ILECs providing listing information, and it should be limited in its reach to substantial amounts of revenue to avoid unduly cumbersome or costly efforts at fine-tuning.

INFONXX also criticizes Bell Atlantic-New York's labor costs, which it regards as inflated. Here, too, Bell Atlantic-New York defends them on the grounds they are properly allocated to the services at issue and are needed to provide and support the highly reliable service that is so important to DA providers.

[1] Bell Atlantic-New York's Reply Brief, p. 12, citing Exhibit 30.

Bell Atlantic-New York's arguments are reasonably persuasive, and no adjustment on this account is needed.

One adjustment to Bell Atlantic-New York's costs will be made, however. As noted earlier, Bell Atlantic-New York's study allocated joint and common costs to these services in a manner different from that followed in the First Network Elements Proceeding. That change will be considered comprehensively only in Module 3; and even if it proves worthy of replacing the existing, reasonable method, it should not be applied selectively lest it result in double counting of costs. Accordingly, the effects of that modification will be reversed, and joint and common costs will be applied, at least pending further consideration in Module 3, in the same manner as in the First Network Elements Proceeding.[1]

This adjustment would reduce Bell Atlantic-New York's calculated costs for DALT and DALS one-time transfers by 10%; for DALT and DALS updates by 16%, and for DPLS listings by 17%. Combined with the removal of contribution recommended above, it would reduce Bell Atlantic-New York's proposed one-time charges for DALT and DALS by about 53% and its proposed monthly charges for DALT and DALS by about 32%; rates will be set at those levels. (The actual rates, and their calculation, are shown in Appendix A.) The same adjustment to DPLS costs, together with the removal of contribution, would reduce Bell Atlantic-New York's proposed DPLS rates by about 91%, to a level substantially below the FCC's presumptively reasonable levels of $.04 per

[1] See, for an analogous decision, Case 98-C-1357, Opinion No. 99-12 (issued December 17, 1999), mimeo. p. 37.

listing for the initial transfer and $.06 per listing for updates.[1] We see no need to reduce the DPLS rates below the FCC's presumptively reasonable level (especially since the unique timeliness of Bell Atlantic-New York's database is less crucial for directory publishers than it is for directory assistance providers), and we will set them at $.04 per listing for the initial transfer and $.06 per listing for updates.

FRONTIER'S COSTS AND COMPENSATION PROPOSAL

Frontier, which also offers DALS and DPLS, submitted cost studies, which were criticized in some respects by Bell Atlantic-New York. More controversial was its proposal to alter existing arrangements among ILECs for the exchange of directory listings; it is discussed first.

Inter-ILEC Compensation[2]

Under existing "barter" arrangements, Frontier and other ILECs provide their listings information to Bell Atlantic-New York at no cost, in exchange for Bell Atlantic-New York including those listings in the directories it publishes. Bell

[1] It is noteworthy that the FCC, in determining the "reasonable" pricing standard for the sale of listings to directory publishers, rejected contentions that it should be limited to incremental costs, without any allocation of joint and common costs and overheads, as well as contrary contentions that it should allow for recovery of the "value" of the listings. (FCC Subscriber Listings Order, ¶¶80-92.) It based its presumptively reasonable rates in part on the cost data that Bell Atlantic-New York had submitted here in January 1999. (Ibid., ¶93.)

[2] As Bell Atlantic-New York notes (Initial Brief, pp. 42-43), this issue should be distinguished from the inter-carrier compensation issue discussed above. In the previous context, the question was whether a carrier that receives listings from another carrier and sells them to a third party should compensate the providing carrier, in effect sharing the profit on the sale. Here, the proposal is for carriers to compensate each other for directory listings regardless of whether they are sold to a third party; the compensation would cover the providing carrier's costs.

Atlantic-New York, at least, sees these arrangements as reflecting our determination, in the local competition "Framework Order," that

> absent a mutually agreed upon alternative arrangement, incumbent local exchange carriers would be required to publish new entrant telephone listings in their directories; new entrants would not receive any compensation for their listings; and incumbent local exchange carriers would not receive a fee for publishing the listings. Additional revenues from the sale of directory listings to third parties would be shared between the new entrant and incumbent.[1]

In this proceeding, Frontier proposed that Bell Atlantic-New York pay DALS rates to receive Frontier's listings--in effect, that Bell Atlantic-New York subscribe to Frontier's DALS service in order to get those listings. Frontier argues that Bell Atlantic-New York and Frontier compete with each other to provide DA service to inter-exchange carriers (some of which respond to DA inquiries by routing the calls to a local exchange carrier in the pertinent area) and in the highly competitive market for National Directory Assistance service. In these circumstances, it believes Bell Atlantic-New York is unfairly advantaged by being able to obtain Frontier's listings (numbering about 600,000) at no charge, particularly when Frontier is required to pay for listings it obtains from Bell Atlantic-New York. Frontier sees no conflict between its proposal and the Framework Order, asserting that the order applies to new entrants within a competitive local exchange market, not to ILECs (like Frontier) in a different market; that Bell Atlantic-New York does not publish directories for Frontier, so there is no quid pro quo for Frontier's listings; and that Bell Atlantic-New York itself seems to regard the Framework Order as inapplicable, inasmuch as

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[1] Case 94-C-0095, Local Exchange Competition, Order Instituting Framework for Directory Listings, Carrier Interconnection and Intercarrier Compensation (issued September 27, 1995), p. 17.

it shares with Frontier none of the revenues from its sale of Frontier's listings.

Bell Atlantic-New York objects to Frontier's proposal, charging it "could unravel a delicate system" that well serves both the industry and its customers by enabling existing carriers, new carriers, and non-carrier DA providers to gain access to listings on a one-stop basis.[1] Acknowledging that Frontier incurs a one-time cost when it sends a listing for inclusion in the database, Bell Atlantic-New York nevertheless disputes Frontier's premise that it receives nothing in return. It points out that one Frontier subsidiary (Frontier Communications of AuSable Valley, Inc. [AuSable]) receives DA service from Bell Atlantic-New York (at a price lower than it would be if Bell Atlantic-New York had to pay for listings); that Frontier's customers benefit from callers nationwide being able to find their numbers through Bell Atlantic-New York's database; and that many directory assistance calls to the 716 area code, which is shared by Bell Atlantic-New York and Frontier, are handled by Bell Atlantic-New York. It adds that Frontier can purchase listings from the database, at tariffed rates, any time it chooses.

Frontier responds that AuSable's purchase of DA service should, at most, entitle Bell Atlantic-New York to use AuSable's listings (which account for less than 1% of Frontier's total) in the provision of standard DA service but not for competitive DA service; that if benefits to Frontier's customers warrant Frontier's provision of free listings, then every carrier, including Bell Atlantic-New York, should be required to provide free listings to every DA provider; and that Frontier's ability to use Bell Atlantic-New York's database at tariffed rates is no reason to allow Bell Atlantic-New York to take advantage of Frontier's database for free.

More generally, Bell Atlantic-New York objects to what it sees as a proposal to dismantle the existing barter system.

[1] Bell Atlantic-New York's Initial Brief, p. 43.

It asserts that "only [it] has been ordered to accept the listings of all carriers in the state in its database, to manage and provide non-discriminatory access to the database and to serve as a clearinghouse to share compensation with other carriers"[1]; it has been compensated in kind by being allowed to use all of the listings in the database at no charge. If we wish to consider Frontier's proposal to charge for listings, it argues, we should do so only in a separate proceeding that re-examines the barter system and ensures that all carriers recover the costs they incur in contributing to or operating the database.

Bell Atlantic-New York next claims that if it is required to pay for Frontier's listings, its obligation should be limited to going-forward costs incurred to provide updates; the listings it already acquired under the barter system should not be subjected to retroactive repricing. Frontier responds that if Bell Atlantic-New York intends to continue to rely on the base listings, it should be required to pay for them; it sees Bell Atlantic-New York's suggestion as having no more merit "than that of a copyright infringer who argues that he should pay only for future infringements but should be entitled to continue to use without royalty all of the copyrighted data that he used in past infringements."[2]

Finally, Bell Atlantic-New York argues that if Frontier's proposal is adopted, Bell Atlantic-New York should be allowed to recover from Frontier any future costs of receiving, verifying, inputting, and maintaining Frontier's listings in the database. It does not recover these costs now, viewing them as part of the barter arrangement, but reserves the right to file revised cost studies, which would increase DALT, DALS, and DPLS rates, if we abandon the existing regime. Frontier regards this

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[1] Bell Atlantic-New York's Reply Brief, p. 24. The clearinghouse issue is discussed in the next section.

[2] Frontier's Initial Brief, p. 9.

suggestion as "little short of outrageous,"[1] inasmuch as Frontier receives no benefit from Bell Atlantic-New York's database, and making it bear these costs would require it to underwrite Bell Atlantic-New York's competitive use of its listings.

INFONXX also opposes Frontier's proposal, contending it is beyond the scope of the proceeding. It argues that requiring inter-carrier compensation for listings would be costly and cumbersome, requiring the performance of clearinghouse functions, and unnecessary, in that increased competition in the DA market, which is facilitated by the availability of DALS and DALT services, provides benefits to all carriers, including Frontier.[2] It sees nothing "to suggest that the Commission wanted to reconsider [the existing, barter] system, let alone to balkanize a uniform statewide system that has served telephone users well."[3]

The existing barter system reflects an interest in promoting competition in local telephone service by ensuring that CLECs' customers' telephone numbers are made as widely and readily available as those of ILECs' customers. Frontier's proposal suggests, in effect, that the system may be outdated, insofar as competition now exists not only in the local telephone service market but also in the directory assistance market, and the barter arrangements skew the latter.

Frontier may have a point, but Bell Atlantic-New York correctly argues that it should be considered, if at all, only in a broader inquiry in which its ramifications can be fully explored. We reserve judgment on the proposal and direct Staff to consider it further and report back promptly with its

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[1] Id.

[2] INFONXX objects in this regard not only to Frontier's proposal but also to Bell Atlantic-New York's plan to compensate contributors of listings when listings are provided to DALS and DALT users.

[3] INFONXX's Initial Brief, p. 52.

assessment of the matter and a list of issues on which comments should be requested from all interested parties.

Frontier's Cost Studies

Frontier presented studies showing that its DALS costs were $69,183 for a full database extract and $2,075 per month for updates.[1] It adds that for directory assistance updates, based on current volumes, these figures equate to a per listing fee of about $.06. For DPLS, its calculated costs are $872 of fixed costs per order, Frontier's variable costs of $0.264 per listing, and Frontier's directory publishing agent's variable costs of $.05 per listing, up to a maximum of $750 per order. According to Frontier, these costs were calculated on the basis of forward-looking TELRIC studies.

Bell Atlantic-New York sees various flaws in the DALS study. First, it contends the study reflects not the actual costs incurred to provide data to Bell Atlantic-New York in the existing manner, which Bell Atlantic-New York finds satisfactory, but, instead, the projected costs of a new DALS product, incorporating upgraded software, for which there are no current customers. Frontier, however, maintains that the existing system is not the most efficient and that its costs (reliance on which would have violated TELRIC) would have been eight to ten times the forward-looking costs it used.

In addition, Bell Atlantic-New York calculates that Frontier's DALS costs are nearly double Bell Atlantic-New York's own. It sees no basis for this divergence, and suggests it may reflect Frontier's failure to use the most efficient, lowest cost processes. It suggests that if any payment is to be required, it be calculated on the basis of Bell Atlantic-New York's costs, which it sees as a reasonable proxy. Frontier responds by disputing the premise that its system is or should be the same as

[1] It is these costs that Bell Atlantic-New York would be required to pay under Frontier's proposal, previously discussed.

that of Bell Atlantic-New York, a company 20 times its size, and pointing to other cost differences.

Bell Atlantic-New York has raised questions about the construct Frontier used in developing its DALS costs. Moreover, Staff advises that Frontier's one-time cost for DALS does not use the carrying charges we previously approved[1]; that adjustment reduces the cost from $69,183 to $57,112, as shown in Appendix B. In view of our decision not to modify the barter system, at least for now, these concerns are moot with respect to Bell Atlantic-New York, and Frontier at present appears to have no other DALS customers. Its DALS rate therefore should be set for now on a temporary basis, subject to refund, at a level reflecting the foregoing carrying charge adjustment. In the event Frontier acquires any DALS customers, it should submit further documentation in support of its costing construct, and we will direct whatever further inquiry appears warranted.

Frontier does have DPLS customers at present, but none of them appeared in the proceeding to criticize its proposed DPLS rates. At the same time, Frontier has not shown why its costs should be so much greater than Bell Atlantic-New York's. Frontier's DPLS rates, accordingly, will be set, like Bell Atlantic-New York's, at the FCC's presumptively reasonable levels.

CLEARINGHOUSE ISSUES

Bell Atlantic-New York proposed to distribute compensation to providers of listings by retaining a third-party billing entity (the New York State Access Settlement Pool) and to recover the cost of that arrangement (a one-time start-up fee of $4,000 and a monthly charge of $2,500 over the contract's three-year term) through a Clearinghouse Fee added to the charges for

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[1] Cases 95-C-0657 et al. and 93-C-0033 et al., Frontier Telephone of Rochester, Inc. - Open Market Plan, Opinion No. 99-8 (issued July 22, 1999).

the three DDB services. It calculates of fee of $0.0122 per listing derived from CLECs or other ILECs.

INFONXX regards the clearinghouse fee (which would not be needed if there were no contribution to be distributed to providers of listings) as the insult added to the injury of contributory pricing. It notes that the $0.0122 administrative fee exceeds the contemplated compensation per listing, which is only $0.0014. In response, Bell Atlantic-New York recognizes that the administrative costs are high in comparison to the value each carrier will receive and suggests that the answer is not to abandon the clearinghouse or deny legitimate cost recovery, but to provide for payment and distribution of greater contribution amounts. It notes as well that INFONXX overstates the comparison, since the distribution amount is paid with respect to every listing, while the fee amount is imposed only for listings obtained from CLECs and other ILECs.

NYSTA defends the clearinghouse, characterizing it as a necessary adjunct of affording INFONXX and other DA providers the convenience of obtaining listings from a single source instead of having to obtain them separately from all LECs in the state. As such, its costs are properly recoverable.

Distribution of compensation seems to require a clearinghouse, and Bell Atlantic-New York would clearly be entitled to recover the associated costs. At the same time, administrative costs that necessarily far exceeded the distributed compensation would be an argument against providing proportionate compensation and in favor of some other way to address the interests at stake.

The specifics need not be decided now, given our decision not to require compensation immediately. Bell Atlantic-New York should take account of clearinghouse cost issues in the plan it submits for distributing significant excess revenues to listings providers.

The Commission orders:

1. Within 15 days of the date of this opinion and order, New York Telephone Company d/b/a Bell Atlantic New York (Bell Atlantic-New York) and Frontier Telephone of Rochester (Frontier) shall file tariff amendments consistent with this opinion and order. The tariff amendments shall not take effect on a permanent basis until approved by the Commission but shall 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. Any party wishing to comment on the tariff amendments should do so by submitting 10 copies of its comments to the Acting Secretary within 15 days of the date the tariff amendments are filed.

2. Within 30 days of the date of this opinion and order, Bell Atlantic-New York shall submit a proposal, consistent with the foregoing opinion, for adjusting DALS and DALT rates to reflect changes in the number of customers for those services and for compensating providers of directory listings in the event revenues from DALS, DALT, or DPLS turn out significantly to exceed costs. Any party wishing to comment on the proposal should do so by submitting 10 copies of its comments to the Acting Secretary within 20 days of the date the proposal is filed.

3. For good cause shown, newspaper publication of the foregoing tariff amendments is waived.

4. This proceeding is continued.

By the Commission,

(SIGNED)

DEBRA RENNER
Acting Secretary

Directory Assistance Listing Transfer (DALT) Rates

Ln	Item	Source	Amount
A.	Full Load Rate - Electronic File Transfer		
1	Bell Atlantic Proposed Rate per Customer	Exh 32, Part C, Pg 1, Col C, Ln 6	$28,678
2	Eliminate Contribution	Exh 32, Part C, Pg 1, Col C, Ln 2 X Ln	13,779
3	Proposed Rate Without Contribution	Line 1 - Line 2	14,899
4	Eliminate Joint & Common Expense Factor	Exh 32, Part A, Pg 4, Col C, Ln 3	2,357
5	Eliminate Gross Revenue Loading	Exh 32, Part A, Pg 4, Col C, Ln 6 - Ln	230
6	Direct Cost Per Customer per Bell Atlantic	Line 3 - Line 4 - Line 5	12,311
7	Reflect Joint & Common CCF on	See Note A	1,153
8	Allowed Rate per Customer	Line 6 - Line 7	**$13,464**
B.	**Full Load Rate - Cartridges**		
9	Bell Atlantic Proposed Rate per Customer	Exh 32, Part C, Pg 1, Col C, Ln 12	$28,678
10	Eliminate Contribution	Exh 32, Part C, Pg 1, Col C, Ln 8 X Ln	13,736
11	Proposed Rate Without Contribution	Line 9 - Line 10	14,942
12	Eliminate Joint & Common Expense Factor	Exh 32, Part A, Pg 4, Col C, Ln 9	2,364
13	Eliminate Gross Revenue Loading	Exh 32, Part A, Pg 4, Col C, Ln 12 - Ln	231
14	Direct Cost Per Customer per Bell Atlantic	Line 11 - Line 12 - Line 13	12,347
15	Reflect Joint & Common CCF on	See Note A	1,153
16	Allowed Rate per Customer	Line 14 - Line 15	**$13,500**
C.	**Daily Updates - Per Month**		
17	Bell Atlantic Proposed Rate per Customer	Exh 32, Part C, Pg 1, Col C, Ln 18	$5,347
18	Eliminate Contribution	Exh 32, Part C, Pg 1, Col C, Ln 14 X	1,023
19	Proposed Rate Without Contribution	Line 17 - Line 18	4,324
20	Eliminate Joint & Common Expense Factor	Exh 32, Part A, Pg 4, Col C, Ln 15	684
21	Eliminate Gross Revenue Loading	Exh 32, Part A, Pg 4, Col C, Ln 18 - Ln	67
22	Direct Cost Per Customer per Bell Atlantic	Line 19 - Line 20 - Line 21	3,573
23	Reflect Joint & Common CCF on	See Note A	64
24	Allowed Rate per Customer	Line 22 - Line 23	**$3,637**

Note A - Commission Adjustment to Reflect Joint & Common Costs Applied to Investments

This adjustment was calculated by:

1) Replacing the carrying charge factor (CCF) for computers on Bell Atlantic's Workpaper Part A, Line 4 (.2449) with the CCF for computers approved by the Commission in Phase 2 as shown in C of the Phase 2 Recommended Decision issued on October 2, 1997 (.2994).

2) Replacing the CCF for buildings on Bell Atlantic's Workpaper Part A, Page 12, Line 10 (.2224) with the CCF for buildings approved by the Commission in Phase 1 as shown in Appendix C Schedule 2, Page 3 of Opinion 97-2 (.2324).

Directory Assistance Listing Service (DALS) Rates

Ln	Item	Source	Amount
A.	**Full Load Rate - Electronic File**		
1	Bell Atlantic Proposed Rate per Customer	Exh 32, Part C, Pg 1, Col C, Ln 24	$28,678
2	Eliminate Contribution	Exh 32, Part C, Pg 1, Col C, Ln 20 X	13,779
3	Proposed Rate Without Contribution	Line 1 - Line 2	14,899
4	Eliminate Joint & Common Expense Factor	Exh 32, Part A, Pg 4, Col C, Ln 21	2,357
5	Eliminate Gross Revenue Loading	Exh 32, Part A, Pg 4, Col C, Ln 24 - Ln	230
6	Direct Cost Per Customer per Bell Atlantic	Line 3 - Line 4 - Line 5	12,311
7	Reflect Joint & Common CCF on	See Appendix A, Page 1, Note A	1,153
8	Allowed Rate per Customer	Line 6 - Line 7	**$13,464**
B.	**Full Load Rate - Cartridges**		
9	Bell Atlantic Proposed Rate per Customer	Exh 32, Part C, Pg 1, Col C, Ln 30	$28,678
10	Eliminate Contribution	Exh 32, Part C, Pg 1, Col C, Ln 26 X	13,736
11	Proposed Rate Without Contribution	Line 9 - Line 10	14,942
12	Eliminate Joint & Common Expense Factor	Exh 32, Part A, Pg 4, Col C, Ln 27	2,364
13	Eliminate Gross Revenue Loading	Exh 32, Part A, Pg 4, Col C, Ln 30 - Ln	231
14	Direct Cost Per Customer per Bell Atlantic	Line 11 - Line 12 - Line 13	12,347
15	Reflect Joint & Common CCF on	See Appendix A, Page 1, Note A	1,153
16	Allowed Rate per Customer	Line 14 - Line 15	**$13,500**
C.	**Daily Updates - Per Month**		
17	Bell Atlantic Proposed Rate per Customer	Exh 32, Part C, Pg 1, Col C, Ln 36	$5,229
18	Eliminate Contribution	Exh 32, Part C, Pg 1, Col C, Ln 32 X	982
19	Proposed Rate Without Contribution	Line 17 - Line 18	4,247
20	Eliminate Joint & Common Expense Factor	Exh 32, Part A, Pg 4, Col C, Ln 33	672
21	Eliminate Gross Revenue Loading	Exh 32, Part A, Pg 4, Col C, Ln 36 - Ln	66
22	Direct Cost Per Customer per Bell Atlantic	Line 19 - Line 20 - Line 21	3,509
23	Reflect Joint & Common CCF on	See Appendix A, Page 1, Note A	64
24	Allowed Rate per Customer	Line 22 - Line 23	**$3,573**

Directory Publishers Listing Service (DPLS) Rates

Ln	Item	Source	Amount
A.	**DPLS Cost Per Listing - One Time**		
1	Bell Atlantic Proposed Rate per Customer	Exh 32, Part C, Pg 2, Col C, Ln 3	$0.2000
2	Eliminate Contribution	Exh 32, Part C, Pg 1, Col C, Ln 2	0.1795
3	Proposed Rate Without Contribution	Line 1 - Line 2	0.0205
4	Eliminate Joint & Common Expense Factor	Exh 32, Part A, Pg 5, Col C, Ln 3	0.0032
5	Eliminate Gross Revenue Loading	Exh 32, Part A, Pg 5, Col C, Ln 6 - Ln	0.0003
6	Direct Cost Per Customer per Bell Atlantic	Line 3 - Line 4 - Line 5	0.0169
7	Increase to reflect FCC presumptive		0.0231
8	Allowed Rate per Customer	Line 6 + Line 7	**$0.0400**
B.	**Daily Updates - Per Listing**		
9	Bell Atlantic Proposed Rate per Customer	Exh 32, Part C, Pg 2, Col C, Ln 6,	$0.2000
10	Eliminate Contribution	Exh 32, Part C, Pg 1, Col C, Ln 32 X	0.1781
11	Proposed Rate Without Contribution	Line 9 - Line 10	0.0219
12	Eliminate Joint & Common Expense Factor	Exh 32, Part A, Pg 5, Col C, Ln 33	0.0035
13	Eliminate Gross Revenue Loading	Exh 32, Part A, Pg 4, Col C, Ln 36 - Ln	0.0003
14	Direct Cost Per Customer per Bell Atlantic	Line 19 - Line 20 - Line 21	0.0181
15	Increase to reflect FCC presumptive		0.0419
16	Allowed Rate per Customer	Line 15 + Line 16	**$0.0600**

Frontier Telephone of Rochester

Ln #	Item	Source	Amount
	I. Directory Assistance Listing Transfer (DALT) Rates		
	Annual Fixed Rate for Full Data Base Extract		
1	FTR Proposed Rate per Customer	Exh 11, Sch 2, Pg. 1, Line 8	$69,183
2	Adjustment to reflect appropriate CCF's	Note A	12,071
3	Rate Allowed on Temporary Basis	Line 1 - Line 2	$57,112
	Incremental Rate for Database Updates		
4	Monthly Rate Proposed	Exh 11, Sch 2, Pg. 1, Line 23	$2,075
5	Current Volumes	1,750 X 20 business days	35,000
6	Proposed Rate per Listing	Line 4 / Line 5	$0.06
7	Rate Allowed per Listing on Temporary Basis	Line 6	$0.06
	II. Directory Publishers Listing Service		
8	FTR Proposed Rate per Listing for 350,000*	Exh 11, Sch 1, Pg. 3, Line 25	$0.27
9	Allowed Rate Per Listing for Initial Transfer	FCC Presumptive Rate	$0.04
10	Allowed Rate Per Listing for Updates	FCC Presumptive Rate	$0.06

* FTR's proposed rates based on fixed costs of costs of $872 per order and variable costs of $.264 per listing. Exhibit 11, Schedule 1 provided a chart of what the applicable rate would be for various quantities of listings sold.

Note A - Adjustment to reflect apprpriate Carrying Charge Factors (CCF)

This adjustment was determined by substituting the following CCF's for those proposed by FTR on Exhibit 11, Schedule 2 Page 1:

11	Depreciation	12.50%
12	Rate of Return	7.92%
13	Corporate Operations Expense	2.12%