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August 10, 2001

Ms. Blanca S. Bayo  
Division of the Commission Clerk  
and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

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Re: Docket No. 000075-TP (Phase II)  
Investigation into appropriate methods to compensate carriers for exchange of  
traffic subject to Section 251 of the Telecommunications Act of 1996

Dear Ms. Bayo:

Please find enclosed for filing an original and fifteen copies of Verizon Florida Inc.'s  
Posthearing Statement and Brief in the above matter. Also enclosed is a diskette with  
a copy of the Brief in Word 97 format. Service has been made as indicated on the  
Certificate of Service. If there are any questions regarding this matter, please contact  
me at 813-483-2617.

Sincerely,

*Kimberly Caswell* for  
Kimberly Caswell

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Investigation into appropriate methods to )  
compensate carriers for exchange of traffic )  
subject to Section 251 of the Telecommunications )  
Act of 1996 )  
\_\_\_\_\_ )  
Docket No. 000075-TP  
Filed: August 10, 2001

**VERIZON FLORIDA INC.'S POSTHEARING STATEMENT AND BRIEF**

In accordance with Florida Administrative Code rule 28-106.215, Commission Order number PSC-01-1362-PHO-TP, and Chairman Jacobs' instructions at the hearing in this matter, Verizon files its Posthearing Statement and Brief.

**VERIZON'S BASIC POSITION**

Although this Commission currently has jurisdiction to prescribe a reciprocal compensation approach for traffic subject to section 251(b) of the Telecommunications Act of 1996 (Act), the FCC has launched a proceeding to address this same matter. Its comprehensive rulemaking will examine all forms of intercarrier compensation, with the intent to test the concept of a unified system for payments between telecommunications carriers that result from the interconnection of their networks. *Developing a Unified Intercarrier Compensation Regime*, Notice of Proposed Rulemaking, FCC 01-132 (*Intercarrier Compensation Notice*) (April 27, 2001). The FCC has sought comment on the feasibility of a bill-and-keep approach.

Verizon's testimony in this case discussed the attributes of a bill-and-keep compensation methodology for local traffic, and Verizon concluded that bill-and-keep is the simplest and best interim approach if the Commission decides to act at this time. However, Verizon believes the Commission would be ill-advised to adopt any

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compensation scheme at this time, given the pendency of the FCC's proceedings. Rather, the Commission should retain the record in this case, but hold its decision in abeyance until there is more certainty about the FCC's intended compensation scheme. This is the only course that will avoid the confusion and inefficiency of having to modify the state reciprocal compensation scheme in the event it is incompatible with the approach the FCC ultimately adopts.

### VERIZON'S SPECIFIC POSITIONS

**Issue 10:** Pursuant to the Telecommunications Act of 1996, the FCC's rules and orders, and Florida Statutes, what is the Commission's jurisdiction to specify the rates, terms, and conditions governing compensation for transport and delivery or termination of traffic subject to Section 251 of the Act?

**Verizon's Position:** \* This Commission currently has jurisdiction to establish a reciprocal compensation scheme for traffic subject to section 251 of the Act, but the FCC will address this same matter in its unified intercarrier compensation rulemaking. As such, this Commission should defer any ruling until the federal approach has been defined. \*

At present, this Commission has the jurisdiction to adopt a reciprocal compensation scheme for local traffic subject to section 251(b)(5) of the Act. However, the FCC has undertaken a rulemaking to establish a compensation methodology for this traffic (as well as for other types of traffic carried over the local telephone network). *Inter-carrier Compensation Notice.* If this Commission adopts a compensation mechanism at odds with the FCC's, it will likely need to be modified. To avoid the confusion and inefficiency of implementing a new regime that may only need to be altered a short time later, Verizon recommends that the Commission retain the record in this proceeding, but refrain from making any generic decisions about intercarrier compensation pending further development of the issue at the federal level. This is the

same approach Staff and the parties have agreed to follow in the first phase of this proceeding, in the wake of the FCC's *Order on Remand* concerning compensation for Internet-bound traffic. *Implementation of the Local Competition Provisions in the Telecomm. Act of 1996; Intercarrier Compensation for ISP-Bound Traffic*, Order on Remand and Report and Order, FCC 01-131 (*Remand Order*) (April 27, 2001).

The Commission should also bear in mind that the FCC's *Remand Order* definitively confirmed that Internet-bound traffic is not subject to reciprocal compensation obligations under section 251. Rather, this traffic is information access subject to section 201 of the Act and the interim system of rate caps established by the FCC. (*Remand Order*; see also Verizon's Supplemental Posthearing Statement in Phase I of this docket for an explanation of the caps.) There is thus no dispute among the parties that Internet-bound traffic has been removed from the scope of this proceeding.

**Issue 11: What types of local network architectures are currently employed by the ILECs and ALECs, and what factors affect their choice of architectures? (Informational issue.)**

**Verizon's Position: \* ILECs and ALECs have and will design their networks to most efficiently serve their respective customer bases. \***

As a longstanding carrier of last resort, Verizon serves a dispersed and diverse customer base. Its ubiquitous network has not grown from any single, comprehensive plan, but has evolved over many decades. Its design has been influenced by regulatory directives and the state of technology at particular points in time. (Jones, Tr. 279.)

ALECs, on the other hand, are free to focus on particular customer sets (such as Internet service providers (ISPs)) and so will design their networks to most efficiently

serve those customers. In addition, the ALECs' networks are all relatively new. Their newer and more targeted networks (for the selected customers and traffic served) can be expected to produce lower costs relative to the ILECs' networks. (See Jones, Tr. 283-86.) For instance, Global NAPS, which operates in Florida, recently reported that it has moved to an all-packet-based broadband network. By abandoning traditional circuit switch equipment, Global NAPS says it can deliver four times the capacity in one-tenth the space and at one-tenth the cost. Global NAPS claims it is thus "in a position to provide voice, transport and services better, faster and cheaper than anyone else." (Global NAPS Feb. 7, 2001 release, Ex. 14.)

This information indicates an order of magnitude reduction from current cost levels. That is, if the current cost of switching a minute of traffic is \$0.004, then using the Global NAPs network, the cost would be reduced to only \$0.0004 for that same minute of use. If it is true, and that network design is that efficient, then the applicability of the ILECs' current forward-looking cost estimates to determine a compensation scheme needs to be closely examined, especially with relation to the costs incurred by ALECs with a network design like that of Global NAPs. (Beauvais, Tr. 315-16 and Ex. 14.)

If this Commission decides to establish a positive-price (rather than bill-and-keep) reciprocal compensation mechanism, it should consider such differences in network and cost characteristics as between ALEC and ILEC networks. Because new generation technologies generate significant cost savings and efficiencies for the ALECs that use them in their networks, a usage-based reciprocal compensation could well provide such carriers a windfall.

**Issue 12: Pursuant to the Act and FCC's rules and orders:**

- (a) Under what condition(s), if any, is an ALEC entitled to be compensated at the ILEC's tandem interconnection rate?**
- (b) Under either a one-prong or two-prong test, what is similar functionality?**
- (c) Under either a one-prong or two-prong test, what is "comparable geographic area"?**

**Verizon's Position: \* An ALEC may receive the ILEC's tandem interconnection rate when it is actually serving a geographic area comparable to that served by the ILEC. Geographic comparability is a fact-specific inquiry that will need to be performed on a case-by-case basis. \***

In its *First Report and Order*, the FCC found that a carrier's cost of transporting and terminating a call would likely vary depending on whether tandem switching was involved. Because a carrier performing tandem switching would incur additional costs (relative to a carrier performing only end-office switching), the FCC permitted state commissions to set different tandem and end-office rates, to allow recovery of these additional costs. To assess whether tandem compensation was due, the FCC instructed states to consider whether the ALEC used new technologies to "perform functions similar to those performed by an incumbent LEC's tandem switch" and whether the ALEC's switch served a geographic area comparable to that served by the ILEC's tandem switch. (*First Report and Order* at para. 1090; *see also* FCC Rule 51.711(a).)

Based upon this explanation of the FCC's Rule 51.711, Verizon (and many others in the industry), as well as this Commission, concluded that the FCC required the ALEC to meet the "two-prong" test of similar functionality and geographic comparability before it could obtain compensation at the ILEC's tandem rate. (Beauvais, Tr. 309-10; Ruscilli, Tr. 33.) However, in its *Intercarrier Compensation Notice* (at para. 105), the FCC indicated that its Rule 51.711(a)(3) required only a geographic area test. Thus,

when an ALEC claims tandem compensation in a particular case, this Commission must determine whether its switch “*serves* a geographic area comparable to the area served by the incumbent LEC’s tandem switch.” (FCC Rule 51.711(a)(3) [emphasis added].)

The straightforward meaning of this criterion is that the ALEC’s and ILEC’s switches actually provide service to customers in about the same physical area. (Beauvais, Tr. 310; Ruscilli, Tr. 156-57.) The ALECs, however, contend that the requirement to “serve” a comparable geographic area does not mean a carrier needs to actually provide service to any customers within that area. Rather, they assert that an ALEC needs only to have the potential for serving customers in that area, or to hold itself out to serve an area. In their view, even an ALEC with no facilities or customers in a given exchange can meet the geographic comparability test—for example, by merely opening an NXX code, advertising in an area, or simply by self-certification. (Maples, Tr. 545, 549-50; Argenbright, Tr. 1027, 1030.)

The ALECs’ expansive definition of “serve” defies common sense, as well as the FCC’s Rules. Under those Rules, the tandem rate is explicitly intended to compensate carriers for “additional costs” associated with the tandem function. The FCC’s clarification that only geographic comparability need be shown did not eliminate the cost rationale underlying entitlement to tandem compensation. Geographic comparability is, rather, a proxy for similar functionality. In other words, if the ALEC serves a comparable geographic area, the FCC Rule assumes that it is providing tandem functionality, such that tandem compensation is due. (Beauvais, Tr. 344.) Contrary to the ALECs’ arguments, it is not unfair or unreasonable to require them to serve actual customers for

them to receive the tandem rate; rather, it is entirely consistent with the principle that a carrier should be paid only for the costs it incurs.

It stands to reason that if an ALEC is serving no customers, or very few customers, in a geographic area, it cannot be incurring the additional costs that would entitle it to the tandem rate under the FCC's Rule. Tandem compensation would be nothing more than a windfall in such cases. It would also be contrary to this Commission's common sense conclusion in other cases that there is no reason to assess a rate when there is no underlying cost to be recovered. As the Commission observed in BellSouth's arbitration with MCI, where "functions are not actually performed, then there cannot be a cost and charge associated with them." (Order No. PSC-97-0294-FOF-TP, at 10-11 (Mar. 14, 1997); *see also* BellSouth/MFS Arbitration, Order No. PSC-96-1532-FOF-TP, at 4 (Dec. 16, 1996) ("the Act does not contemplate that the compensation for transporting and terminating local traffic should be symmetrical when one party does not actually use the network facility for which it seeks compensation".))

It is probably impossible to specify a precise metric that may be automatically applied to determine whether a carrier meets the FCC's geographic comparability test. (Ex. 7 at 3.) Indeed, no party offered any such test, although Verizon and BellSouth did offer parameters to be used in evaluating the facts of each specific case. (Ruscilli, Tr. 158-63.) Dr. Beauvais suggested, for example, that the Commission can use ILEC service maps and other information in its possession (or which the ILEC can readily provide) to approximate the square mileage served by each of its tandems. It is also possible to estimate the number of customers served within that geographic area.



Combining this figure with the square mileage information would yield a figure for number of customers per square mile being served by any given tandem switch. (Ex. 7 at 3.)

The Commission would then need to compare this ILEC information with similar information supplied by the ALEC, including maps indicating its deployed facilities, switch locations, customers served by those facilities, and the customers' approximate geographic locations. (Ex. 7 at 3-4.) Because an ALEC's geographic coverage could be expected to change over time, an initial denial of the tandem rate would not necessarily mean that the ALEC would not be entitled to the tandem rate at a later date when its geographic coverage expanded. (Ex. 7 at 4.)

Of course, the inquiry into when tandem compensation is due assumes a usage-based compensation system. (Beauvais, Tr. 327.) If the Commission, instead, approves a bill-and-keep approach for compensating all local traffic, then it need not address the practical question of what geographic comparability means.

**Issue 13: How should a "local calling area" be defined, for purposes of determining the applicability of reciprocal compensation?**

**Verizon's Position: \* For purposes of applying reciprocal compensation, "local calling area" should be defined through mutual agreement, pursuant to the terms of the parties' interconnection contract. If the parties cannot agree, then the ILEC's tariffed definition should apply. \***

For purposes of reciprocal compensation, "local calling area" should be defined in the parties' local interconnection agreements, as is the case today. (Beauvais, Tr. 310, 338; Ruscilli, Tr. 35.) Typically, this definition relies on the ILEC's tariffs, but parties can and have negotiated other arrangements. If parties cannot agree on a local

calling area definition in negotiations, then the ILEC's definition should be the default. (Ruscilli, Tr. 109; Maples, Tr. 536.)

Using the ILEC's local calling area as the basis for assessing reciprocal compensation does *not* force the ALEC to adopt the ILEC's local calling scopes for retail purposes. (Maples, 536-36.) Regardless of how the interconnection agreement defines local calling area for reciprocal compensation purposes, the ALEC will remain free to establish its own local calling areas for purposes of marketing its services to customers. An ALEC can, for example, define the entire state as a local calling area, even though the ILEC's local calling area definition remains the standard for applying reciprocal compensation. (Beauvais, Tr. 310-11.)

What the ALEC *cannot* do, however, is circumvent the existing access charge regime through its unilateral definition of local calling area. (Beauvais, Tr. 337.) Reciprocal compensation is paid for local calls, and access rates apply to toll calls. Because access rates are generally higher than reciprocal compensation rates, the ALECs seek to avoid paying access charges by defining away toll calling. That is, if the ALEC uses the entire state as its local calling area for retail purposes, it contends that the entire state should be the local calling area for reciprocal compensation purposes. (Beauvais, Tr. 311.)

The ALECs would thus eviscerate the longstanding local/toll distinction embodied in the ILECs' tariffs and underlying regulatory policies. The ILECs' local calling areas were defined over the years by either the Commission or by the ILEC with the Commission's approval (*see* Ruscilli, Tr. 39); Verizon is not at liberty to change its tariffed retail calling scopes through private negotiation, even if it wanted to (Beauvais,

Tr. 311.) The historical purpose of local calling area designations is to distinguish local from toll calls, to which access charges apply. This Commission's access regime was established with the explicit objective of maintaining universal service. *See Intrastate Tel. Access Charges for Toll Use of Local Exchange Services*, Order No. 12765, at 7 (1983). If the Commission is to consider doing away with the local/toll distinction, then it must concurrently consider the effects of eliminating toll and access subsidy flows to basic local rates. And it must also recognize that abolishing the distinction between toll and local calls will create undesirable arbitrage opportunities between reciprocal compensation and carrier access charges. (Taylor, Tr. 266.)

Moreover, as Dr. Taylor pointed out, using the ALECs' claimed local calling areas as the basis for reciprocal compensation would lead to chaos. Each carrier's switch today uses a single routing table that references originating and terminating NPA-NXXs to classify calls as toll or local, depending on the ILECs' defined calling areas. If reciprocal compensation were instead determined on the basis of the local calling area of the originating carrier, each carrier would require routing tables for each other carrier—a clearly unwieldy outcome. (Taylor, Tr. 256-57.)

As discussed more fully in Verizon's response to Issue 15, the ALECs' proposals to effectively eliminate the local/toll distinction raise far-reaching policy issues well beyond the scope of this docket intended only to address reciprocal compensation. No party has offered any legitimate reason to depart from the existing practice of allowing the parties to interconnection negotiations to define the local calling area for reciprocal compensation purposes. Using the ILECs' tariffed local calling areas as the default

standard if those negotiations fail will not in any way affect the ALEC's ability to define its local calling scopes for retail purposes.

- Issue 14:**
- (a) What are the responsibilities of an originating local carrier to transport its traffic to another local carrier?
  - (b) For each responsibility identified in part (a), what form of compensation, if any, should apply?

**Verizon's Position:** \* The originating carrier's obligations to transport traffic to an interconnecting carrier are to be specified in the carriers' interconnection agreement. \*

For efficient local exchange competition to occur, carriers must interconnect with each others' networks to exchange calls. They must enter into negotiations in an attempt to reach mutually advantageous arrangements for such traffic exchange. (Beauvais, Tr. 312.) Under the Act, an ALEC can choose to interconnect with the ILEC's network at any technically feasible point. (Act. Sec. 251(c)(2).) The ALEC is also permitted to designate a single point within a LATA at which to place its point of interconnection. *See Application of SBC Comm., Inc., et al. to Provide In-Region InterLATA Services in Texas*, Memorandum Report and Order, FCC CC Dkt. No. 00-65 at para. 78 (June 30, 2000).

Parties may adopt a number of possible transport arrangements in their interconnection agreements. Either the originating or receiving carrier may provide transport to the mutually agreed-upon POI, or the parties may establish a meet-point arrangement, with each carrier providing its own facilities to the designated point. (Beauvais, Tr. 312-13.)

The issue here is not the placement of the POI; the parties generally agree that the ALEC has substantial freedom to choose where to establish its POI. (Beauvais, Tr.

308.) The controversy, rather, arises in determining who will bear the financial responsibility for the cost of transport to that POI. The ALECs expect the ILECs to collect local traffic bound for the ALEC's end users *and* to bear the costs of hauling that traffic to any POI dictated by the ALEC. (Ruscilli, Tr. 37.) What this means, in practical terms, is that when an ILEC subscriber in Lake City wishes to call an ALEC subscriber next door, that call may well have to be hauled to a distant POI outside the ILEC's local calling area—Jacksonville, for example—only to be routed back to the ALEC subscriber in Lake City. (See Ruscilli, Tr. 40-41.) Under the ALECs' view, the ILEC should pay for the facilities used to haul the calls back and forth between the POI in Jacksonville and the Lake City local calling area.

This is not a reasonable or equitable approach, as this Commission recognized in the recent arbitration between Sprint and BellSouth. There, it held that where Sprint designates a POI outside of BellSouth's local calling area, Sprint would be required to bear the costs of facilities from the local calling area to Sprint's POI. (Sprint/Bell Arbitration Order, 01 FPSC 5:72, at 94-99 (May 8, 2001).) The North Carolina and South Carolina Commissions have, likewise, ruled that it is unfair for the ILEC to bear the cost for facilities to carry calls from distant calling areas to a single POI. (AT&T/BellSouth Arbitration Order, SC PSC Docket No. 2000-527-C, at 28 (Jan. 30, 2001)) ("while AT&T can have a single POI in a LATA if it chooses, AT&T shall remain responsible to pay for the facilities necessary to carry calls from distant local calling areas to that single POI. That is the fair and equitable result."); AT&T/BellSouth Arbitration, NCUC Docket Nos. P-140, sub 73 & P-646, sub 7 (finding it is not "fair" to

require ILECs to “bear the entire cost of transporting the calls at issue free of charge outside the [local] calling area.”)

While the ALECs can build their networks as they like, they have no right to shift the burden of their network design to the ILECs by forcing them to pay for transport to far distant points. (Ruscilli, Tr. 42.) The ILECs’ local rates were established upon the assumption that a local call will remain within the ILEC’s local calling area. That is, when a Verizon subscriber calls another Verizon subscriber within the same local calling area, Verizon is and has always been responsible for the costs of transporting that call. Verizon will continue to bear the costs of transporting calls within its local areas, whether those calls are between its own subscribers or between a Verizon customer and an ALEC customer. However, Verizon cannot be expected to pay for transporting “local” calls from its subscribers to ALEC subscribers when those calls must be hauled to a distant POI and back in the process. Indeed, the Commission has always recognized that calls traversing the ILEC’s local calling area boundaries are not local but toll, and subject to higher end user rates. (Beauvais, Tr. 324.)

The ALECs contend that ILECs should be indifferent to bearing the burden of additional transport, because transport costs have fallen so much in recent years. Verizon agrees that transport is not as expensive as it used to be. (Beauvais, Tr. 371.) However, transport facilities still do have a positive price and it is still the case that building transport facilities for twenty-five miles is more expensive than building them for only one mile. (Beauvais, Tr. 371.) So the location of the POI does, in fact, matter to the ILEC, especially if additional facilities must be added to handle the increased traffic. (Beauvais Tr. 323; Ruscilli, Tr. 240.) Even very minimal costs can become significant

when multiplied by many millions of minutes, and there is no reason for the ILEC to bear these costs it does not cause.

Indeed, the FCC has ruled that an ALEC that wishes a technically feasible, but expensive, interconnection under section 252(d)(1) would “be required to bear the cost of that interconnection, including a reasonable profit.” *Implementation of the Local Competition Provisions in the Telecom. Act of 1996*, 11 FCC Rcd 15499, First Report and Order, at para. 199 (1996). The FCC further observed that because ALECs “must usually compensate incumbent ILECs for the additional costs incurred by providing interconnection, competitors have an incentive to make economically efficient decisions about where to interconnect.” (*Id.* at para. 209.)

As Dr. Beauvais testified, the specific intercompany compensation for traffic exchange will depend upon the details of the carriers’ interconnection agreements. But the Commission should avoid any generic policy rulings in this docket that would require the ILEC to bear the entire costs of transporting calls back and forth from an ALEC’s POI outside the ILEC’s local calling area.

Of course, if the Commission opts for a bill-and-keep regime for local traffic as the default compensation mechanism (when carriers fail to agree on another approach), then it will avoid difficult questions about how financial responsibility should be allocated between the ALEC and the ILEC when the ALEC chooses a POI outside the ILEC’s local calling area. If the Commission declines to approve bill-and-keep as a policy preference, then it should consider requiring each ALEC to designate a virtual interconnection point in every local exchange or rate center. This approach will leave the ALECs free to choose the physical location of their POI(s), but will avoid imposing

the entire costs of the ALEC's network design choice on the ILEC. When a Verizon customer originates a "local" call to a customer served by an ALEC, then the ILEC would be responsible for delivering the call to the ALEC's virtual interconnection point within or at the boundaries of the local exchange area. If the call goes beyond that local exchange boundary, then the ALEC would bear the costs of the facilities to the physical POI. (Beauvais, Tr. 325, 373.) The ALEC would not be required to actually build facilities to the POI (although it could choose to do so); it would just have to pay for them.

The BellSouth and Sprint witnesses also recommended compromise approaches intended to promote efficiencies for the ALECs without forcing the ILEC to bear all the costs of carrying calls from the ILEC's local calling area to distant points. (Ruscilli, Tr. 86-87, 103, 112-15; Maples, Tr. 528-33.) While Verizon cannot support Sprint's specific suggestion—which is based on modifications of a Sprint/BellSouth agreement--Verizon does believe it is reasonable for carriers to negotiate agreements that would share the costs of transport facilities between interconnecting parties. Each pair of carriers should be permitted to negotiate the appropriate balance for themselves. Expecting the ALEC to bear at least some of the burden of its network design is not "cost shifting," as the ALECs suggest, but rather a fair and reasonable compromise between the carriers' competing objectives of cost minimization.

**Issue 15: (a) Under what conditions, if any, may carriers assign telephone numbers to end users physically located outside the rate center in which the telephone is homed?**



- (b) **Should the intercarrier compensation mechanism for calls to these telephone numbers be based upon the physical location of the customer, the rate center to which the telephone number is homed, or some other criterion?**

**Verizon's Position: \* Carriers should not be permitted to assign telephone numbers to end users outside the rate center to which the numbers are homed. Intercarrier compensation should continue to depend upon the physical location of the customer. Otherwise, it will be impossible to maintain the distinction between local and toll calls. \***

As Verizon witness Haynes explained, a customer's telephone number is a unique "address" that serves two important functions: call routing and call rating. A customer's 10-digit telephone number consists of a three-digit "NPA," commonly known as area code; followed by a three-digit NXX, or central office, code; followed by a four-digit line number. (Haynes, Tr. 384-85.) The NXX code is assigned to an exchange located within an area code (e.g., "813-483" refers to the Tampa Central exchange.) The ILEC's switch routes the call by comparing the NXX codes of the calling and called parties. The ILEC's tariffs and billing systems use the NXX codes to ascertain the originating and terminating rate centers (or exchange areas) in order to properly rate the call. If the calling and called parties share the same local exchange, as determined by their NXX codes, then the call is established as a local call and will be rated accordingly. If the ILEC's systems detect different NXXs, then the call is rated as a toll call. Thus, accurate identification of the rate centers of the called and calling parties is essential to the ILEC's ability to properly rate calls as local or toll. (Haynes, Tr. 384-88.)

The ALECs seek to break the existing link between a customer's NXX code and his geographic location, without regard to call rating concerns. They want permission to assign—and in many cases, are already assigning—NXX codes to customers outside of

the rate center to which the NXX is homed. Not only do the ALECs ask the Commission to sanction such so-called virtual NXX usage, they seek reciprocal compensation for virtual NXX calls.

Below, Verizon addresses, in turn, the reasons why the Commission should reject the ALECs' positions on virtual NXX assignments and reciprocal compensation for virtual NXX calls.

**A. The ALECs Should Not Be Permitted to Assign Virtual NXX Codes.**

Virtual NXX assignments conflict with this Commission's regulatory policies, the Act, and national numbering guidelines.

While virtual NXX assignment will not affect the routing of the call, it will undermine the rating of the call as local or toll. Under Verizon's tariffs, a call from Tampa to Sarasota is a toll call. But an ALEC using virtual NXX codes might, for example, assign a Sarasota customer a telephone number with a Tampa NXX. Because the Sarasota customer in this instance has a Tampa NXX, Verizon's systems will rate the call as local, thereby denying Verizon appropriate compensation for the call. (Haynes, Tr. 388-90.)

The ALECs should not be permitted to circumvent this Commission's pricing policies and the requirements of the Act through use of virtual NXX assignments. Contrary to Mr. Gates' disingenuous arguments that the ALECs only seek to maintain the *status quo*, the ALECs' proposal is a stunning departure from the Commission's decades-long toll/local distinction and underlying social policies. Toll service is generally priced higher, on a usage-sensitive basis, than local calls. As regulators across the

country, including this Commission, understand, toll revenues have historically been used to hold down the price of basic local service. (See FPSC, “Universal Service and Lifeline Funding Issues,” Feb. 1999, at 22; Haynes, Tr. 404; Selwyn, Tr. 623-24.) This Commission, as well as the FCC, has always relied on the ILECs’ local exchange boundaries to determine whether a call is local or toll. While all carriers, ALECs and ILECs alike, should be permitted to determine their own outward-dialing calling scopes, it does not follow that the ALECs can force the ILECs to unilaterally expand their own customers’ local dialing scopes—at least not without appropriate compensation to the ILEC handling the traffic. (Haynes, Tr. 406-07.) If ALECs are permitted to assign NXX codes all over the state, without regard to the physical location of customers, then it will be impossible to maintain the local/toll distinction embodied in the ILECs’ Commission-approved tariffs. As Dr. Selwyn admitted, the ALEC’s inward calling scope under these circumstances would supersede the ILEC’s outward calling scope. (Selwyn, Tr. 690.) That is, even if the ILECs’ tariffs prescribe toll treatment for calls between its local exchange areas, they will be unable to collect toll compensation if they don’t know whether a call travels outside a local calling exchange. If ILECs treat virtual NXX calls today as local, it’s only because they don’t know where the calls are going—not because they consider them to be local, as Mr. Gates would have us believe. (Gates, Tr. 832.)

Verizon believes this Commission shares the ILECs’ concern that virtual NXX assignments will prevent proper call rating. As Mr. Ruscilli pointed out in his Direct Testimony, in BellSouth’s arbitration with Intermedia, the Commission forbade Intermedia to assign numbers “outside of the areas with which they are traditionally

associated” unless and until Intermedia could provide information to other carriers that will allow proper rating of calls to those numbers. (Ruscilli, Tr. 60, *citing* Order No. PSC-00-1519-FOF-TP, Aug. 22, 2000.)

The ALECs’ virtual NXX position is also inconsistent with section 251(g) of the Act, which mandates a continued regulatory distinction between exchange access and local interconnection services unless and until the FCC adopts regulations superseding the associated restrictions and obligations. The FCC further reinforced this principle in its *First Report and Order*, where it stated that “transport and termination of local traffic are different services than access service for long distance communications.” (Haynes, Tr. 407, *quoting First Report and Order* at para. 1033.)

What the ALECs seek, in effect, is to compel massive rate center consolidation on the ILECs’ part, with potentially an entire LATA as a local calling area. Even if there were no other legal or policy issues associated with virtual NXX assignments, the Commission could not accept the ALECs’ invitation to transform toll calls into local calls through virtual NXX assignments. As the Commission knows, Verizon and BellSouth have consistently maintained that the 1995 changes to Chapter 364 removed the Commission’s ability to order rate center consolidation, because, among other reasons, the Legislature removed the Commission’s authority to order expansion of customers’ local calling scopes. (Fla. Stat. ch. 364.385.) Indeed, the Commission has thus found that it “cannot order a price-regulated LEC to implement a non-basic service; thus, we are without jurisdiction to require the price-regulated LECs to implement post-July 1, 1995 requests for EAS or ECS.” (Order No. PSC-97-0971-FOF-TL, at 3. *See also*

Posthearing Briefs of Verizon (at 2-5) and BellSouth in *Investigation of Proposed Updates to RDBS and BRIDS*, Docket 010102-TP, filed April 24, 2001.)

The Commission should, likewise, share Verizon's concern that virtual NXX usage wastes numbering resources. Under national numbering policy, NXX codes are provided with the understanding that they will be used to serve customers physically located within the associated rate centers. The Central Office Code Assignment Guidelines require carriers to activate NXXs within six months of receiving them. If a carrier cannot prove that it has established local exchange facilities within the specified timeframe, it is expected to return the numbers. (Haynes, Tr. 410; *Investigation into Use of Central Office Codes (NXXs) by New England Fiber Comm., Order Requiring Reclamation of NXX Codes*, Docket Nos. 98-758 & 99-593 (June 30, 2000) (Ex. 16), at 5, quoting Maine PUC, *Petition for Additional Delegated authority to Implement Number Conservation Measures*, CC Docket No. 96-98, Order, at para. 19 (Sept. 28, 1999).)

Virtual NXX code usage does not involve the establishment of any local exchange facilities; as the Maine Commission concluded, this fact is in itself grounds for reclaiming NXX codes. (Ex. 16 at 5.) In ordering Brooks Fiber to return 54 NXX codes, the Maine Commission aptly observed that the "extravagant" use of NXX codes "solely for the rating of interexchange traffic" was patently unreasonable from the standpoint of number conservation. (*Id.* at 16.)

An NXX contains 10,000 numbers. Because a carrier assigning virtual NXXs has no facilities in the associated rate centers, it is likely that most of these numbers will never be used. (Haynes, Tr. 410.) Mr. Haynes offered an example from Illinois where an Internet service provider effectively tied up 890,000 numbers just so it could assign

89 numbers on a virtual NXX basis. (Haynes, Tr. 441.) Wasting hundreds of thousands of numbers, as the ALECs would do through virtual NXX usage, cannot be squared with this Commission's keen interest in number conservation measures.

In an attempt to justify their use of virtual NXX assignments, the ALECs point to the ILECs' foreign exchange (FX) service. The ALECs argue that they should be able to offer the same kind of feature, even though their networks are designed differently. They contend that foreclosing virtual NXX "service" would be anticompetitive and would deny consumers "state-of-the-art technologies." (Gates, Tr. 779.)

Virtual NXX service is hardly a technological innovation and it is certainly not necessary to provide customers toll-free calling, which telephone companies have offered for over 20 years. The only thing that's "new" here is the scheme to manipulate intercarrier transport and compensation so as to load all of the costs on the originating ILEC and then bill it for reciprocal compensation, instead of compensating that ILEC for the services provided. (Haynes, Tr. 414-15.) As the Maine Commission found, virtual NXX service also has no impact on the degree of local competition. (Ex. 16 at 13.) When an ALEC assigns a customer physically located in rate center 1 a number in rate center 2, no local competition is created in rate center 2, where the carrier has no facilities or customers. (See Ruscilli, Tr. 65-66.)

The ALECs' analogies to the ILECs' FX service conveniently ignore the fact that the FX subscriber pays Verizon a monthly charge for transporting calls that would otherwise be toll calls and for which Verizon would normally bill the originating party. As Commissioner Deason pointed out, while the customer initiating an FX call may consider it to be local, the entity subscribing to the FX service knows when they get their

bill every month that it is not local (Tr. 879.) When an ALEC provides virtual NXX service, however, the ILEC handling the virtual NXX traffic is not compensated for its transport of calls to a rate center outside the normal local calling scope. Moreover, the FX subscriber compensates Verizon for the ability to receive calls from only one other rate center. If a customer chose to have FX service from all of the rate centers within a LATA, his total monthly FX charges would be correspondingly much greater, to compensate Verizon for its relatively greater costs. (Haynes, Tr. 411-12.)

With virtual NXX service, of course, the ILEC is not only denied compensation for transporting the ALEC's traffic to any and all points outside the local calling area—it is also denied the access charges that should apply to these toll calls *and* it is billed for reciprocal compensation. The ILEC is, in effect, providing free, LATA-wide FX service to the ALEC.

The primary attraction of this arrangement for ALEC customers is obvious, and it is not the ability to have a number that appears to be local to callers. It is, rather, the elimination of the “disincentive of a toll call,” as Mr. Gates admits. (Gates, Tr. 779.) Because the ALEC does not bear the costs of the virtual NXX arrangement, it can afford to give the virtual NXX away for free. If the ILEC stopped subsidizing the ALECs' virtual NXX arrangements, and if the Commission confirmed that no reciprocal compensation is owed for virtual NXX traffic, then Verizon believes the ALECs would be much less interested in providing this feature.

Verizon thus vigorously disagrees with Dr. Selwyn's assessment that virtual NXX assignments have become a “standard practice” because the ILECs “have not felt any competitive pressure to eliminate local toll distinctions and expand local calling to

respond to competition.” (Selwyn, Tr. 686). In fact, Verizon does not even understand Dr. Selwyn’s point. He seems to be blaming the ILEC for having calling areas that are inconveniently small for the ALECs’ purposes. This view is, of course, inconsistent with the ALECs’ assertions that all carriers should be able to define their own local calling areas. In any event, the reasons why the ILECs maintain existing calling areas are much more complex than Dr. Selwyn suggests. The ILECs cannot expand local calling areas on a widespread basis without affecting the revenues that help subsidize basic local service.

Verizon, likewise, disagrees with Dr. Selwyn’s apparent conclusion that the intraLATA toll market is not competitive. (Selwyn, Tr. 627, 666-67.) As “evidence” of this proposition, he states that the ILECs’ toll rates have been “preserved largely intact” over the last five years. ( Selwyn, Tr. 666-67, 683.) In drawing this conclusion, Dr. Selwyn seems to have considered only the ILECs’ standard intraLATA toll rates to make his comparison, ignoring the calling plans that are the real competitive barometers of the intraLATA market. In addition, if the toll market were not competitive, Verizon would not have lost the majority of its market share since equal access was implemented.

Given the number exhaust and call rating problems associated with NXX usage, it is troubling that the ALECs have taken the position that they do not need this Commission’s permission to provide virtual NXX service. (Gates, Tr. 780-81.) This Commission has never sanctioned virtual NXX service and, to Verizon’s knowledge, the ALECs never told the Commission they were offering it before this docket. Verizon suspected they were, but had no proof until now. If it had, it would have registered a formal complaint that the ALECs are denying Verizon appropriate compensation for toll,



access, and transport. While virtual NXX call rating problems might be allayed if some accurate and reliable method could be devised to pass proper rating information to the ILEC (as the Commission recognized in the above-cited BellSouth/Intermedia arbitration), the number conservation issues will remain. Because the ALECs have proposed no solution to ease numbering concerns, the best course at this point is to prohibit the use of virtual NXX codes, at least until development of a solution that avoids the enormous waste of numbers that virtual NXX usage involves today.

Before the problems associated with NXX usage get any worse, Verizon urges the Commission to clarify that virtual NXX assignments are not permitted, and to require all ALECs to disclose which NXX codes they are using on a virtual basis. Once the Commission has this information, it should order return of these codes to NANPA.

#### **B. Reciprocal Compensation Does Not Apply to Virtual NXX Calls.**

As Verizon explained above, the ALECs' virtual NXX assignments prevent Verizon from receiving the toll compensation and access charges it is properly due under its Commission-approved tariffs. To add insult to injury, the ALEC will present Verizon with a bill for reciprocal compensation on such virtual NXX traffic, claiming that it is local—even though the call does not originate and terminate within the same local calling area. (Haynes, Tr. 390.) If the ALECs have their way, then, they will get a free ride for their toll traffic on the ILEC's interoffice network *and* get reimbursed, though reciprocal compensation, for local termination costs they do not incur.

Aside from its plain inequity, the ALECs' view that reciprocal compensation should be awarded for virtual NXX calls ignores the Act and the FCC's implementing rules, as well as the ALECs' own interconnection contracts with the ILECs.

The FCC has ruled that reciprocal compensation applies to traffic exchanged between carriers "except for telecommunications traffic that is interstate or intrastate exchange access, information access, or exchange services for such access." (FCC Rule 51.701(b).) Because virtual NXX traffic does not originate and terminate within the same local service area, and is properly considered a toll service, it falls within the exchange access category. (Haynes, Tr. 456-57, 495.) As Mr. Gates acknowledged, the Commission can only require reciprocal compensation for virtual NXX traffic if the Commission accepts the ALECs' notion that dialing patterns (rather than physical location of calling and called parties) determine whether a call is local or toll. (Gates, Tr. 882.) Under Mr. Gates' position, all traffic in the entire state would potentially be local. Indeed, an ALEC could assign a Tampa NXX to a customer in New York, and the ALEC would be entitled to reciprocal compensation for the "local" call between these cities. (Gates, Tr. 858.) This result defies common sense, the longstanding regulatory distinction between local and toll calls, and FCC policies. As Mr. Ruscilli pointed out, "[t]he FCC has made it clear that traffic jurisdiction is determined based upon the originating and terminating end points of a call, not the NPA/NXXs of the calling or called numbers." (Ruscilli, Tr. 53, *citing* example of Feature Group A access service.) Mr. Maples agreed that historically, intercarrier compensation obligations have been determined on the basis of the ILECs' local calling areas, such that carriers are not

legally obligated to pay reciprocal compensation on virtual NXX calls. (Maples, Tr. 570-71, 572-73, 575.)

In addition, Verizon's contracts (and likely other ILECs' contracts) with ALECs in Florida require reciprocal compensation only for traffic that originates and terminates in the same ILEC local exchange area. (See Tr. 770.) Virtual NXX calls do not meet this criterion. (Gates, Tr. 871.) Therefore, to the extent that ALECs are assessing reciprocal compensation on such calls, they are doing so in violation of their interconnection agreements with Verizon.

If the Commission orders ALECs to stop using virtual NXX codes, then it will not need to address the issue of reciprocal compensation for virtual NXX calls. If, however, the Commission permits the use of virtual NXX codes under certain conditions (to ensure the ILEC is properly compensated for such calls), then it should confirm that reciprocal compensation does not apply to such calls, as numerous other state commissions have done. (See Ruscilli, Tr. 59-65, *citing* decisions from South Carolina, Tennessee, Texas, and Illinois.)

- Issue 16:** (a) What is the definition of Internet Protocol (IP) Telephony?  
(b) What carrier-to-carrier compensation mechanism, if any, should apply to IP telephony?

**Verizon's Position:** \* Because IP Telephony covers a range of relatively nascent and changing technologies, and because this issue is subject to ongoing FCC proceedings, the Commission should not establish any compensation scheme for IP telephony or change existing compensation methods applied to such traffic. \*

As a general matter, IP telephony involves the provision of telephony applications using Internet Protocol. But, as Verizon witness Geddes pointed out, there may not be a unified notion of what constitutes IP telephony in practice. The term encompasses a

potentially broad variety of services and may be offered in various configurations (*i.e.*, between two personal computers (PCs); between a phone and a PC; or between two phones); over a combination of different types of underlying backbone networks (e.g., the public Internet or a private network); and over different types of access networks (e.g., corporate intranet or broadband connection). (*See generally* Geddes Direct Testimony, Tr. 288-300A.)

Verizon believes that all parties to this docket can agree that IP telephony is in its initial stages and will continue to evolve. While the Commission is correct in attempting to stay current on these developments, most of the parties agree that it would be premature for the Commission to take any action to establish a generic compensation scheme for IP telephony—particularly because it is the subject of an ongoing FCC rulemaking. (Beauvais, Tr. 321.)

As such, Verizon joined with most of the other parties to this docket in submitting the following Joint Position statement:

Because the term “IP Telephony” covers a range of relatively nascent and changing technologies, and because the entire topic is subject to one or more ongoing proceedings before the FCC, the FPSC should not, in this docket, establish a compensation scheme that would be intended to apply to IP Telephony or change existing compensation methods applied to such traffic.

(Joint Position Statement of FCCA, Verizon, AT&T, MCI WorldCom, Sprint, e-spire, Allegiance, TCG of South Florida, MediaOne Florida Telecommunications, Inc., and Intermedia Regarding Issue 16(B) (“IP Telephony”) (July 5, 2001).)

While BellSouth declined to sign the Joint Position, it has not advocated the establishment of any new reciprocal compensation scheme for IP telephony in this docket. Rather, it has asked the Commission to determine that access charges apply to

long-distance calls, regardless of the technology used to transport them. (Ruscilli, Tr. 72.) Verizon agrees with this principle, (Beauvais, Tr. 321), and emphasizes that the joint stipulation will not effect any changes in current assessment of access charges or other compensation methods where IP telephony applications may be used.

Verizon and the parties to the joint position statement ask the Commission to maintain the *status quo*. Indeed, no party has submitted any evidence in this proceeding that could be used as the basis for the Commission to develop a reciprocal compensation regime specifically applicable to IP Telephony.

**Issue 17: Should the Commission establish compensation mechanisms governing the transport and delivery or termination of traffic subject to Section 251 of the Act to be used in the absence of the parties reaching an agreement or negotiating a compensation mechanism? If so, what should be the mechanism?**

**Verizon's Position: \* No. Because the FCC has initiated a proceeding to establish an intercarrier compensation regime for Section 251 traffic, this Commission should not establish its own, potentially conflicting reciprocal compensation regime. If the Commission does act, it should consider approving bill-and-keep as the default regime. \***

As Verizon explained in response to Issue 1, above, the FCC has launched its own proceeding to establish a reciprocal compensation mechanism for all traffic subject to Section 251. To avoid potentially conflicting rulings and subsequent revisions to the state scheme, Verizon has recommended that the Commission retain the record in this case, but defer any ruling until the direction at the federal level is clear.

If the Commission, however, decides to approve a default reciprocal compensation regime (in the event parties fail to successfully negotiate another approach), bill-and-keep is the simplest, most feasible method. As Dr. Beauvais testified, Verizon's preferred option would be to allow compensation costs to be

reflected in end user rates. (Beauvais, Tr. 319.) However, given the statutory constraints on local service rates, matching retail rates to a usage-based reciprocal compensation structure is not practical in the short term. (Beauvais, Tr. 330-31; *See also* Beauvais Direct Testimony in Phase I of this docket.)

Under a bill-and-keep system, each carrier simply interconnects its facilities to those of other carriers and traffic flows between and among networks according to the carriers' interconnection agreements. (Beauvais, Tr. 306.) The parties would not bill each other for termination of traffic, but would instead be expected to recover their respective costs from their end users.

The FCC has proposed a bill-and-keep regime for section 251 traffic in its Unified Intercarrier Compensation rulemaking. (*See Unified Intercarrier Compensation Notice* at paras. 4, 69-77.) Given the FCC's proposal, adopting bill-and-keep in this docket (if the Commission believes it must make a ruling at all) may make it less likely that the state and ultimate federal schemes will be inconsistent. Even if this Commission adopts bill-and-keep and the FCC does not, it would be easier and less disruptive to move away from a bill-and-keep scheme (which does not require any billing, traffic measurement, or the like) than any positive price compensation method.

As Verizon explained in its Phase I Posthearing Statement, bill-and-keep is not a novel or unusual compensation approach. In fact, this Commission itself recommended to the FCC that if it deemed it necessary to establish a uniform recovery mechanism for internet-bound traffic, then it should encourage states to require bill-and-keep for all traffic. (Phase I Hearing Ex. 27, F.P.S.C. Comments in FCC Docket Nos. 96-98 and 99-68, at 10 (Apr. 9, 1999).) Bill-and-keep was also the approach most ALECs originally

avored for exchange of all local traffic. (Beauvais Phase I RT at 17.) The former GTE companies also advocated bill-and-keep as their preferred compensation approach for all local traffic in their interconnection negotiations. As such, many of its interconnection agreements (including those on file with this Commission) prescribe bill-and-keep for local traffic. These agreements typically impose bill-and-keep until traffic is out of balance by some specified percentage. Verizon's interconnection contract with AT&T, for instance, provides that if the traffic imbalance from one party to another is greater than 10% in any three-month period, then the appropriate party may bill the other using agreed-upon rates. (Verizon/ATT Interconnection Contract, Att. 14, at 14.)

A number of states have also approved bill-and-keep for local traffic in arbitrations, generic dockets, and even through legislation. For instance, the California Commission, as early as 1995, established bill-and-keep as the preferred regulatory outcome in the event that parties failed to agree to another method. (*See Order Instituting Rulemaking on the Commission's Own Motion Into Competition for Local Exchange Service; Order Instituting Investigation on the Commission's Own Motion into Competition for Local Exchange Service*; CPUC Dockets R. 95-04-043 & 1.95-04044, Decision 95-12-056, at 31 (Dec. 20, 1995).) In the Hawaii Commission's proceeding to investigate the communications infrastructure in the State, the parties (including AT&T) generally agreed that bill-and-keep was an appropriate method of complying with the Act's reciprocal compensation obligations for local traffic. Consistent with prior arbitration decisions, the Commission there held that bill-and-keep should apply for transport and termination of traffic between GTE Hawaiian Tel and the CLECs in the absence of an undue traffic imbalance. In that regard, the Commission allowed carriers

to petition for relief from bill-and-keep if the traffic imbalance reached more than 10%. (*Instituting a Proceeding on Communications, Including an Investigation of the Communications Infrastructure of the State of Hawaii*, Decision and Order No. 16775, at 58-59 (Jan. 7, 1999).)

Likewise, in Iowa, “[c]ompensation is handled on a bill and keep basis until circumstances exist where the total terminating to originating traffic for the exchange of mutual traffic between facilities-based local exchange carriers is unbalanced.” If such an imbalance is shown, the Iowa Utilities Board “has an opportunity to order reciprocal compensation, if appropriate.” (*Arbitration of Sprint Comm. Co. and US West Comm., Inc.*, Docket No. ARB-00-1, Order, at 2 (Dec. 21, 2000), included in Phase I Ex. 27.)

In the District of Columbia, bill-and-keep for local traffic is a statutory requirement, except in those instances where the Public Service Commission determines that traffic is out of balance by 5% or more. (D.C. Code section 43-1452(h)(1).)

There is no need for this Commission to make any factual findings that traffic be in balance before it concludes that a bill-and-keep policy preference is justified. In fact, it would be impossible for the Commission to do so in this generic docket. Inquiries about balance of traffic are necessarily specific to pairs of carriers; traffic flows between different pairs of carriers will have different characteristics. Like Commissions elsewhere have recognized, there is no barrier to adopting a policy preference for bill-and-keep with the proviso that it will apply until traffic is out of balance by a specified amount. While the FCC’s Rule 51.713(b) requires traffic to be roughly balanced for bill-and-keep to apply, it also permits state commissions to presume that traffic is roughly



balanced and is expected to remain so, unless a party rebuts that presumption. (FCC Rule 51.713(c).)

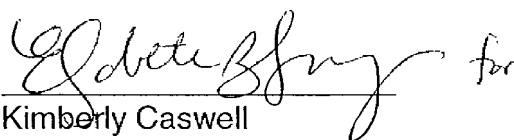
Either carrier should have the opportunity to demonstrate to the Commission when a traffic imbalance has occurred. In addition, a bill-and-keep approach would also have to recognize the cost differences between the ILECs' tandem/end office switching structure and the single-tier switching structure most ALECs use.

**Issue 18: How should the policies established in this docket be implemented?**

**Verizon's Position: \* If the Commission establishes any policy preferences in this docket, they may be applied, if appropriate, in the context of specific arbitrations under the Act. \***

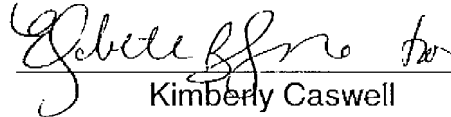
The Commission may consider policy options in this generic proceeding, but these options could be applied only if carriers fail to negotiate their own reciprocal compensation arrangements. The Act prescribes negotiation between the ILEC and the ALEC as the first-line means of arriving at local interconnection agreements. (Act. Sec. 252.) As such, the Commission cannot, through a generic decision, deny parties the ability to negotiate their own compensation mechanisms. Indeed, Verizon does not believe the Commission intends to do so. Issue 17 is framed in terms of a default mechanism; it does not seem to contemplate automatic imposition of a specific compensation mechanism upon all carriers.

Respectfully submitted on August 10, 2001

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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that copies of Verizon Florida Inc.'s Posthearing Statement and Brief in Docket No. 000075-TP were sent via U.S. mail on August 10, 2001 to the parties on the attached list.

  
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