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March 12, 2001

VIA HAND DELIVERY

Blanca S. Bayo, Director Division of Records and Reporting Betty Easley Conference Center 4075 Esplanade Way Tallahassee, Florida 32399-0870

Re: Docket No.: 000075-TP

Dear Ms. Bayo:

On behalf of the Florida Competitive Carriers Association (FCCA), enclosed for filing and distribution are the original and 15 copies of the following:

► Testimony and Exhibit of Joseph P. Gillan on Behalf of Florida Competitive Carriers Association

Please acknowledge receipt of the above on the extra copy and return the stamped copies to me. Thank you for your assistance.

Sincerely,

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Joseph A. McGlothlin

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FPSC-RECORDS/REPORTING

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: March 12, 2001

TESTIMONY AND EXHIBIT

OF

JOSEPH P. GILLAN

ON BEHALF OF

FLORIDA COMPETITIVE CARRIERS ASSOCIATION

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Q. Please state your name and business address.

A. My name is Joseph Gillan. My business address is P.O. Box 541038, Orlando,
Florida 32854. I am an economist with a consulting practice specializing in
telecommunications.

Q. Please briefly outline your educational background and related experience.

- I am a graduate of the University of Wyoming where I received B.A. and M.A. 6 A. 7 degrees in economics. From 1980 to 1985, I was on the staff of the Illinois Commerce Commission where I had responsibility for the policy analysis of issues 8 created by the emergence of competition in regulated markets, in particular the 9 10 telecommunications industry. While at the Commission, I served on the staff 11 subcommittee for the NARUC Communications Committee and was appointed to the Research Advisory Council overseeing NARUC's research arm, the National 12 Regulatory Research Institute. 13
- 14 In 1985, I left the Commission to join U.S. Switch, a venture firm organized to develop interexchange access networks in partnership with independent local 15 16 telephone companies. At the end of 1986, I resigned my position of Vice President-17 Marketing/Strategic Planning to begin a consulting practice. Over the past decade, I have provided testimony before more than 35 state commissions, four state 18 19 legislatures, the Commerce Committee of the United States Senate, and the 20 Federal/State Joint Board on Separations Reform. I currently serve on the Advisory Council to New Mexico State University's Center for Regulation. 21
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Q. On whose behalf are you testifying?

1	А.	I am testifying on behalf of the Florida Competitive Carrier Association (FCCA).				
2		The FCCA represents the interests of competitive carriers seeking to offer local, long				
3		distance and advanced data services to Florida consumers and businesses.				
4	Q.	What is the purpose of your testimony?				
5	А.	The purpose of my testimony is to address Issue 16:				
6		(a) What is the definition of Internet Protocol (IP) telephony?				
7		(b) How should IP telephony be compensated?				
8		The FCCA is jointly sponsoring Dr. Selwyn to address the remaining issues				
9		in this proceeding concerning local compensation more generally.				
10	Q.	Briefly describe what is meant by "IP Telephony."				
11	A.	As with any emerging technology, there is no single consensus definition of				
12		"IP telephony" but then there is no immediate need for one. As I explain				
13		below, "IP telephony" is short hand for a <u>continuum</u> of applications (and, just				
14		as importantly, potential applications) that involve the transmission of voice				
15		using packet technology, where the protocol used for interoperability of the				
16		packet network is the Internet Protocol (IP). Anchoring one end of the				
17		continuum is "pure" IP telephony - that is, the use of IP packet networks to				
18		transmit a simple voice service. However, the real value of packet technology				
19		is its ability to integrate data and voice together, making possible hybrid				
20		enhanced services. It is here, where voice becomes but a component of a				
21		more sophisticated arrangement, that the future of IP telephony is likely to be				
22		determined.				

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Two themes form the principal message of my testimony. First, when 1 2 a service contains *both* an information and voice capability, the Federal 3 Communications Commission requires that the entire service be treated as an 4 information service. On this - the growing end of the "IP Telephony" 5 continuum - the FCC has already established a national framework that defines such services as "information" services and exempt from access 6 charges. Where the FCC has not yet ruled - i.e., pure IP-Telephony services 7 with no information component -- there is no indication yet that such 8 primitive services are commercially viable. For a wide range of legal, 9 economic and policy reasons discussed below, I recommend that the 10 Commission allow the market to develop, without imposing legacy regulation 11 and access-charge based compensation schemes on this new technology. 12

Q. Please explain packet technology and its relationship to "Internet Protocol."

A. Packet technology divides any communication (voice or data) into individual
digital "packets" that are routed independently to a destination address.
Because these packets may traverse several different networks to reach their
final destination, a standard protocol is used so that these networks may
interoperate.

20 The protocol that is today's industry standard is known as the Internet 21 protocol, or IP. The most prominent use of this protocol is the "network" that 22 carries its name, i.e., the Internet. The Internet --actually a collection of

networks that have agreed to exchange traffic -- was made possible because of the adoption of this standard protocol enabling packet-based networks to interconnect in a known and reliable manner. The use of this basic protocol, however, extends beyond the "Internet" to also support other packet-based networks.

6 What is important about packet technology is that its reduces *any* 7 communication to a common-denominator, thereby enabling information 8 (i.e., data and voice) to be seamlessly integrated together. Because packet 9 technology is indifferent to a communications' original form, it is ideally 10 suited to support "convergence services" that combine communications and 11 information capability together.

Q. Is it imp

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Is it important to appreciate how IP-based services can combine voice and data together?

Yes. Although the Commission has framed the issue to address "IP 14 Α. telephony," this formulation actually masks the commercial importance of the 15 16 technology. As I noted above, IP telephony describes a continuum of 17 applications that range from pure voice to more sophisticated arrangements. Understanding this continuum is critical because where a service resides on 18 , the continuum determines not only its regulatory status, but is likely to 19 20 determine its commercial success as well. As I explain below, those services most likely to find commercial success will be hybrid services that combine 21 a voice and information capability. Importantly, these hybrid services are 22

classified as information services and excused from conventional regulation (and access charge compensation) by FCC order.

- Q. Can you give a few examples of services that would be considered
 "hybrids" that combine voice and information capability?
- 5 A. Yes. One example would be an integrated voice-messaging system. A 6 number of entities offer such capabilities. Typically, an integrated voice-7 messaging system assigns each subscriber a local telephone number and an 8 800 number. These numbers are then used by others to leave messages for 9 the subscriber, and by the subscriber to access a server (if using a phone) or 10 over the Internet.
- 11 When a calling party calls the subscriber's number, the calling party would be given a number of choices. The caller can leave a simple message 12 or the caller can also leave a "call-back" number using its touch-tone phone. 13 14 If the subscriber has activated the follow-me option, then some integrated messaging systems will offer the calling party the choice of waiting while the 15 16 call is forwarded to whatever number(s) the subscriber has chosen. With 17 such a feature mix, the calling party is provided a number of communication and storage options. In addition, if the service recognizes a "fax tone" from 18 the calling party's fax machine, it may accept a fax and place it in storage. 19 20 Some services also store the subscriber's email via connections with the 21 Internet.

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Another example is "Tell Me." "Tell Me" can be reached by dialing

1-800-555-TELL. The service uses voice recognition software and various 1 2 Internet links to access information about the weather, movies, restaurants and other topics. One of its capabilities is to connect a customer to a 3 4 restaurant for reservations after providing the listener some basic information. While this application may bear similarities to conventional "telephony" -5 6 after all, you *can* make your dinner reservation once connected - it is also 7 clear that "Tell Me" is fundamentally an information service (even though it 8 offers a voice telephony capability). (I note that while I have used this 9 service as an example of an IP-based information service, it may well be that 10 it is being offered today using conventional access arrangements -- even paying conventional access charges -- for operational simplicity). 11 Are these the only types of IP services that have been introduced? 12 Q. 13 No, some have introduced more primitive IP telephony services that have Α. focused more on providing voice capability, and less on the information-14 enabling features of the IP gateway. These "pure" IP telephony arrangements, 15 however, are generally first-generation offerings that have not demonstrated 16 commercial success. In several instances, these "pure IP telephony" services 17 18 were introduced so that the carrier could gain experience before expanding 19 to more complete services described above.

20Q.Has the FCC adopted a basic framework that determines whether a21service should be considered an information service (and thus exempt22from the application of access charges)?

1	А.	Yes. The applicable framework is explained most concisely in the Federal
2		Communication Commission's 1998 Report to Congress (In the Matter of
3		Federal-State Joint Board on Universal Service, "Report to Congress", CC
4		Docket 96-45, FCC 98-67, Adopted April 10, 1998). This Order addressed,
5		among other topics, the definition of "information service," the FCC's policy
6		exempting such services from access charges, and the unique issues presented
7		by new technology, including so-called "IP telephony."
8	Q.	What were the most important conclusions made by the FCC in its
9		Report to Congress?
10	А.	The first important conclusion reached by the FCC was that the
11		Telecommunications Act of 1996 established two, mutually exclusive, service
12		categories. A service is either a telecommunications service, or it is an
13		information service. As the FCC explained (Report to Congress, ¶39,
14		footnote omitted):
15 16 17 18 19 20 21 22 23 24 25 26 27		After careful consideration of the statutory language and its legislative history, we affirm our prior findings that the categories of "telecommunications service" and "information service" in the 1996 Act are mutually exclusive. Under this interpretation, an entity offering a simple, transparent transmission path, without the capability of providing enhanced functionality, offers "telecommunications." By contrast, when an entity offers transmission incorporating the "capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available information," it does not offer telecommunications. Rather, it offers an
27 28 29		"information service" even though it uses telecommunications to do so. We believe that this reading of the statute is most consistent with the 1996 Act's text,

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its legislative history, and its procompetitive, deregulatory goals.

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3 Q. 4 Why is it important to understand the basic dichotomy between 5 "information" and "telecommunications" services? 6 A. Information services (previously labeled enhanced services) are permitted to 7 interconnect through local business services rather than the interstate access 8 tariffs. (See MTS and WATS Market Structure, 97 FCC 2d 682, 715, 1983, 9 "MTS/WATS Order." See also Amendments of Part 69 of the Commission's 10 Rules Relating to Enhanced Service Providers, 3 FCC Rcd 2631, 2635 n. 8, 11 2637 n. 53, 1988, "ESP Exemption Order," Implementation of the Local 12 Competition Provisions in the Telecommunications Act of 1996, CC Docket 13 No. 96-98; Inter-Carrier Compensation for ISP-Bound Traffic, CC Docket No. 14 99-68, FCC 99-98, at ¶ 1, n.1, Feb. 26, 1999). In addition, as information 15 services, such offerings are not regulated as telecommunications services. Are "IP Telephony" services information services or telecommunications 16 Q. 17 services. 18 At present, there is no complete answer to this question. As I indicated, the A. 19 term IP telephony typically applies to a continuum of services, some which are 20 pure voice, while most others combine voice with some information 21 capability. Importantly, this continuum may straddle the line between 22 telecommunications and information services - in part, based on whether an 23 information capability is part of the service and, in part, because the FCC has

1		not yet ruled on how "pure IP telephony services" should be regulated.
2		Attached is a simple chart (Exhibit (JPG-1) that overlays this regulatory
3		framework on the continuum of IP Telephony services.
4	Q.	What are the most significant implications of this regulatory framework
5		with respect to the continuum of IP Telephony services?
6	А.	First, and most critically, any service that includes an information component
7		is considered an information service in its entirety (Report to Congress, $\P\P$'s
8		58 and 59, footnotes omitted):
9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24		The Commission has considered the question of hybrid services since <i>Computer I</i> , when it first sought to distinguish "communications" from "data processing." <i>Computer II</i> provided a framework for classifying such services, under which the offering of enhanced functionality led to a service being treated as "enhanced" rather than "basic." An offering that constitutes a single service from the end user's standpoint is not subject to carrier regulation simply by virtue of the fact that it involves telecommunications components. *** Stated another way, if the user can receive nothing more than pure transmission, the service is a telecommunications service. If the user can receive enhanced functionality, such as manipulation of information and interaction with stored data, the service is an information service.
25		Secondly, it is also important to emphasize the conclusion that the FCC did
26		not reach - i.e., whether even a pure "phone-to-phone IP telephony" service
27		would be a telecommunications (as opposed to an information) service.
28		Specifically, the FCC found (Report to Congress, ¶83):
29 30		The record currently before us suggests that certain "phone-to- phone IP telephony" services lack the characteristics that would

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1 2 3 4 5 6		render them "information services" within the meaning of the statute, and instead bear the characteristics of "telecommunications services." We do not believe, however, that it is appropriate to make any definitive pronouncements in the absence of a more complete record focused on individual service offerings.
7		The FCC has clearly defined the corners of the IP telephony debate, excusing
8		hybrid services from traditional regulation (and access charges), while leaving
9		open the possibility that <u>pure</u> IP telephony <i>might</i> be subject to regulation in the
10		future. The relevant question here is whether the Florida Commission should
11		attempt to address this remaining ambiguity in the federal system and impose
12		regulation on this emerging technology and market. As I explain, below the
13		answer is no.
14		
15	Q.	Should the Commission impose traditional regulation (and access
15 16	Q.	Should the Commission impose traditional regulation (and access charges) on IP Telephony?
15 16 17	Q. A.	Should the Commission impose traditional regulation (and access charges) on IP Telephony? No. To begin, there is only one area where the Commission could apply
15 16 17 18	Q. A.	 Should the Commission impose traditional regulation (and access charges) on IP Telephony? No. To begin, there is only one area where the Commission could apply regulation, and that is the case of pure IP Telephony. The mere existence of
15 16 17 18 19	Q. A.	 Should the Commission impose traditional regulation (and access charges) on IP Telephony? No. To begin, there is only one area where the Commission could apply regulation, and that is the case of pure IP Telephony. The mere existence of a "gray area," however, does not justify regulation for regulation's sake. The
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1		Technology and market conditions are in flux and providing the market more
2		time to evolve is the best approach. As former FCC Chairman Kennard has
3		explained (Kennard Pledges No Regulation for Internet Telephony,
4		Washington Internet Daily, May 25, 2000, page 2):
5		
6 7 8 9 10 11 12 13 14		imposing access charges on IP telephony, is not the direction we should be heading. It seeks to impose a legacy system on what is a new and emerging technology Internet telephony is still technically challenged. It's still in the development stage. The last thing we want to do is start inventing some regulatory paradigm or imposing an old regulatory paradigm on this service before its even gotten out of the box.
15	Q.	What would be the effect of a finding that even "pure IP telephony
16		services" are telecommunication services, and therefore subject to access
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16 17 18	А.	<pre>services" are telecommunication services, and therefore subject to access charges? First, there would be a chilling effect on entry and innovation as these inflated</pre>
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information service) or a "pure" IP telephony service (and potentially subject 2 to intrastate access charges). In this regard, it is useful to understand that the 3 Commission cannot determine whether *interstate* access charges apply to any service. Given the problems created by disparate federal and state regimes, it 4 5 is not clear that a state commission could even take action with respect to 6 intrastate access charges without raising issues of preemption.

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7 Against these very serious competitive harms, what would be the 8 possible gain? The Commission should understand that the number of actual 9 services - and, therefore, the amount of traffic -- that is ever likely to be d esignated as "pure IP telephony" will be relatively small. A major benefit of 10 11 IP-technology is its ability to integrate voice with other applications - in other 12 words, to offer hybrid services. Plain-vanilla telecommunications will likely still be dominated by plain-vanilla providers, using plain-vanilla (read circuit-13 14 switched) technology.

There is *no* market evidence that pure IP telephony – i.e., "first 15 generation" IP telephony that has not evolved to a hybrid arrangement - is a 16 17 sustainable market strategy, or that any IP-Telephony will seriously challenge conventional service. At most, initial offerings appear to be little more than 18 19 the necessary first steps of a learning process, positioning providers to move 20 on to more advanced offerings.

Why do you say that imposing an access-charge based compensation 21 **Q**. scheme on IP Telephony would chill innovation? 22

1	А.	By definition, little is known about customer demand for new products, and
2		bringing new services to market is both costly and risky. Hoisting the arcane
3		system of access charges onto these services could substantially increase their
4		cost, thereby reducing a carrier's incentive to take the risk to bring new
5		services to market.
6		Imagine the effect that access charges would have had on the
7		development of the Internet. Would consumers have been willing to try this
8		new technology if its price had been driven by access charges? If not, would
9		it have ever reached the critical mass necessary to become a daily part of our
10		lives? As the FCC has noted (Access Charge Reform, 12 FCC Rcd 15982,
11		16133, 1997, "Access Charge Reform Order", aff'd sub nom., Southwestern
12		Bell Te. Co. v. FCC, 153 F.3d 523, 8th Cir. 1998, quoting 47 U.S.C.
13		§ 230(b)(2)):
14 15 16 17 18 19 20 21 22		We think it possible that had access rates applied to ISPs over the last 14 years, the pace of development of the Internet and other services may not have been so rapid. Maintaining the existing pricing structure for these services avoids disrupting the still- evolving information services industry and advances the goals of the 1996 Act to "preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation."
23		One of the most successful pricing decisions of our time was the decision to
24		not impose the burden of high access charges on emerging new enhanced
25		services. This decision enabled new providers to innovate and experiment,
26		opening the door to the information-rich world we are about to enter. Similar

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1		considerations call for the same decision here. We are at the very beginning
2		of the emergence of IP-based services. This next-evolution should be
3		permitted to take root and grow without in the most efficient and cost-effective
4		manner possible, without the burden imposed by access charges.
5	Q.	Are there other reasons that the Commission should not impose access
6		charges on IP Telephony?
7	Α.	Yes. Overall, I believe it is useful to encourage the development of
8		information services that can be accessed by consumers through the
9		convenience of the standard telephone (and not just the computer). The
10		telephone is the most successful "information appliance" ever introduced, with
11		a market penetration far beyond that achieved by the computer. Sound public
12		policy should encourage innovative services for consumers whose only form
13		of access is the conventional phone, as well as consumers that will
14		increasingly rely on more sophisticated "appliances" (such as computers or
15		advanced televisions) to obtain communication services.
16		I also note that most IP-based services connect to the local network
17		using high-speed digital connections, typically an ISDN line with a primary
18		rate interface (i.e., ISDN-PROS). Thus, even assuming that the case could be
19		made that the imposition of access charges on IP Telephony is justified, some
20		very practical questions would remain. What exactly would a FG-IP service
21		look like? What would be its rate elements? What services would it apply to?
22		How would charges be calculated? What would be the underlying cost

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- 1 justification?
- 2 Q. What do you recommend? I recommend that the Commission simply allow the market for IP-based 3 Α. services to continue to evolve without attempting to impose legacy 4 5 compensation schemes - in particular, access charges - on these services. IP-6 services using IP gateways should be able to freely interconnect as business lines. The trend in such service-development is towards hybrid arrangements 7 that already qualify for such treatment, and there is no reason to conclude that 8 9 more primitive forms of *should* be subjected to access charges (even if they 10 lawfully could). Does this conclude your testimony? 11 Q.
- 12 A. Yes.

FPSC Docket No. 000075-TP Witness: Joseph P. Gillan Exhibit ____ (JPG-1)

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Basic Classification System of Communication Services

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Category	Information Services		<< >>	Telecommunicatios Services
Service Type	Pure Information Service	Hybrid/Mixed Services	Pure IP Telephony	Traditional Phone Services
Characteristics	A service capable of generating, acquiring, storing, transforming, processing, retrieving, utilizing or making available information via telecommunications.	Services that integrate an information capability with a telecommunications services	IP-based services that may resemble aspects of conventional services, but which also include an information services component	A simple transparent transmission path, without the capability of offering an information service
Compensation Regime	Service connects as a local exchange service		?	Exchange access or local exchange service

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Testimony and Exhibit of Joseph P. Gillan on behalf of FCCA has been furnished by hand delivery (*) or U.S. Mail this 12th day of March, 2001 to the following:

(*) Felicia Banks Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, Florida 32399

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