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ORIGINAL

March 12, 2001

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RECORDS AND REPORTING

Mrs. Blanca S. Bayó
Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: 000075-TP (Generic ISP) (Phase II)

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Direct Testimony of John Ruscilli and Nathaniel Tolar, which we ask that you file in the captioned docket.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served to the parties shown on the attached Certificate of Service.

Sincerely,

E. Earl Edenfield, Jr.

E. Earl Edenfield, Jr. (KA)

Enclosures

cc: All Parties of Record
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R. Douglas Lackey
Nancy B. White

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N. Tolar
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John Ruscilli
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CERTIFICATE OF SERVICE
Docket No. 000075-TP

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via Hand Delivery(*) and U.S. Mail this 12th day of March, 2001 to the following:

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(+) Signed Protective Agreement

BELLSOUTH TELECOMMUNICATIONS, INC.

DIRECT TESTIMONY OF JOHN A. RUSCILLI

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 000075-TP (PHASE II)

MARCH 12, 2001

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR BUSINESS ADDRESS.

A. My name is John A. Ruscilli. I am employed by BellSouth as Senior Director for State Regulatory for the nine-state BellSouth region. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE.

A. I attended the University of Alabama in Birmingham where I earned a Bachelor of Science Degree in 1979 and a Master of Business Administration in 1982. After graduation I began employment with South Central Bell as an Account Executive in Marketing, transferring to AT&T in 1983. I joined BellSouth in late 1984 as an analyst in Market Research, and in late 1985 moved into the Pricing and Economics organization with various responsibilities for business case analysis, tariffing, demand analysis and price regulation. I served as a subject matter expert on ISDN tariffing in various commission and public service

commission ("PSC") staff meetings in Tennessee, Florida, North Carolina and Georgia. I later moved into the State Regulatory and External Affairs organization with responsibility for implementing both state price regulation requirements and the provisions of the Telecommunications Act of 1996, through arbitration and 271 hearing support. In July 1997, I became Director of Regulatory and Legislative Affairs for BellSouth Long Distance, Inc., with responsibilities that included obtaining the necessary certificates of public convenience and necessity, testifying, Federal Communications Commission ("FCC") and PSC support, federal and state compliance reporting and tariffing for all 50 states and the FCC. I assumed my current position in July 2000.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present BellSouth's policy positions to the issues 10, and 12-17 as contained in the Commission's Order Adopting, Incorporating, and Supplementing Order No. PSC-00-2229-PCO-TP Establishing Procedure dated December 7, 2000. In addition to my testimony, BellSouth is filing the testimony of Mr. Nat Tolar who will address issue 11.

Issue 10: Pursuant to the Telecommunications Act of 1996 ("the Act"), 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 of traffic subject to Section 251 of the Act? (Legal issue)

Q. WHAT IS BELLSOUTH'S POSITION ON THIS ISSUE?

A. Since this is a legal issue, BellSouth's position on this issue will appropriately be addressed in its Post-Hearing Brief filed in this proceeding.

Pursuant to the Act and FCC rules, the Commission is required to ensure that BellSouth has established reciprocal compensation arrangements for the transport and termination of local telecommunications traffic. BellSouth's obligation to establish reciprocal compensation arrangements is set forth in Section 251(b)(5) of the Act. Further, Paragraph 1027 of the FCC's First Report and Order in CC Docket 96-98, addresses the obligations of state commissions stating, "Section 252(d)(2) states that, for the purposes of compliance by an incumbent LEC with section 251(b)(5), a state commission shall not consider the terms and conditions for reciprocal compensation to be just and reasonable unless such terms and conditions both: (1) provide for the 'mutual and reciprocal recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities of calls that originate on the network facilities of the other carrier,' and (2) 'determine such costs on the basis of a reasonable approximation of the additional costs of terminating such calls.'" Reciprocal compensation rates must be compliant with the FCC's TELRIC pricing rules and section 252(d) of the Act.

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

(a) Under what conditions, if any, is an ALEC entitled to be compensated at the ILEC's tandem interconnection rate?

(b) What is "similar functionality?"

(c) What is "comparable geographic area?"

Q. PLEASE BRIEFLY EXPLAIN THIS ISSUE.

A. The FCC's rules established that, when two carriers are involved in delivery of local traffic, the originating carrier would compensate the terminating carrier for certain additional costs incurred to transport and terminate local calls from the originating carrier's customers. The FCC limited such compensation to be symmetrical unless the ALEC could demonstrate that it was using an efficient configuration to transport and terminate the calls and that such configuration justified asymmetrical rates. Under symmetrical reciprocal compensation, the ALEC applies the ILEC's rate for transport and termination. The FCC determined that there should be two rates for transport and termination. One rate applies where tandem switching is involved (tandem rate) and the other rate applies where tandem switching is not involved (end office rate). The tandem rate simply consists of both the end office switching rate and the tandem switching rate. As a surrogate for these two rates, many commissions have used the UNE rates of the involved network components as the basis for reciprocal compensation. This is a reasonable surrogate when both parties' switches are in the same local calling area.

Q. HOW DOES BELLSOUTH USE TANDEM SWITCHES?

A. BellSouth has both local and access tandems. First, I will address local tandems. Sometimes there are so many local switches in a given local calling area that it makes economic sense to create a local tandem to help handle the flow of calls between the end office switches. In this case, the local tandem is connected to numerous end office switches in the local calling area, thereby eliminating the need to have every end office switch in that local calling area connected directly to every other end office switch in that local calling area. In this situation, a caller who is served by one end office switch can place a local call to a subscriber served by another end office switch, and the call can be routed through the local tandem, rather than being trunked directly to the called party's local end office switch. Obviously, if there are a lot of end office switches in a local calling area, using a tandem switch to aggregate traffic and to act as a central connection point makes economic sense and avoids a lot of extra trunking that would otherwise be required to ensure that call blockage was limited to acceptable levels.

The local tandem is functionally quite similar to what is often referred to as an access tandem. An access tandem is a tandem switch that is also connected to all of the local central offices in a given area. The difference is that the access tandem handles both local and long distance traffic while the local tandem only handles local traffic.

Q. WHAT IS BELLSOUTH'S POSITION ON THIS ISSUE?

A. In order for an ALEC to appropriately charge for tandem switching, the ALEC must demonstrate to the Commission that: 1) its switches serve a comparable

geographic area to that served by BellSouth's tandem switches and that 2) its switches actually perform local tandem functions. An ALEC should only be compensated for the functions that it actually provides.

BellSouth proposes to bill an ALEC for use of a tandem only when BellSouth incurs the cost of tandem switching on a particular local call. Further, BellSouth proposes to pay ALECs the tandem switching rate only when the ALEC incurs the cost of tandem switching on a particular local call. To incur this cost, the ALEC must provide the functionality of a tandem switch, as opposed to an end office switch, and the ALEC must be serving a geographic area comparable to a BellSouth tandem.

Q. WHAT IS THE BASIS FOR BELLSOUTH'S POSITION ON THIS ISSUE?

A. In its Local Competition Order, the FCC stated that the "additional costs" of transporting and terminating local traffic vary depending on whether or not a tandem switch is involved. (¶ 1090) As a result, the FCC determined that state commissions could establish transport and termination rates that vary depending on whether the traffic is routed through a tandem switch or directly to a carrier's end-office switch. *Id.* To that end, BellSouth has separate rates for transport and termination depending upon whether tandem switching is involved. When an ALEC's end user originates a local call that terminates on BellSouth's local network, BellSouth charges the ALEC a different rate for reciprocal compensation based on whether or not local tandem switching is involved in that call. When a BellSouth end user originates a local call that terminates on the

ALEC's network, the ALEC should only charge the tandem rate when the ALEC actually provides the tandem switching function.

The FCC, of course, recognized that an ALEC might not use the same network architecture as BellSouth or any other incumbent carrier. To insure that an ALEC would receive the equivalent of a tandem switching rate if it were warranted, the FCC directed state commissions to do two things. First, the FCC directed state commissions to "consider whether new technologies (e.g., fiber ring or wireless network) performed functions similar to those performed by an incumbent LEC's tandem switch and thus whether some or all calls terminating on the new entrant's network should be priced the same as the sum of transport and termination via the incumbent LEC's tandem switch." (Local Competition Order ¶ 1090) (emphasis added). Second, the FCC stated that "[w]here the interconnecting carrier's switch serves a geographic area comparable to that served by the incumbent LEC's tandem switch, the appropriate proxy for the interconnecting carrier's additional costs is the LEC tandem interconnection rate." Id.

Therefore, the FCC posed two requirements that must be met before an ALEC would be entitled to compensation at both the end office and the tandem switching rate, as opposed to only the end office rate, for any particular local call. The tandem switch involved has to serve a comparable geographic area, and it has to perform the tandem switching function for the local call for which compensation is sought.

BellSouth notes that in Section 51.711(a)(1) of its Rules, the FCC states that "symmetrical rates are rates that a carrier other than an incumbent LEC assesses upon an incumbent LEC for transport and termination of local telecommunications traffic equal to those that the incumbent LEC assesses upon the other carrier for the same services." (emphasis added) Again, in Section 51.711(a)(3), the Rule states that "[w]here the switch of a carrier other than an incumbent LEC serves a geographic area comparable to the area served by the incumbent LEC's tandem switch, the appropriate rate for the carrier other than an incumbent LEC is the incumbent LEC's tandem interconnection rate." The FCC clearly has two requirements that must be met before the tandem rate for transporting and terminating traffic applies.

Q. HAS THE FCC DEFINED WHICH FUNCTIONS A TANDEM SWITCH MUST PROVIDE?

A. Indeed it has. In Order No. FCC 99-238, the FCC's rules at 51.319(c)(3) state:

Local Tandem Switching Capability. *The tandem switching capability network element is defined as:*

(i) Trunk-connect facilities, which include, but are not limited to, the connection between trunk termination at a cross connect panel and switch trunk card;

(ii) The basic switch trunk function of connecting trunks to trunks; and

(iii) The functions that are centralized in tandem switches (as distinguished from separate end office switches), including but not

limited, to call recording, the routing of calls to operator services, and signaling conversion features.

Of course, this definition of tandem switching capability has long been accepted and applied within the telecommunications industry. The introduction of local competition has no effect on the definition of tandem switching capability.

Q. HOW DOES THE FCC'S DEFINITION OF TANDEM SWITCHING APPLY TO THIS ISSUE?

A. To receive reciprocal compensation at the tandem rate, a carrier must be performing the functions described in the FCC's definition of tandem switching. It is not enough that the switch "can" provide the function of a tandem switch; it has to actually be providing those functions for the local call for which compensation is sought. This is true if for no other reason than because the difference between the end office and tandem rates for reciprocal compensation is the same as the UNE rate for tandem switching. That rate recovers the cost of performing, for local calls, the functions described in the FCC's definition. If the ALEC were not performing those functions, the ALEC would simply be receiving a windfall.

To receive the tandem switching rate, an ALEC must demonstrate that its switches are providing a tandem function to transport local calls. As stated in the FCC's definition, to provide transport utilizing tandem switching, an ALEC's switch must connect trunks terminated in one end office switch to trunks

terminated in another end office switch. In other words, a tandem switch, as defined by the FCC, provides an intermediate switching function.

Q. HAS THIS COMMISSION PREVIOUSLY RULED ON THE ISSUE OF APPLICABILITY OF RECIPROCAL COMPENSATION TO TANDEM SWITCHING?

A. Yes. In its August 22, 2000 Order No. PSC-00-1519-FOF-TP in Docket No. 991854-TP (Intermedia/BellSouth Arbitration), the Commission found it appropriate to base their decision on the "two criteria set forth in FCC 96-325, ¶1090, for determining whether symmetrical reciprocal compensation at the tandem rate is appropriate: similar functionality and comparable geographic areas." (Order at page 12).

Also, in its January 14, 2000 Order No. PSC-00-0128-FOF-TP in Docket No. 990691-TP (ICG/BellSouth Arbitration), this Commission found that "the evidence of record does not provide an adequate basis to determine that ICG's network will fulfill this geographic criterion." (p. 10) Therefore, this Commission has determined that BellSouth is not required to compensate ICG for the tandem switching element.

Earlier, the Commission, in Order No. PSC-97-0294-FOF-TP, Docket 961230-TP, dated March 14, 1997, concluded at pages 10-11:

> "We find that the Act does not intend for carriers such as MCI to be compensated for a function they do not perform. Even though MCI argues

that its network performs 'equivalent functionalities' as Sprint in terminating a call, MCI has not proven that it actually deploys both tandem and end office switches in its network. If these functions are not actually performed, then there cannot be a cost and a charge associated with them. Upon consideration, we therefore conclude that MCI is not entitled to compensation for transport and tandem switching unless it actually performs each function."

Similarly, Florida Order No. PSC-96-1532-FOF-TP, Docket No. 960838-TP, dated December 16, 1996, states at page 4:

"The evidence in the record does not support MFS' position that its switch provides the transport element; and 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. Accordingly, we hold that MFS should not charge Sprint for transport because MFS does not actually perform this function."

Q. WHAT DOES BELLSOUTH REQUEST THE COMMISSION DO?

A. BellSouth believes that each ALEC's request for the tandem rate must be decided based on the specifics of that carrier's network, because the decision of whether the tandem rate applies is dependent upon how a particular carrier's network handles each individual local call. Importantly, BellSouth is not disputing an ALEC's right to compensation at the tandem rate where the facts support such a

conclusion. However, in this proceeding, ALEC's are seeking a decision that allows it to be compensated for functionality it does not provide. Absent real evidence that an ALEC's switches actually serve the same geographic area as BellSouth's tandems, and absent evidence that an ALEC's switches do perform the functions of a tandem switch, BellSouth requests that the Commission determine that an ALEC is only entitled, where it provides local switching, to the end office switching rate.

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

Q. WHAT IS BELLSOUTH'S POSITION ON THIS ISSUE?

A. For purposes of determining the applicability of reciprocal compensation, a "local calling area" can be defined as mutually agreed to by the parties and pursuant to the terms and conditions contained in the parties' negotiated interconnection agreement.

Q. WHAT DOES BELLSOUTH REQUEST THE COMMISSION DO?

A. The Commission should allow each party to establish their own local calling area for reciprocal compensation 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?

Q. WHAT IS BELLSOUTH'S POSITION ON THIS ISSUE?

A. BellSouth has a local network in each of the local calling areas it serves in Florida. BellSouth may have 10, 20 or even more such local networks in a given LATA. Nevertheless, ALECs wants to physically interconnect their network with BellSouth's "network" in each LATA at a single point, or perhaps two points. This approach simply ignores that there is not one BellSouth "network" but a host of networks that are all interconnected.

Importantly, BellSouth does not object to an ALEC designating a single Point of Interconnection at a point in a LATA on one of BellSouth's "networks" for traffic that the ALEC's end users originate. Further, BellSouth does not object to ALECs using the interconnecting facilities between BellSouth's "networks" to have local calls delivered or collected throughout the LATA. What BellSouth does want, and this is the real issue, is for ALECs to be financially responsible when they use BellSouth's network in lieu of building their own network to deliver or collect these local calls.

ALECs, to contrast their position with BellSouth's, expects BellSouth to collect local traffic bound for the ALEC's end users in each of BellSouth's numerous local calling areas in the LATA, and the ALEC expects BellSouth to be financially responsible for delivering, to a single point (or, at most, to two points)

in each LATA, local calls that are destined for the ALEC's local customers within the same local calling area where the call originated.

BellSouth agrees that ALECs can choose to interconnect with BellSouth's network at any technically feasible point in the LATA. However, BellSouth does not agree that ALECs can impose upon BellSouth the financial burden of delivering BellSouth's originating local traffic to that single point. If the ALEC wants local calls completed between BellSouth's customers and the ALEC's customers using this single Point of Interconnection, that is fine, provided that the ALEC is financially responsible for the additional costs the ALEC causes.

Q. DOES BELLSOUTH'S POSITION MEAN THAT THE ALEC HAS TO BUILD A NETWORK TO EVERY LOCAL CALLING AREA, OR OTHERWISE HAVE A POINT OF INTERCONNECTION WITH BELLSOUTH'S LOCAL NETWORK IN EVERY LOCAL CALLING AREA?

A. No. The ALEC can build out its network that way if it chooses, but it is not required to do so. ALECs can lease facilities from BellSouth or any other provider to bridge the gap between its network (that is, where it designates its Point of Interconnection) and each BellSouth local calling area. BellSouth will be financially responsible for transporting BellSouth's originating traffic to a single point in each local calling area. However, BellSouth is not obligated to be financially responsible for hauling an ALEC's local traffic to a distant point dictated by the ALEC.

Q. WHAT IS A POINT OF INTERCONNECTION?

A. The term "Point of Interconnection" describes the point(s) where BellSouth's and an ALEC's networks physically connect. In its First Report and Order, at paragraph 176, the FCC defined the term "interconnection" by stating that:

> We conclude that the term "interconnection" under section 251(c)(2) refers only to the physical linking of two networks for the mutual exchange of traffic.

Therefore, the Point of Interconnection is simply the place, or places, on BellSouth's networks where that physical linking of the ALEC's and BellSouth's networks takes place. Simply put, the Point of Interconnection is the place where facilities that the ALEC owns connect to facilities owned by BellSouth.

The term "interconnection point" is used by ALECs and BellSouth to define the place where financial responsibility for a call changes from one carrier to the other. The "Point of Interconnection" and the "interconnection point" can be at the exact same physical point, or they can be at different points.

Q. IF AN ALEC CAN INTERCONNECT WITH BELLSOUTH'S NETWORK AT ANY TECHNICALLY FEASIBLE POINT, WHY IS THIS AN ISSUE?

A. Recall that what we are talking about here is the interconnection of "local networks." An ALEC's network deployment may be significantly different from BellSouth's, which is the main reason that this issue exists. BellSouth has a number of distinct functional networks. For example, BellSouth has local

networks, long distance networks, packet networks, signaling networks, E911 networks, etc. Each of these networks is designed to provide a particular service or group of services. With regard to "local networks," BellSouth, in any given LATA, has several such local networks, interconnected by BellSouth's long distance network. BellSouth's networks are "seamless" in the sense that a customer connected to one network can access another network upon payment of the appropriate fees and they overlap, in the sense that an end office is used for both local and toll calls. However, these networks are individual networks in the sense that when a customer pays for local service in the Jacksonville local calling area, that is what the customer gets. The customer does not get access to other distant local calling areas, at least not without payment of the appropriate fees.

For instance, in the Jacksonville LATA, BellSouth has local networks in Jacksonville, Lake City, St. Augustine and Pomona Park, as well as several other locations. Customers who want local service in a particular local calling area must be connected to the local network that serves that local calling area. For example, a BellSouth customer who connects to the Jacksonville local network will not receive local service in the Lake City local calling area because Lake City is not in the Jacksonville local calling area. Likewise, an ALEC who wants to connect with BellSouth to provide local service in Lake City has to connect to BellSouth's local network that serves the Lake City local calling area. BellSouth's local calling areas, I would add, have been defined and set out over the years either by this Commission or by BellSouth with the approval of this Commission.

When an ALEC has a single switch in a LATA, then, by definition, that switch is located in a single BellSouth local calling area, for example, the Jacksonville local calling area, if that is where the switch is located. When a BellSouth local customer in Jacksonville wants to call an ALEC's local customer in Jacksonville, BellSouth delivers the call to the appropriate point of interconnection between BellSouth's network and the ALEC's network in Jacksonville. This network configuration is illustrated on Page 1 of Exhibit JAR-1 attached to my testimony. BellSouth would be financially responsible for taking a call from one of its subscribers located in the Jacksonville local calling area and delivering it to another point in the Jacksonville local calling area, the ALEC's Point of Interconnection. This scenario is not a problem.

The problem arises when a BellSouth customer located in a distant local calling area from the ALEC's Point of Interconnection wants to call his next-door neighbor who happens to be the ALEC's local subscriber. For example, consider that a BellSouth customer in Lake City that wants to call an ALEC's customer in Lake City picks up his or her telephone and draws dial tone from BellSouth's Lake City switch. The BellSouth customer then dials the ALEC customer. The call has to be routed from Lake City to the ALEC's Point of Interconnection in the Jacksonville LATA, which, in my example, is in Jacksonville. The ALEC then carries the call to its switch in Jacksonville and connects to the long loop serving the ALEC's customer in Lake City. This call routing is shown on Page 2 of Exhibit JAR-1. The issue here involves who is financially responsible for the facilities that are used to haul calls back and forth between the ALEC's Point of Interconnection in Jacksonville and the BellSouth Lake City local calling area.

Q. HOW WOULD AN ALEC CONNECT TO BELLSOUTH'S LOCAL NETWORKS THAT ARE OUTSIDE THE LOCAL CALLING AREA WHERE THE ALEC'S SWITCH IS LOCATED?

A. Because BellSouth is still not authorized to carry traffic across LATA boundaries, it is necessary for ALECs to establish at least one Point of Interconnection in each LATA. The ALEC would build facilities from its switch (wherever it is located) to the Point of Interconnection in the LATA where the BellSouth local network is located. Once that Point of Interconnection is established, the issue remains the same. Who is financially responsible for the facilities needed to carry calls between that Point of Interconnection and the distant BellSouth local calling area in which a local call is to be originated and terminated? Since the ALEC must establish a Point of Interconnection in each LATA, whether or not the ALEC also has a switch in each LATA is not relevant to resolving the problem that the ALEC's network design has created.

Q. WHY DO YOU SAY THAT ALECS MUST BE FINANCIALLY RESPONSIBLE FOR THE TRANSPORT OF THESE CALLS FROM LOCAL CALLING AREAS THAT ARE DISTANT FROM THE POINT WHERE THE ALEC HAS CHOSEN TO INTERCONNECT ITS NETWORK WITH BELLSOUTH'S?

A. First, that is the only approach that makes economic sense. I will explain the rationale for this statement later. Second, the Eighth Circuit determined that the

ILEC is only required to permit a CLEC to interconnect with the ILEC's existing local network, stating that:

> The Act requires an ILEC to (1) permit requesting new entrants (competitors) in the ILEC's local market to interconnect with the ILEC's existing local network and, thereby, use that network to compete in providing local telephone service (interconnection).... (Eighth Circuit Court Order dated July 18, 2000, page 2).

This is a very important point. When an ALEC interconnects with BellSouth's local network in Jacksonville, it is not also interconnecting with BellSouth's local network in Lake City. The ALEC is only interconnecting with the Jacksonville local network. The fact that the ALEC is entitled to physically connect with BellSouth at a single point in the LATA cannot overcome the fact that the single Point of Interconnection cannot, by itself, constitute interconnection with every single local calling area in a LATA.

Moreover, if that were true, think of the implications. Absent LATA restrictions, the ALEC's theory would mean that ALECs could have a physical Point of Interconnection with BellSouth's "network" in Miami, and BellSouth would be required to haul local calls originating in Lake City and destined to terminate in Lake City all the way to Miami, at no cost to the ALEC. That just does not make sense. Again, an ALEC can build whatever network it wants, and it can interconnect with BellSouth's "network" wherever it is technically feasible. However, the ALEC cannot shift the financial burden of its network design to BellSouth.

Q. PLEASE EXPLAIN HOW ALECS ARE ATTEMPTING TO SHIFT THEIR FINANCIAL RESPONSIBILITY TO BELLSOUTH.

A. An ALEC's network design could results in additional costs that the ALEC inappropriately contends BellSouth should bear. The best way to describe these additional costs that the ALEC causes is to compare examples of two local calls in the same local calling area. One local call is between two BellSouth customers. The other local call is between a BellSouth customer and an ALEC customer. Assume that all of the customers in this example live on the same street in Lake City.

First, let's examine what happens if both customers are served by BellSouth as depicted on page 3 of Exhibit JAR-1. When one neighbor calls the other, the call originates with one customer, and is transported over that customer's local loop to a local switch in Lake City where the call is connected to the other customer's local loop. Importantly, the call never leaves the Lake City local calling area. Therefore, the only cost BellSouth incurs for transporting and terminating that call is end office switching in Lake City.

Now, let's compare what happens when one customer obtains local service from BellSouth, and the other customer obtains local service from an ALEC. Assume that the BellSouth customer calls the ALEC customer next-door, as depicted on page 2 of Exhibit JAR-1. The BellSouth customer is connected to BellSouth's switch in Lake City. The BellSouth switch then sends the call to Jacksonville because that is where the ALEC told BellSouth to send the call. The call is then

hauled over facilities owned by the ALEC from the Jacksonville Point of Interconnection (e.g. access tandem) to the ALEC's switch. The ALEC then connects the call through its end office switch to the long loop serving ALEC's end user customer back in Lake City. Again, these two customers live next door to each other. In one case, the call never left the Lake City local calling area. In the other case, the call had to be hauled all the way to Jacksonville, and the only reason that BellSouth did so was because that is what the ALEC wanted.

Simply put, the point here is that the ALEC wants BellSouth to bear the cost of the facilities used to haul the call I just described between Lake City and Jacksonville. There is nothing fair, equitable or reasonable about the ALEC's position. Because the ALEC has designed its network the way it wants, and has designed its network in the way that is most efficient and cheapest for the ALEC, the ALEC must bear the financial responsibility for the additional facilities used to haul the call between Lake City and Jacksonville. The ALEC does not have to actually build the facilities. It does not have to own the facilities. It just has to pay for them. BellSouth objects to paying additional costs that are incurred solely due to an ALEC's network design. It is simply inappropriate for the ALEC to attempt to shift these costs to BellSouth.

Q. DO BELLSOUTH'S LOCAL EXCHANGE RATES COVER THESE ADDITIONAL COSTS?

A. No. BellSouth is, in theory at least, compensated by the local exchange rates charged to BellSouth's local customers for hauling all calls from one point within

a specific local calling area to another point in that same local calling area. I say "in theory" because, as the Commission knows, there has always been a dispute about whether local exchange rates actually cover the costs of handling local calls. Certainly there would be no dispute that the local exchange rates that BellSouth's customers pay were not intended to cover and, indeed, cannot cover, the cost of hauling a local call from one Lake City customer to another Lake City customer by way of Jacksonville.

Indeed, if the ALEC is not required to pay for that extra transport which the ALEC's network design decisions caused, who will pay for it? The BellSouth calling party is already paying for its local exchange service, and certainly will not agree to pay more simply for the ALEC's convenience. Who does that leave to cover this cost? The answer is that there is no one else, and because the ALEC has caused this cost through its own decisions regarding the design of its network, it should be required to pay for this additional cost.

Q. DOES BELLSOUTH RECOVER ITS COSTS FOR HAULING LOCAL CALLS OUTSIDE THE LOCAL CALLING AREA THROUGH RECIPROCAL COMPENSATION CHARGES?

A. No. This is also a significant point. The facilities discussed in this issue provide interconnection between the parties' networks. The cost of interconnection facilities is not covered in the reciprocal compensation charges for transport and termination. Paragraph 176 of FCC Order 96-325 clearly states that interconnection does not include transport and termination:

> Including the transport and termination of traffic within the meaning of section 251(c)(2) would result in reading out of the statute the duty of all LECs to establish 'reciprocal compensation arrangements for the transport and termination of telecommunications' under section 251(b)(5).

Simply put, the cost of interconnection is to be recovered through interconnection charges, and the cost of transport and termination is to be recovered separately through reciprocal compensation. Reciprocal compensation charges apply only to facilities used for transporting and terminating local traffic on the local network, not for interconnection of the parties' networks.

In the Lake City example, reciprocal compensation would only apply for the use of BellSouth's facilities within the Lake City local calling area. That is, reciprocal compensation would apply to the facilities BellSouth used within its Lake City local network to transport and switch an ALEC originated call. Reciprocal compensation does not include the facilities to haul the traffic from Lake City to Jacksonville.

Q. HOW HAS THE FCC ADDRESSED THE ADDITIONAL COSTS CAUSED BY THE FORM OF INTERCONNECTION A CLEC CHOOSES?

A. In its First Report and Order in Docket No. 96-98, the FCC states that the CLEC must bear the additional costs caused by a CLEC's chosen form of interconnection. Paragraph 199 of the Order states that "a requesting carrier that wishes a 'technically feasible' but expensive interconnection would, pursuant to section 252(d)(1), be required to bear the cost of that interconnection, including a

reasonable profit." (emphasis added). Further, at paragraph 209, the FCC states that "Section 251(c)(2) lowers barriers to competitive entry for carriers that have not deployed ubiquitous networks by permitting them to select the points in an incumbent LEC's network at which they wish to deliver traffic. Moreover, because competing carriers must usually compensate incumbent LECs for the additional costs incurred by providing interconnection, competitors have an incentive to make economically efficient decisions about where to interconnect." (emphasis added).

Clearly, the FCC expects ALECs to pay the additional costs that it causes BellSouth to incur. If an ALEC is permitted to shift its costs to BellSouth, the ALEC has no incentive to make economically efficient decisions about where to interconnect.

Q. WOULD AN ALEC'S ABILITY TO COMPETE BE HAMPERED BY THE ALEC'S INABILITY TO OBTAIN FREE FACILITIES FROM BELLSOUTH?

A. Absolutely not. First, the ALEC does not have to build or purchase interconnection facilities to areas that the ALEC does not plan to serve. If the ALEC does not intend to serve any customers in a particular area, its ability to compete cannot be hampered.

Second, in areas where the ALEC does intend to serve customers, BellSouth is not requiring the ALEC to build facilities throughout the area. The ALEC can build facilities to a single point in each LATA and then purchase whatever

facilities it needs from BellSouth or from another carrier in order to reach individual local calling areas that the ALEC wants to serve.

Q. WHAT RATES DOES BELLSOUTH PROPOSE TO CHARGE FOR THE USE OF ITS FACILITIES TO HAUL CALLS OUTSIDE THE LOCAL CALLING AREA?

A. The appropriate rates for the use of BellSouth's facilities to haul calls back and forth between the ALEC's point of interconnection and the local calling area of the originating and terminating points of the call are the interconnection rates for dedicated DS1 interoffice transport (per mile) and facility termination charges. The current Commission-approved dedicated DS1 interoffice transport rate is $0.6013 per mile and the dedicated DS1 interoffice transport facility termination rate is $99.79. These rates were established in Order No. PSC-98-0604-FOF-TP, on April 29, 1998. However, in the generic UNE cost docket (Docket No. 990649-TP), BellSouth proposed a rate of $.20 per mile and $92.62 per facility termination for dedicated DS1 interoffice transport.

Q. HAS ANOTHER COMMISSION IN BELLSOUTH'S REGION RULED ON THIS SAME ISSUE?

A. Yes. In its ruling in AT&T's Petition for Arbitration in Docket No. 2000-527-C, issued January 30, 2001, the Public Service Commission of South Carolina stated "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." (SCPSC Order at page 28).

Q. WHAT DOES BELLSOUTH REQUEST OF THIS COMMISSION?

A. BellSouth requests the Commission to find that ALECs are required to bear the cost of facilities that BellSouth may be required to install, on the ALEC's behalf, in order to connect from a BellSouth local calling area to the ALEC's Point of Interconnection located outside that local calling area. It simply makes no sense for BellSouth to bear the cost of hauling a local call outside the local calling area just because that is what the ALEC wants BellSouth to do. If the ALEC bought these facilities from anyone else, the ALEC would pay for the facilities. ALECs, however, do not want to pay BellSouth for the same capability. Importantly, ALECs should not be permitted to avoid this cost, nor should they be permitted to collect reciprocal compensation for facilities that haul local traffic outside of the local calling area.

Issue 15: (a) Under what conditions, if any, should carriers be permitted to assign NPA/NXX codes to end users outside the rate center in which the NPA/NXX is homed?

(b) Should the intercarrier compensation mechanism for calls to these NPA/NXXs be based upon the physical location of the customer, the rate center to which the NPA/NXX is homed, or some other criterion?

Q. WHAT IS BELLSOUTH'S POSITION ON THIS ISSUE?

A. BellSouth's position is that regardless of the numbers an ALEC assigns to its end users, BellSouth should only pay reciprocal compensation on calls that originate and terminate within the same local calling area. Further, each party should utilize its NPA/NXXs in such a way, and should provide the necessary information, so that the other party is able to distinguish local traffic (which originates and terminates in the same local calling area) from intraLATA Toll traffic (which originates in one local calling area and terminates in another local calling area) for the other party's originated traffic. If an ALEC does not provide such information to BellSouth, BellSouth has no way of knowing which calls are local (to which reciprocal compensation applies) and which calls are long distance (to which access charges apply).

BellSouth is asking that ALECs separately identify any number assigned to an ALEC end user whose physical location is outside the local calling area associated with the NPA/NXX assigned to that end user, so that BellSouth will know whether to treat the call as local or long distance. Providing that an ALEC will separately identify such traffic, for purposes of billing and intercarrier compensation, BellSouth would not object to an ALEC assigning numbers out of an NPA/NXX to end users located outside the local calling area with which that NPA/NXX is associated. Because of this freedom, an ALEC can elect to give a telephone number to a customer who is physically located in a different local calling area than the local calling area where that NPA/NXX is assigned. If the ALEC, however, chooses to give out its telephone numbers in this manner, calls

originated by BellSouth end users to those numbers are not local calls. Consequently, such calls are not local traffic and no reciprocal compensation applies.

Q. CAN YOU DESCRIBE WHAT TYPICALLY HAPPENS WHEN AN NPA/NXX IS GIVEN TO A PARTICULAR CARRIER?

A. When an ALEC, or any other local carrier, is given an NPA/NXX code by the North American Numbering Plan Administrator ("NANPA"), the carrier must assign that NPA/NXX code to a specific rate center. In other words, all telephone numbers must have a unique "home". All other carriers use this assignment information to determine whether calls originated by its customers to numbers in that NPA/NXX code are local or long distance calls. For example, assume that the administrator assigns the 904/641 NPA/NXX to an ALEC. The ALEC would tell the administrator where 904/641 is assigned. Let's say the ALEC assigns the 904/641 code to the Jacksonville rate center. When a local carrier's customer calls a number in the 904/641 code, the local carrier bills its customer based upon whether a call from the location where the call originates to the Jacksonville rate center is a local call or a long distance call. If a BellSouth customer in the Jacksonville local calling area calls a number in the 904/641 code in this example, BellSouth treats the call as a local call for purposes of billing its Jacksonville customer. Likewise, if a BellSouth customer in Lake City calls a number in the 904/641 code, BellSouth would bill the customer for an intraLATA long distance call.

Q. IS AN ALEC RESTRICTED TO GIVING NUMBERS ASSIGNED TO A PARTICULAR RATE CENTER TO CUSTOMERS WHO ARE PHYSICALLY LOCATED IN THAT SAME RATE CENTER?

A. No. In the example above, the ALEC is not restricted to giving numbers in the 904/641 code only to customers that are physically located in the Jacksonville rate center. The ALEC is permitted to assign a number in the 904/641 code to any of its customers regardless of where they are physically located. Again, BellSouth is not attempting to restrict an ALEC's ability to do this.

To illustrate, let's look at Exhibit JAR-1. An ALEC could assign a number, say 904-641-5555, to the ALEC's End User ("EU") #1, who is physically located in Jacksonville. A BellSouth customer in Jacksonville who calls 904-641-5555 would be billed as if he or she made a local call. BellSouth agrees that this is a local call and, therefore, appropriate reciprocal compensation should apply.

Hypothetically, however, what happens if the ALEC disassociates the physical location of a customer with a particular telephone number from the rate center where that NPA/NXX code is assigned? Assume that the ALEC gives the number 904-641-2000 to the ALEC's EU #2, who is located in Lake City. If the BellSouth customer in Jacksonville calls 904-641-2000, BellSouth will bill its customer in Jacksonville as if the customer made a local call. BellSouth would hand off the call to the ALEC, and the ALEC would then carry the call from that point to its end user in Lake City. The end points of the call are in Jacksonville and Lake City, and therefore, the call is a long distance call. To use a more

extreme example, the ALEC could elect to assign another number, say 904-641-3000 to the ALEC's EU #3, who is physically located in New York. The BellSouth customer in Jacksonville who calls 904-641-3000 would be billed as if he made a local call, but the call would actually terminate in New York, which clearly would be a long distance call. In this situation, BellSouth would pay reciprocal compensation on those calls from Jacksonville to Lake City or from Jacksonville to New York, which are clearly long distance calls and not subject to reciprocal compensation.

Q. IS TRAFFIC JURISDICTION ALWAYS DETERMINED BY THE RATE CENTERS WHERE THE ORIGINATING AND TERMINATING NPA/NXXs ARE ASSIGNED?

A. No. Traffic jurisdiction based on rate center assignment may be used for retail end user billing, but not for inter-company compensation purposes. The 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 number. One example is originating Feature Group A ("FGA") access service. With FGA, a customer dials a 7 (or 10) digit number and receives a second dial tone from the distant office. Then the customer, as in the case before equal access, enters a code and dials the long distance number. Even though the originating end user dials a number that appears local to him or her, no one disputes that originating FGA traffic is switched access traffic with respect to jurisdiction and compensation between the involved companies.

Another example is Foreign Exchange (FX) service. FX service is exchange service furnished to a subscriber from an exchange other than the one from which the subscriber would normally be served. Here again, it appears to the originating customer that a local call is being made when, in fact, the terminating location is outside the local calling area (i.e., long distance). Further, because the call to the FX number appears local and the calling and called NPA/NXXs are assigned to the same rate center, the originating end user is not billed for a toll call. Despite the fact that the calls appear to be local to the originating caller, FX service is clearly a long distance service. The reason the originating end user is not billed for a toll call is that the receiving end user has already paid for the charges from the real NPA/NXX office to the FX office. There are charges for this function and they are being paid by the customer that is benefiting from the FX service.

Q. WHEN AN ALEC ASSIGNS NUMBERS IN THE MANNER YOU HAVE DESCRIBED, IS IT ATTEMPTING TO DEFINE ITS OWN LOCAL CALLING AREA?

A. When an ALEC assigns numbers in the manner described, the ALEC is not necessarily attempting to define a different local calling area for its customers than the local calling area offered by BellSouth. In fact, in the previous hypothetical example of the 904/641 code that the ALEC assigns to Jacksonville, the ALEC does not need to have any customers who are physically located in the Jacksonville local calling area. What the ALEC is doing is offering a service that allows customers of other LECs (i.e., BellSouth) to place toll-free calls to selected customers of the ALEC who are physically located in a different local calling

area. In the Jacksonville example, the ALEC is attempting to redefine BellSouth's local calling area, but only in those instances in which a BellSouth end user places a call to the ALEC's selected end users.

The ALEC, however, is only permitted to define the local calling area for its own customers. If, in the example, the ALEC had any of its own local service customers in Jacksonville and offered those customers the ability to call Lake City without long distance charges, then it could be said that the ALEC was offering a local calling area in Jacksonville that was different from BellSouth's. The local calling area, however, would be defined that way only for those customers to whom the ALEC provided local service. The ALEC is free to design whatever local calling area it wants for its customers. The ALEC, however, is not free to determine the local calling area for BellSouth customers. Nor is the ALEC free to charge BellSouth reciprocal compensation for traffic that is not local.

Q. DOES BELLSOUTH CURRENTLY ASSIGN NXX CODES TO CUSTOMERS WHO ARE NOT PHYSICALLY LOCATED IN THE EXCHANGE AREA ASSOCIATED WITH A PARTICULAR NXX?

A. Yes. BellSouth's FX service allows an FX subscriber that is not physically located in a particular exchange area to receive a telephone number with an NXX code that is associated with that exchange area.

Q. PLEASE COMPARE THE NPA/NXX ADDRESSED IN THIS ISSUE WITH BELLSOUTH'S FOREIGN EXCHANGE ("FX SERVICE").

A. Although similar, these services are not exactly the same. In the case of the FX service, a customer dials a number that appears to be a local number. The call is transported to the customer's serving wire center. The switch looks at the number and, based on the translations for the number, it sends the call to the "foreign exchange" where the customer being called resides. BellSouth's costs are recovered from BellSouth's customers; the originating customer pays for the local portion of the call, and the FX customer pays BellSouth to terminate the call in a different local calling area.

Q. IS BELLSOUTH COMPENSATED FOR THE COSTS INCURRED WHEN ONE OF ITS CUSTOMERS CALLS A PERSON LOCATED IN A DIFFERENT LOCAL CALLING AREA?

A. Yes. When a BellSouth end user calls a person located outside of that end user's basic local calling area, BellSouth receives compensation in addition to the basic local rates it charges to its customers. When BellSouth carries an intraLATA toll call, for instance, BellSouth collects toll charges from its customer who placed the call. When a BellSouth customer places an interLATA call, BellSouth collects originating access from the IXC. When BellSouth carries an intraLATA call from a BellSouth end user to a BellSouth FX customer, BellSouth receives compensation for the FX service (including the toll component of that service) from its FX customer. Similarly, when BellSouth carries calls to a BellSouth

customer with an 800 number, BellSouth receives compensation for the 800 service (including the toll component of that service) from its 800 service customer. In each of these cases, BellSouth is compensated from some source other than the local rates it charges its customers for placing local calls. That additional source may be BellSouth's end user customer (i.e., toll charges), another telecommunications provider such as an IXC (i.e., access charges), or an FX or 800 service subscriber (i.e., FX charges or 800 charges).

Q. HAS BELLSOUTH BILLED ALECS RECIPROCAL COMPENSATION FOR CALLS FROM ALEC CUSTOMERS TO BELLSOUTH FX CUSTOMERS?

A. Yes. Prior to February 23, 2001, BellSouth billed ALECs reciprocal compensation for calls from ALEC customers to BellSouth FX customers, if the FX customer is not an Internet service provider.

Q. ISN'T THAT INCONSISTENT WITH BELLSOUTH'S POSITION THAT RECIPROCAL COMPENSATION IS DUE ONLY FOR CALLS THAT ORIGINATE AND TERMINATE IN THE SAME LOCAL CALLING AREA?

A. Not always. An ALEC is allowed to designate the local calling area for calls originated by the ALEC's customers. Let's assume that the ALEC designates the entire LATA as the local calling area for calls originated by the ALEC's customers. When a customer of that ALEC calls a BellSouth FX customer that is physically located within the same LATA, that call originates and terminates in the same local calling area that has been designated by the ALEC. That call,

therefore, is a local call, and BellSouth is entitled to collect reciprocal compensation from the CLEC for transporting and terminating that call to the BellSouth FX customer.

An ALEC, however, may designate the same local calling areas as BellSouth has designated. If that is the case, and if an ALEC customer in the ALEC's local calling area number 1 dials an FX number and reaches a BellSouth FX customer physically located in the ALEC's local calling area number 2, that is not a local call. BellSouth, therefore, should not collect reciprocal compensation from the CLEC for that call.

Q. WHAT HAS BELLSOUTH DONE TO ADDRESS THIS SITUATION?

A. BellSouth has implemented a process to ensure that no reciprocal compensation is charged for any calls to BellSouth's FX customers, even in those instances in which, as I have just explained, BellSouth would be entitled to collect reciprocal compensation for such calls.

Q. DESCRIBE THE PROCESS THAT BELLSOUTH IMPLEMENTED TO ENSURE THAT RECIPROCAL COMPENSATION IS NOT CHARGED FOR CALLS TO BELLSOUTH'S FX CUSTOMERS.

A. BellSouth built a database of all existing BellSouth FX numbers, and has implemented programming that will place newly assigned FX numbers into the database as they are assigned. This database is used to prevent billing of

reciprocal compensation on calls to BellSouth FX numbers. These system changes were implemented region-wide effective February 23, 2001.

Q. HAVE ANY STATE COMMISSIONS IN THE BELLSOUTH REGION ADDRESSED THIS ISSUE?

A. Yes, the South Carolina, Florida, Georgia and Tennessee Commissions have ruled consistent with BellSouth's position on this issue.

Q. PLEASE DESCRIBE THE DECISION OF THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA.

A. The Public Service Commission of South Carolina issued its decision in the Adelphia arbitration case on January 16, 2001 (Docket No. 2000-516-C, Order No. 2001-045). That Commission adopted BellSouth's proposed interconnection agreement language, which specifies that, to the extent that traffic to Virtual NXX numbers originates in one local calling area and terminates in a different local calling area, such traffic is not local traffic. The Commission also ruled that BellSouth is not required to pay reciprocal compensation for such traffic, and it ruled that BellSouth is entitled to collect access charges from Adelphia when BellSouth originates such traffic.

Q. COULD YOU BRIEFLY DESCRIBE THE FLORIDA DECISION ON THIS ISSUE?

A. Yes. This issue was recently addressed by this Commission in the arbitration proceeding between BellSouth and Intermedia (Order No. PSC-00-1519-FOF-TP, Docket No. 991854-TP, dated August 22, 2000). In that proceeding, the Commission determined that until Intermedia could provide information to permit proper billing, Intermedia could not give numbers to customers who are physically located outside the rate center where the NPA/NXX code is assigned. Specifically, the Commission ruled at page 43 of its Order:

> *If Intermedia intends to assign numbers outside of the areas with which they are traditionally associated, Intermedia must provide information to other carriers that will enable them to properly rate calls to those numbers. We find no evidence in the record indicating that this can be accomplished.*
>
> *Based on the foregoing, we find it appropriate that the parties be allowed to establish their own local calling areas. Nevertheless, the parties shall be required to assign numbers within the areas to which they are traditionally associated, until such time when information necessary for the proper rating of calls to numbers assigned outside of those areas can be provided.*

Since the time of the Intermedia Arbitration, BellSouth has identified a means to handle the rating issue the Commission recognized. BellSouth proposes not to charge its end user for a long distance call, even though a long distance call has been made. This treatment is similar to the rating of calls from BellSouth end users to 800 numbers. The reason for this approach is that, like 800 service, the

ALEC is incurring the long distance costs in this case and, if it chooses to do so, it may recover these costs from the end user that subscribes to the ALEC service. Of course, like 800 service, this is a long distance service.

Q. COULD YOU BRIEFLY DESCRIBE THE GEORGIA DECISION ON THIS ISSUE?

A. Yes. On July 5, 2000, in Docket No. 11644-U (Intermedia Arbitration), the Georgia Commission ordered that Intermedia be allowed to assign its NPA/NXXs in accordance with the establishment of its local calling areas, provided that it furnish the necessary information to BellSouth and all other telecommunication carriers that they may identify local and toll traffic and provide for the proper routing and billing of those calls.

Q. COULD YOU BRIEFLY DESCRIBE THE TENNESSEE DECISION ON THIS ISSUE?

A. Yes. At its February 6, 2001 Director's Conference, the Tennessee Regulatory Authority ("TRA") ruled on this issue as it was raised in BellSouth's Petition for Arbitration with Intermedia. The TRA specifically ruled, "that calls to an NPA/NXX in the local calling area outside the rate center where the NPA/NXX is homed should be treated as intrastate interexchange toll traffic for purposes of intercarrier compensation and are subject to access charges." (Transcript, pg. 12)

Q. ARE YOU AWARE OF ANY OTHER COMMISSIONS OUTSIDE BELLSOUTH'S REGION THAT HAVE ADDRESSED WHETHER THE SERVICE DESCRIBED IN THIS ISSUE IS LOCAL OR INTEREXCHANGE?

A. Yes. The Maine, Texas, and Illinois Commissions have determined that this call scenario is not local service. Texas and Illinois have further stated that reciprocal compensation should not apply in Virtual FX/Virtual NXX situations.

Q. BRIEFLY DESCRIBE THE MAINE COMMISSION'S ORDER THAT YOU REFERRED TO ABOVE.

A. The Maine Commission's Order was issued on June 30, 2000 in Docket Nos. 98-758 and 99-593. The service at issue in that Order is the same type of service described in this issue. (Order at p. 4). Brooks Fiber ("Brooks" – a subsidiary of MCI WorldCom) had been assigned 54 NPA/NXX codes that it had subsequently assigned to various exchanges that are outside the Portland, Maine local calling area. Brooks then assigned numbers from those codes to its customers who were physically located in Portland. The Maine Commission was trying to determine whether Brooks was entitled to retain the NPA/NXX codes used for the service. If the service was local, Brooks was entitled to the codes; if the service was interexchange, Brooks Fiber had to relinquish the codes. The Maine Commission concluded that the service was interexchange. Since Brooks did not have any customers at all in the rate centers where 45 of the codes were assigned, the Maine Commission ordered the Numbering Plan Administrator to reclaim those codes (Order at p. 29)

Now, there is a potential misunderstanding that could arise when reading the Maine Order. There are several references to ISP in the Maine Order, but that is because Brooks Fiber had only given numbers in the NPA/NXX code to ISPs. Significantly, the Maine Order does not address the ISP reciprocal compensation issue. Neither the Maine Commission findings on the nature of this traffic nor BellSouth's position on this issue depend on whether the number is given to an ISP. The same findings and the same position apply regardless of the type of customer who has been given the number. It is just a fact in the Maine case that Brooks Fiber had only given numbers to ISPs; therefore, there are references to ISPs in the Order.

Q. WHAT DO THE ILLINOIS AND TEXAS COMMISSIONS' ORDERS SAY ABOUT THIS ISSUE?

A In the Illinois Commerce Commission's Order in Docket 00-0332, Level 3 Communications, Inc. Arbitration case, dated August 30, 2000, the Commission states at pages 9-10:

> *(b) The reciprocal compensation portion of the issue is straightforward. The FCC's regulations require reciprocal compensation only for the transport and termination of "local telecommunications traffic," which is defined as traffic "that originates and terminates within a local service area established by the state commission." 47 C.F.R. 51.701 (a)-(b)(1). FX traffic does not originate and terminate in the same local rate center*

and therefore, as a matter of law, cannot be subject to reciprocal compensation. Whether designated as "virtual NXX," which Level 3 uses, or as "FX," which AI [Ameritech Illinois] prefers, this service works a fiction. It allows a caller to believe that he is making a local call and to be billed accordingly when, in reality, such call is traveling to a distant point that, absent this device, would make the call a toll call. The virtual NXX or FX call is local only from the caller's perspective and not from any other standpoint. There is no reasonable basis to suggest that calls under this fiction can or should be considered local for purposes of imposing reciprocal compensation. Moreover, we are not alone in this view. The Public Utility Commission of Texas recently determined that, to the extent that FX-type calls do not terminate within a mandatory local calling area, they are not eligible for reciprocal compensation. See, Docket No. 21982, July 13, 2000. On the basis of the record, the agreement should make clear that if an NXX or FX call would not be local but for this designation, no reciprocal compensation attaches. [Emphasis added.]

Q. HOW DOES BELLSOUTH'S POSITION COMPARE TO THE MAINE, ILLINOIS AND TEXAS COMMISSIONS' ORDERS?

A. BellSouth's position is completely consistent with these three Orders. Most importantly, the Maine Commission found that the service was interexchange. (Order at pps. 4, 8-12, 18). The Maine Commission concluded that this service and FX service have some parallels but the closest parallel is 800 service. (Order

at pps. 11-12) The Maine Commission found that Brooks is not attempting to define its local calling area with this service. (Order at p 14) Finally, the Maine Commission concluded that this service has no impact on the degree of local competition. (Order at p. 13) The Illinois and Texas Commissions' Orders went a step further, specifying that Virtual FX or NXX calls which do not terminate within a mandatory local calling area are not eligible for reciprocal compensation. Again, none of these findings depend on whether the number is given to an ISP or another type of customer.

Q. HOW DOES THE RESOLUTION OF THIS ISSUE IMPACT THE DEGREE OF LOCAL COMPETITION IN FLORIDA?

A. It does not. The service at issue here has nothing to do with local competition. Using the Jacksonville example, the service described in this issue does not create a local service, let alone any local service competition, in Jacksonville. Local service competition is only created where the ALEC offers local service to its own customers. The service at issue here is offered to BellSouth's local service customers in Jacksonville, regardless of whether the ALEC has any local service customers physically located in Jacksonville. When the ALEC allows a BellSouth customer in Jacksonville to make a toll free call to one of its true 800 service numbers, no local competition is created in Jacksonville. Likewise, when an ALEC assigns a number out of the 904/641 code to one if its customers in Lake City, no local competition is created in Jacksonville (where the 904/641 code is assigned). In this case, the ALEC has no contact or business relationship with the BellSouth customers for use of this service. These customers remain, in

fact, BellSouth's local service customers. There is nothing that the ALEC is providing in this case that even resembles local service. Yet, ALECs claims that they should be paid reciprocal compensation for providing this service.

Q. DOES BELLSOUTH'S POSITION IMPACT AN ALEC'S ABILITY TO SERVE ISPs?

A. No, BellSouth's position has no impact on an ALEC's ability to serve ISPs. ALECs are free to target and select customers, and assign telephone numbers as it chooses. BellSouth is only saying that calls which originate and terminate with customers in different local calling areas are not local and, therefore, are not subject to reciprocal compensation.

Q. WOULD COSTS ASSOCIATED WITH ACCESSING THE INTERNET INCREASE IF BELLSOUTH RESTRICTS ALECS' USE OF NXX CODES?

A. First let me reiterate, BellSouth is not attempting to restrict an ALEC's use of NXX codes. Second, as I have already stated, reciprocal compensation is designed to compensate a carrier for transporting and terminating a local call. Long distance calls have different compensation mechanisms that apply and would continue to apply in the cases we have been discussing. When an ALEC assigns telephone numbers to a customer in a way that allows other parties to make a long distance call to that customer but not be charged for a long distance call, the ALEC may either recover the costs associated with such an arrangement from its customer who is benefiting from the arrangement, or the ALEC itself may absorb

those costs. The ALEC, however, cannot recover those costs from BellSouth in the form of reciprocal compensation.

Q. WHAT IS BELLSOUTH REQUESTING OF THE COMMISSION?

A. BellSouth is asking the Commission to rule consistently with its past rulings and the rulings of other Commissions described above. BellSouth is not asking the Commission to restrict an ALEC's ability to allocate numbers out of its assigned NPA/NXX codes in whatever manner it sees fit. BellSouth simply requests the Commission to determine that if an ALEC assigns telephone numbers to customers that are physically located in a different local calling area than the local calling area where the NPA/NXX is assigned, then calls originated by BellSouth end users in the local calling area where the NPA/NXX is assigned to those numbers are not local calls. Such calls are not considered local traffic and, therefore, no reciprocal compensation should apply. Furthermore, this Commission should find that if an ALEC assigns NPA/NXX numbers outside the assigned local calling area, then the ALEC must identify such long distance traffic and pay BellSouth for the originating switched access service BellSouth provides on those calls.

Issue 16: (a) What is the definition of Internet Protocol (IP) telephony?

(b) How should IP telephony be compensated?

Q. PLEASE EXPLAIN BELLSOUTH'S UNDERSTANDING OF THIS ISSUE.

A. This issue addresses the appropriate compensation for phone-to-phone calls that utilize a technology known as Internet Protocol ("IP"). First, let me be clear on the distinction between "voice calls over the Internet" and "voice calls over Internet Protocol ("IP") telephony." IP telephony is, in very simple and basic terms, a mode or method of completing a telephone call. The word "Internet" in Internet Protocol telephony refers to the name of the protocol; it does not mean that the service necessarily uses the World Wide Web.

Q. WHAT IS PHONE-TO-PHONE IP TELEPHONY?

A. Phone-to-Phone IP Telephony is telecommunications service that is provided using Internet Protocol for one or more segments of the call. Technically speaking, Internet Protocol, or any other protocol, is an agreed upon set of technical operating specifications for managing and interconnecting networks. The Internet Protocol is a specific language that equipment on a packet network uses to intercommunicate. It has nothing to do with the transmission medium (wire, fiber, microwave, etc.) that carries the data packets between gateways, but rather concerns gateways, or switches, that are found on either end of that medium.

Currently there are various technologies used to transmit telephone calls, of which the most common are analog and digital. In the case of IP Telephony originated from a traditional telephone set, the local carrier first converts the voice call from analog to digital. The digital call is sent to a gateway that takes the digital voice signal and converts or packages it into data packets. These data packets are like

envelopes with addresses that "carry" the signal across a network until they reach their destination, which is known by the address on the data packet, or envelope. This destination is another gateway, which reassembles the packets and converts the signal to analog, or a plain old telephone call, to be terminated on the called party's local telephone company's lines.

To explain it another way, Phone-to-Phone IP Telephony occurs when an end user customer uses a traditional telephone set to call another traditional telephone set using IP technology. The fact that IP technology is used at least in part to complete the call is transparent to the end user. Phone-to-Phone IP Telephony is identical, by all relevant regulatory and legal measures, to any other basic telecommunications service, and should not be confused with calls to the Internet through an Information Service Provider ("ISP"). Characteristics of Phone-to-Phone IP Telephony are:

- IP Telephony provider gives end users traditional dial tone (not modem buzz);
- End user does not call modem bank;
- Uses traditional telephone sets (vs. computer);
- Call routes using telephone numbers (not IP addresses);
- Basic telecommunications (not enhanced); and
- IP Telephone providers are telephone carriers (not ISPs).

Phone-to-Phone IP Telephony should not be confused with Computer-to-Computer IP Telephony, where computer users use the Internet to provide telecommunications to themselves.

Q. WHAT IS BELLSOUTH'S POSITION ON THIS ISSUE?

A. As with any other local traffic, reciprocal compensation should apply to local telecommunications provided via IP Telephony. To the extent, however, that calls provided via IP telephony are long distance calls, access charges should apply. Application of access charges for long distance calls does not depend on the technology used to transport such calls. Due to the increasing use of IP technology mixed with traditional circuit switching technology to switch or transport voice telecommunications, BellSouth's position is that it is important to specify that long distance calls, irrespective of the technology used to transport them, constitute switched access traffic and not local traffic.

Switched access charges, not reciprocal compensation, apply to phone-to-phone long distance calls that are transmitted using IP telephony. From the end user's perspective – and, indeed, from the IXC's perspective – such calls are indistinguishable from regular circuit switched long distance calls. The IXC may use IP technology to transport all or some portion of the long distance call, but that does not change the fact that it is a long distance call.

Q. DOES THE FCC VIEW ISP BOUND TRAFFIC DIFFERENTLY THAN IP TELEPHONY IN TERMS OF APPLICABLE CHARGES?

A. Yes. Neither ISP-bound traffic nor the transmission of long distance services via IP Telephony traffic is local traffic; however, the FCC has treated the two types of traffic differently in terms of the rates that such providers pay for access to the

local exchange company's network. Calls to ISPs have been exempted by the FCC from access charges for use of the local network in order to encourage the growth of these emerging services – most recently access to the Internet. The FCC has found that ISPs use interstate access service, but are exempt from switched access charges applicable to other long distance traffic. As a result of this FCC exemption, ISP-bound traffic is assessed at the applicable business exchange rate.

On the other hand, the transmission of long-distance voice services - whether by IP telephony or by more traditional means - is not exempt from switched access charges. The FCC has provided no exemption from access charges when IP telephony is used to transmit long distance telecommunications.

The FCC's April 10, 1998 Report to Congress states: "The record... suggests... 'phone-to-phone IP telephony' services lack the characteristics that would render them 'information services' within the meaning of the statute, and instead bear the characteristics of 'telecommunication services'." Further, Section 3 of the 1996 Act defines "telecommunications" as the "transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received." Thus, IP Telephony is telecommunications service, not information or enhanced service.

Long distance service is a mature industry, and simply changing the technology that is used to transmit the long distance service does not change the service. All other long-distance carriers currently pay these same access charges, and there is

no authority to exempt them, regardless of the protocol used to transport such calls. To do otherwise would unreasonably discriminate between long-distance carriers utilizing IP telephony and those who do not.

Q. WHAT IS BELLSOUTH REQUESTING THE COMMISSION DO?

A. BellSouth requests that the Commission determine that access charges, rather than reciprocal compensation, apply to long distance calls, regardless of the technology used to transport them.

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

Q. WHAT IS BELLSOUTH'S POSITION ON THIS ISSUE?

A. As previously stated in response to Issue 10, the Commission is required to ensure that BellSouth has established reciprocal compensation arrangements for the transport and termination of local telecommunications traffic pursuant to the Act and FCC rules. As such, the rates, terms and conditions of any compensation mechanism established by the Commission must also comport with the Act and FCC rules. The resolution of the other issues in this proceeding will result in the establishment of a compensation mechanism. Once the mechanism is determined,

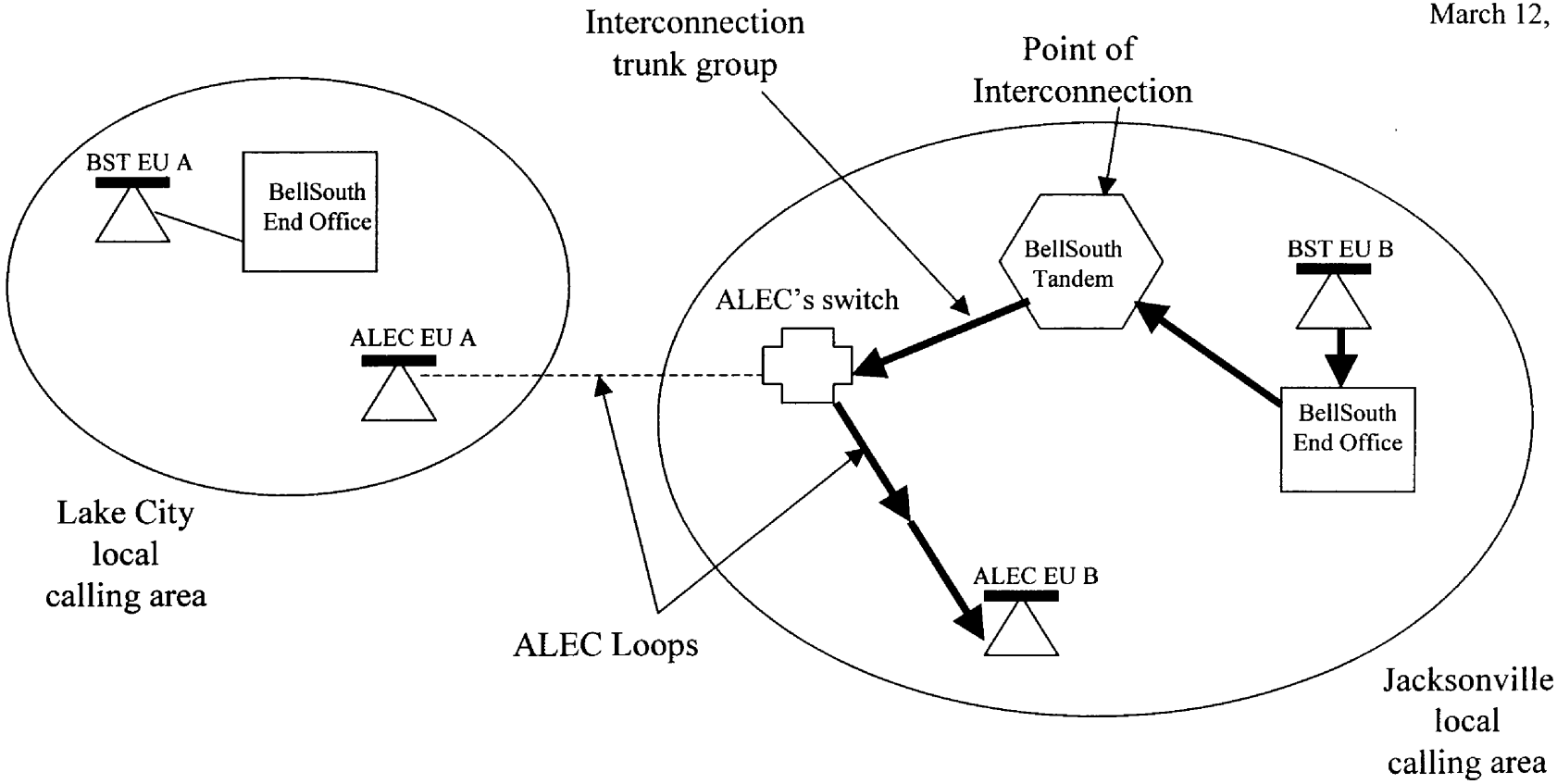
the only issue to be resolved is a determination of which party is financially responsible for the facilities used to transport and terminate local traffic.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

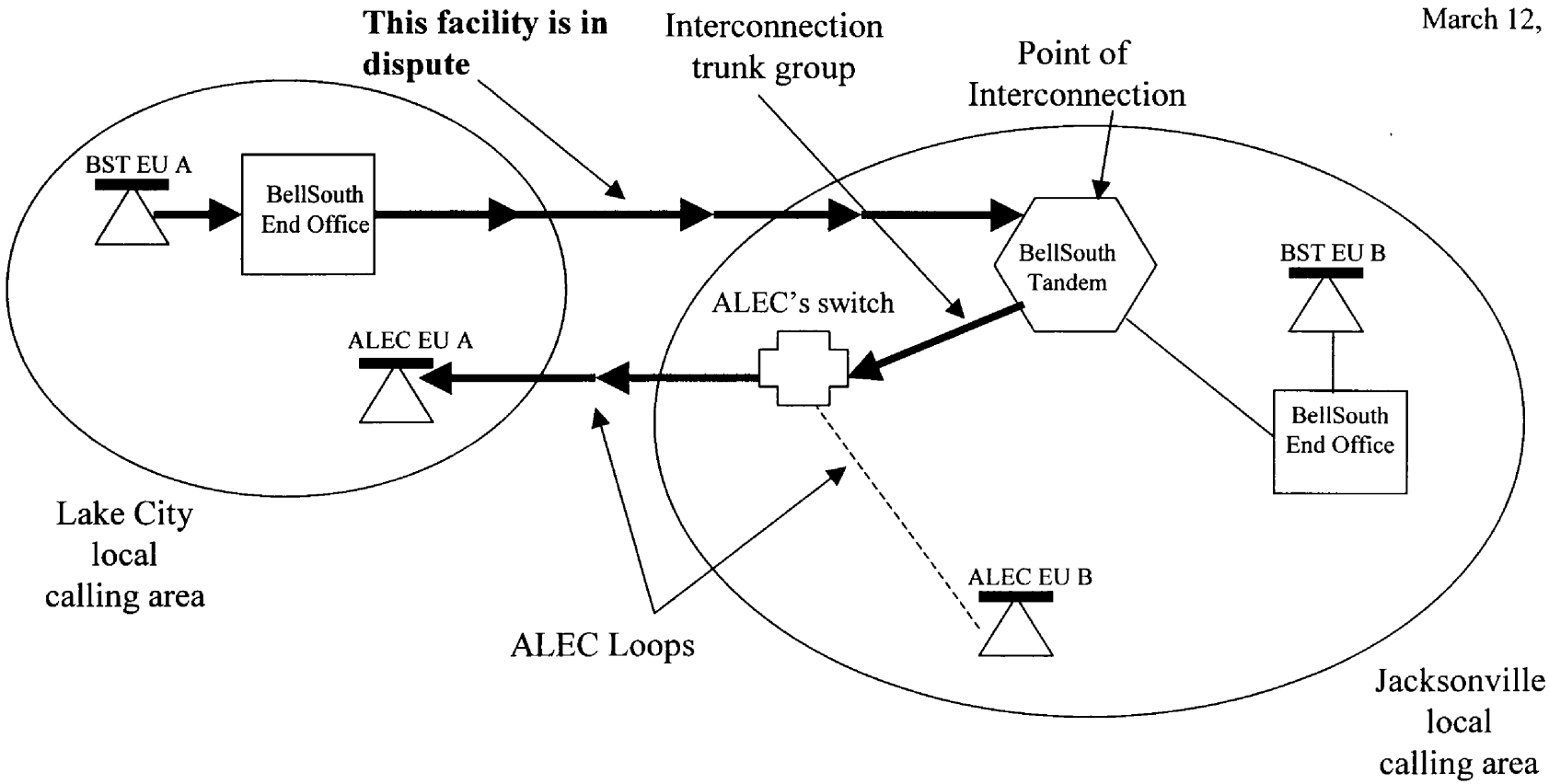
(#249599)

Local Call from Jacksonville BST EU to Jacksonville ALEC EU



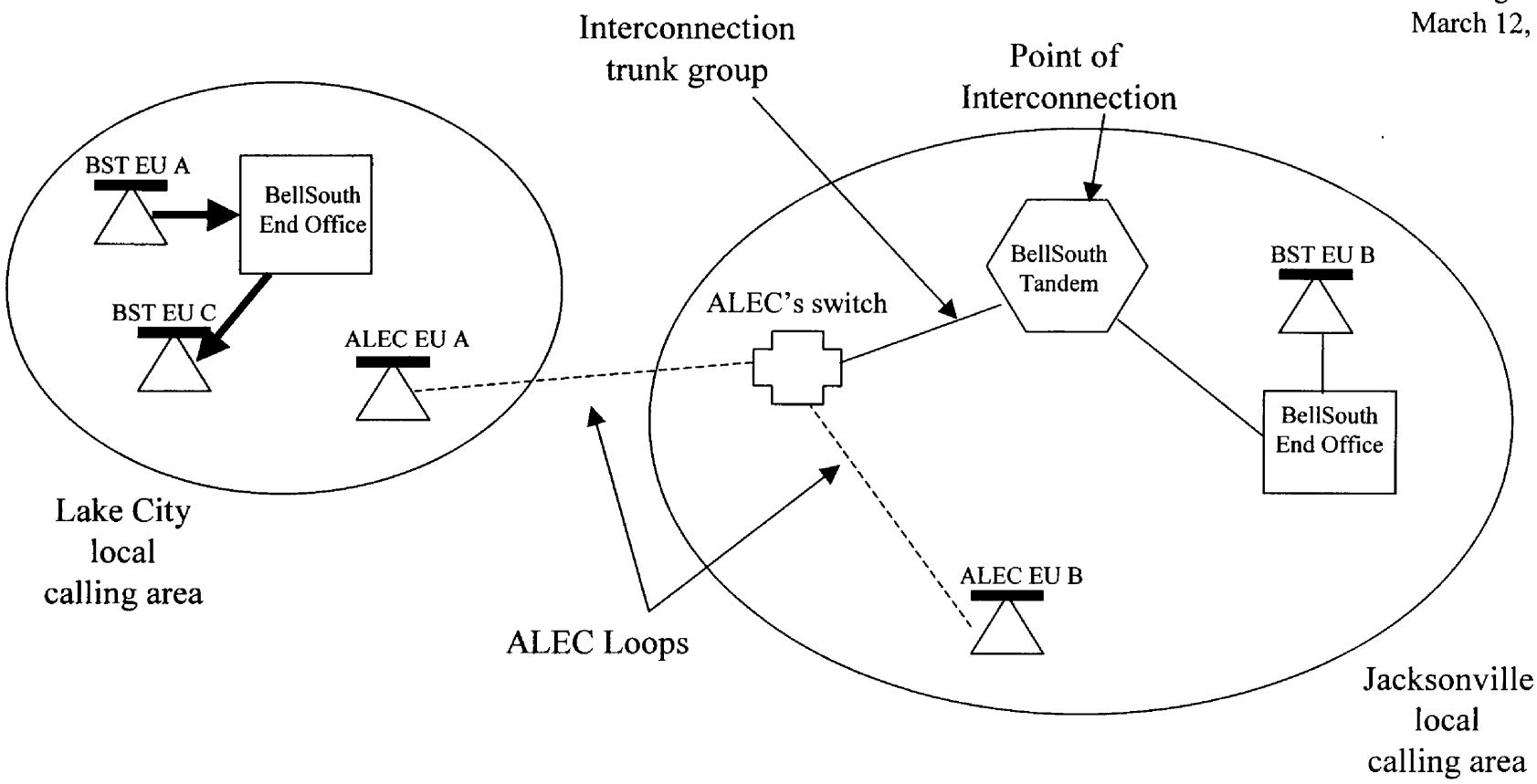
#250340

Local Call from Lake City BST EU to Lake City ALEC EU



#250340

Local Call from Lake City BST EU to Lake City BST EU



#250340