BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 000075-TP (PHASE II)

In the Matter of

INVESTIGATION INTO APPROPRIATE METHODS TO COMPENSATE CARRIERS FOR EXCHANGE OF TRAFFIC SUBJECT TO SECTION 251 OF THE TELECOMMUNICATIONS ACT OF 1966.

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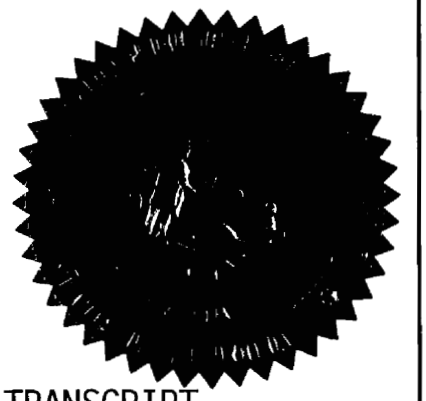

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VOLUME 2

Pages 182 through 375

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN E. LEON JACOBS, JR. COMMISSIONER J. TERRY DEASON COMMISSIONER LILA A. JABER COMMISSIONER BRAULIO L. BAEZ COMMISSIONER MICHAEL A. PALECKI
DATE:	Thursday, July 5, 2001
TIME:	Commenced at 1:00 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	JANE FAUROT, RPR Chief, Office of Hearing Reporter Services FPSC Division of Commission Clerk and Administrative Services

Appearances: (As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

P R O C E E D I N G S

JOHN A. RUSCILLI

examination continues as follows:

CROSS EXAMINATION

BY MR. McDONNELL:

Q After your summary, Mr. Ruscilli, I thought I was clear and maybe I'm not clear about who is or who is not entitled to the tandem rate. So I will just give you a hypothetical, if I could.

If I am an ALEC that serves a comparable geographic area to your tandem switch, whatever that comparable geographic area test is, am I entitled to the tandem interconnection rate?

A Yes.

MR. McDONNELL: Okay. That's all I have. Thank you.

THE WITNESS: Thank you.

CHAIRMAN JACOBS: Mr. Moyle.

MR. MOYLE: I just have a couple of questions.

CROSS EXAMINATION

BY MR. MOYLE:

Q You have talked a lot about the FCC's rules, and I have heard you reference court opinions and whatnot, but what is your understanding of the FCC's current rules with respect to the obligation of an interconnecting ALEC to provide more than one point of interconnection per LATA?

A The rules that the FCC has issued today where it has

rendered opinions in Texas, in Oklahoma, Kansas, 271 would be examples, and also as Mr. Lamoureux brought up in the notice of proposed rulemaking is that the ALECs have the right to establish a point of interconnection inside a LATA and it could be a point or they could choose multiple points.

Q Okay. And what is your understanding of the FCC's current rules with respect to whether an originating telecommunications carrier is responsible for the cost of transporting traffic to the point of interconnection with a terminating carrier?

A That the obligation is on the originating carrier to get that traffic to the POI. But remember even the Eighth Circuit Court last year in July talked about the fact that -- it states exactly that ALECs or CLECs can put a POI in place to compete in the local network. And if of the POI is not in the local network where the ALEC is competing, then there are additional costs that are associated with that. And that's why we are saying we want those costs recovered.

Q Okay. You all had a lot of questions back and forth about these basic local calling areas. Would it be a correct statement to say that the number of basic local calling areas that BellSouth has makes a difference with respect to the amount of revenue that it would expect to receive?

A Generally, yes, sure. I mean, you know, if we have a lot of local calling areas, we would get a lot of revenue. If

we had a few, we would get few.

Q So the more local calling areas you have the more revenue you would receive?

A I might be misunderstanding your line of questioning. Are you talking about with respect to the burden of this leg between --

Q Yes.

A Then let me correct that. I thought you were just talking about money that we got from our local customers. Could you go back and ask the first question again so I can be more precise on the second one.

Q Well, I guess I was kind of -- the way I understood you all's description with respect to these local call areas, that the more local calling areas you have that would generate more revenue from you. Is that generally a correct understanding?

A Well, again, from our local customers it would generate more revenue if we had a lot of local calling areas. But with respect to the issue at hand, if we had a number of local calling areas and you, as an ALEC, were competing in those local calling areas, once you got up to that threshold of traffic which by definition would suggest you have got probably five to 10,000 customers to generate that level of traffic, then you would have to pay or install another POI in that particular area.

Would it be more revenue to us? Yes, but we are doing a whole lot more work. We are moving your traffic from a local calling area where we would have never moved that traffic before. And we are willing to meet you more than halfway on this.

Q But if you are putting an obligation on me where I have to get up to that certain level, wouldn't it be harder for me to meet that obligation if you had more and smaller local calling areas?

A Yes. But that would sort of be a windfall for you. Because, I mean, if there are small local calling areas out there, and I'm sure you will be successful, but you have to have a lot of those customers in that calling area before you have to pay us a dime.

Q How many local -- did I understand you don't know how many local calling areas that BellSouth has in Florida?

A Off the top of my head, I sure don't.

Q Do you have a ballpark?

A I thought we said a couple of hundred, but I apologize, I really don't know.

Q And you referenced an Illinois case, I think, in some of your responses to counsel for AT&T. Do you know what the status of that case is now? Is that on appeal?

A Is this the tandem case?

Q Right.

A I don't know what the status is.

MR. MOYLE: Okay. I have nothing further.

CHAIRMAN JACOBS: Mr. McGlothlin.

CROSS EXAMINATION

BY MR. McGLOTHLIN:

Q Mr. Ruscilli, my name is Joe McGlothlin, I represent the Florida Competitive Carriers Association.

A Good to meet you, sir.

Q I have a few questions on the area of your testimony that addresses IP Telephony.

A Okay.

Q If you have that available to you, would you turn to Page 48 of your prefiled testimony.

A Yes, sir.

Q Beginning at Line 14, you quote from the FCC's April 1998 report to Congress. Beginning with the words "the record," would you read the quotation that begins on Line 14?

A Certainly. And there is an ellipses here where we have cut a little out, but it says, "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 telecommunications service." Is that all you wanted me to read?

Q Yes.

A Okay.

Q And further on the same page beginning at Line 20, you state, "Thus, IP Telephony is telecommunications service, not information or enhanced service." Now you base that conclusion in part on the statement by the FCC in its report to Congress, am I correct?

A Yes, I did. In the report on the universal service fund, which is where we are quoting from, this April 10th report, and to paraphrase it, if it walks like a duck and quacks like a duck, it's a duck.

Q And the significance is that access charges do not apply to information services, correct?

A Yes, access charges do not apply in the current form. The information service providers can buy either out of the access tariff or the local tariff, but they are also responsible for the federal access charges associated with subscriber line charge and things like that.

Q Now, as it develops the FCCA's witness, Joseph Gillan, in his prefiled testimony also quoted from this same report to Congress. And I would like to refer the Commissioners and parties to Page 9 of Mr. Gillan's prefiled testimony, which is the subject of a stipulation, the parties have stipulated that it may be entered into the record without his appearance. Do you have that available to you, sir?

A I was looking for it and I don't see it. If you

could hand me a copy, I would appreciate it, sir. Or I will let you read it and I will take it from there.

Q All right. I will hand it to you in a moment. But for purposes of framing the question, I will just represent to you that Mr. Gillan quotes from the same area of the report. Now, you indicated a moment ago that there were some words omitted. I am just going to hand you a copy.

Looking at the bottom of Page 9, would you agree that the first ellipses there reflects that the words "currently before us" were omitted in your version?

A Yes.

Q And would you agree that the second phrase deleted were "that certain"?

A Yes.

Q Would you read for us your statement with those words reinserted, please?

A Okay. And actually I could -- if it is okay with counsel, just read from Mr. Gillan's testimony. It's the same.

Q Okay.

A It says this -- this is Paragraph 83 on the Report to Congress. "The record currently before us suggests that certain Phone-to-Phone IP Telephony services lack the characteristics that would render them information services within the meaning of the statute, and instead bear characteristics of telecommunications services."

Do you want me to continue?

Q Well, that is my next question. Mr. Gillan also continued with the next statement contained in the Report to Congress that does not appear in your quotation. Would you read that for us, please?

A Sure. Continuing with that same paragraph from the same ordering Paragraph 83, "We do not believe, however, that it is appropriate to make any definitive pronouncements in the absence of a more complete record focused on the individual service offering."

Q So my last question is this, would you agree that your statement, "Thus, IP Telephony is telecommunications service," would you call that a definitive pronouncement?

A I believe in my testimony, as I say, that IP Telephony is, in fact, just telephone under a different kind of technology. The FCC recognized that there was nothing in there but making a telephone call. But the FCC refused because it wanted to create a body of evidence for more information on the types of IP Telephony services before it made a final ruling. But strictly Phone-to-Phone IP Telephony, the FCC couldn't have been more clear, it lacks all the characteristics of being an information service. They have just declined to further, you know, make a decision until the record was complete.

Q Well, to be precise, sir, what they said was that the record before them suggested that certain services exhibited

those characteristics, am I correct?

A Yes. And that is correct.

Q Thank you, sir.

A Okay. I was going to say just for illustration there is some Phone-to-Phone IP Telephony that go over the worldwide web because one phone is hooked up to a computer, and another phone is hooked up to a computer, and those are some of the exceptions. But there are other carriers that just use packet switches that use internet protocol to transmit rather than circuit protocol, and that is voice. That is local exchange. Or, excuse me, that is long distance traffic.

MR. McGLOTHLIN: That is all the questions I have.

CHAIRMAN JACOBS: Mr. Melson.

CROSS EXAMINATION

BY MR. MELSON:

Q Mr. Ruscilli, Rick Melson representing MCI WorldCom. I've got just a few questions for you.

A Good afternoon, sir.

Q In the first one, I frankly am still a little confused about what BellSouth's current position is on Issue 12A, and that is the issue under what conditions, if any, is an ALEC entitled to be compensated at the ILEC's tandem interconnection rate. If I understand correctly, your testimony was that there was a two-pronged test, an ALEC had to prove both geographic comparability and similar functionality,

correct?

A Correct.

Q I believe you stated in your summary that it appears the FCC has now stated that it is an either/or test, and that an ALEC would be entitled to receive compensation if it proved only geographic comparability. Did I understand your summary correctly?

A I don't remember saying an either/or test in my summary. But the FCC in the notice of proposed rulemaking addressed that issue in Paragraph 105, recognizing there was some confusion on is this a functionality or geographic test, and then came forth with language that said, you know, consistent with what is in the CFR on the same issue, that geographic coverage is the requirement to receive tandem switching.

Q Okay. As a result of that, is BellSouth changing its position in this proceeding and is BellSouth now saying we concede that geographic comparability is enough, or is BellSouth still maintaining that an ALEC would have to show geographic comparability and similar functionality?

A For purposes of this proceeding, I think maybe the one before this proceeding in this state, and in other states BellSouth is recognizing that the FCC has said it is a geographic test. BellSouth still believes it is a two-pronged test, and that the language in Paragraph 1090 of the First

Report and Order suggests that. But the FCC has been very clear in what they have said at this point in time. So it is a geographic test.

Q And so at least from BellSouth's position, if BellSouth were the only other party in this case beside WorldCom, we could stipulate today that an ALEC is entitled to be compensated at the ILEC's tandem interconnection rate if its network serves a geographic area comparable to that served by BellSouth's tandem?

A Absolutely, subject to a showing to the Commission that you do that.

Q And you talked a little bit with Mr. Lamoureux about the showing to the Commission and the test. Would you agree with me that it is important for the Commission to establish a bright line test in this proceeding so that the parties know the standard that they are going to have to meet in terms of geographic comparability?

A I would agree that the Commission should establish some sort of test. Bright line, I don't know. I think each ALEC is a little different in how they serve the marketplace, and so it might be a little complex to do it that way. But I believe the Commission should set forth a test.

Q Let me ask this: If the Commission sets forth a test that leaves room for interpretation, would you expect that BellSouth and each ALEC individually would be able to agree on

how that test applies to the particular ALEC, or would you likely see disputes?

A I would hope that we would not get to a dispute basis on it. I would hope the language would be precise enough.

Q So to the extent the more precise the Commission can be, the more likely that an ALEC and BellSouth would be able to agree on how that language is applied?

A I agree.

Q And the less clear that test is, the more likely that disputes would get brought back to this Commission for resolution on a case-by-case basis?

A That seems reasonable.

Q I want to turn for a minute to Issue 14, which is the issue that is raised by the first diagram, I believe, up here.

A Yes, sir, the point of interconnection.

Q The point of interconnection. In response to a question a few moments ago by Commissioner Deason, he asked what happens if a BellSouth customer in local calling area one calls an AT&T customer in local calling area two. Do you remember that question?

A Yes.

Q I believe you assumed an example in which WorldCom was the presubscribed carrier, is that right?

A Yes.

Q What if BellSouth was the presubscribed carrier for

that intraLATA toll call, what would happen in that situation?

A BellSouth would bill a toll charge to its end user based on -- well, let's assume it is intraLATA, since we don't have interLATA authority yet, and BellSouth would deliver the call to the calling area number two if BellSouth was the carrier.

Q And if it is an AT&T end user in calling area two, does BellSouth pay any compensation to AT&T?

A Yes.

Q And what is that compensation?

A Depending on the contract. I think some ALECs have negotiated it as reciprocal comp across the board and other ALECs have chosen access.

Q And I believe you also indicated in response to some questions by Mr. Lamoureux that BellSouth offers a LATA-wide calling option in its tariff, is that correct?

A That is correct.

Q And if BellSouth offered a LATA-wide calling option, then that call -- how would that call from a BellSouth customer in local calling area one to an AT&T customer in local calling area two be compensated?

A Well, the end user would not be paying a per minute charge for the toll call, they would be paying the additional flat rate charge for the expanded local calling area. And the compensation on the other end, again, would be based on the

contract between -- the interconnection agreement between the two companies, whether it would be reciprocal comp or access.

Q We have had a lot of discussion today about the FCC rule on compensation for originating traffic, and the Texas order, and the Kansas/Oklahoma order, and the NPRM, and that has been done at least, I think, without the Commissioners having the benefit of that language in front of them. I would like to hand out excerpts from the rule and from those two orders and ask you a few questions on those.

A Certainly. Is there a particular point you want me to go to?

Q No, I will walk you through as soon as the Commissioners have copies.

A Okay.

MR. MELSON: And, Commissioner Jacobs, could I have this marked as Exhibit 12 for identification?

CHAIRMAN JACOBS: Very well. Show it marked as Exhibit 12.

MR. MELSON: We can call it excerpts of rule and orders.

(Exhibit 12 marked for identification.)

BY MR. MELSON:

Q And just so I'm clear on -- before we start looking at language, so I'm clear with BellSouth's position, in this example of a call from a BellSouth customer in local calling

area one to an AT&T local customer in calling area one that goes through an AT&T point of interconnection in local calling area two, it is BellSouth's position that subject to your compromise proposal that was put forward in your rebuttal testimony, if there is a sufficient volume of traffic AT&T would be required to supply the facility between local calling area one and the point of interconnection for that local traffic, is that correct?

A That is correct, or they could establish a POI.

Q All right. They could establish a second point of interconnection in local calling area one?

A That is correct, yes, sir.

Q And with regard to the compromise, just to be clear, that was not in your original direct testimony, was it?

A No, I believe it was in my rebuttal.

Q In your rebuttal testimony. All right. Would you look at the FCC's Rule 51.703(b), and this is the rule that we have been talking about as the source from the ALECs' point of view of BellSouth's requirement to deliver the traffic to the ALECs' point of interconnection, is that correct?

A That is correct.

Q Okay. Would you read that to us?

A Sure. 51.703, reciprocal compensation obligations of LECs, and this is Item B. "A LEC may not assess charges on any other telecommunications carrier for local telecommunications

traffic that originates on the LEC's network."

Q And in the case of a call from a BellSouth customer in local calling area one to an AT&T customer in local calling area one, that is local telecommunications traffic?

A Yes. It originates and terminates in the same local calling area.

Q And it originates on the LEC's network?

A Correct.

Q Could you turn -- the next item in this is the FCC order in the Kansas/Oklahoma 271 proceeding. And I have included at Pages 3 through 5 of the document excerpts from the discussion of technically feasible point of interconnection.

A Okay. Your number is on the bottom right corner, I'm sorry.

Q Yes, sir. If you would turn to Page 5, and you would agree with me that under the FCC's rules the ALEC, AT&T in this instance, is entitled to establish a single point of interconnection per LATA?

A Yes.

Q All right. Would you read me the sentence that is bracketed in the middle of Paragraph 235. It begins with nor.

A "Nor did our decision to allow a single point of interconnection change an incumbent LEC's reciprocal compensation obligations under our current rules." Should I continue to the next sentence, also?

Q Yes, please.

A I'm sorry. "For example, these rules preclude an incumbent LEC from charging carriers for local traffic that originates on the incumbent LEC's network."

Q And finally would you turn -- we have also talked today about the notice of proposed rulemaking on intercarrier compensation that was issued in April of this year. Would you turn to Page 8 of the Exhibit 12, which I guess is Paragraph 112 of that order, and read to me the sentence at the top of the page?

A And it starts with the word our?

Q Yes, sir.

A "Our current reciprocal compensation rules preclude an ILEC from charging carriers for local traffic that originates on the ILEC's network." But for the balance of this paragraph they talk precisely about this issue that we are talking about here, and they have got a notice of the proposed rulemaking they want comments on this. So the FCC is recognizing this is a problem. The Oregon court recognizes this is a problem. And we are trying to offer a very good solution to it.

Q Is it fair to say the FCC recognizes it as an issue that they are in the process of readdressing?

A Well, yes, it is fair to say that, but they also recognize in the First Report and Order where MCI offered an

option of interconnecting networks, and they said -- they deferred to the states. And they said that of course they can have one point of interconnection, but this kind of thing needs to be referred to the states. And that's why we are here today.

Q Well, let me ask this. Everything we have looked at here today, the Kansas/Oklahoma order and the notice of proposed rulemaking come significantly later in time than the First Report and Order, is that correct?

A Yes.

Q The First Report and Order was 1996?

A That is correct.

Q And we are now looking at FCC decisions in the year 2001?

A That is correct.

Q And while the FCC is readdressing the issue of what compensation should apply, would you agree me that they are very clear in both of these orders that their current rules, current rules preclude an ILEC from charging carriers for local traffic that originates on the ILEC's network?

A Yes. I think the area of confusion is, is it on the local network or not? And the reason why I bring this up is because when there was confusion on the tandem charge on whether or not it was a functionality test or a geographic test, the FCC very clearly came out and said it is a test of

geographic coverage. Here they have the opportunity to say that as far as the financial burden, recognizing that this is not set up the way it is equitable to all carriers, they said nothing.

Q So you don't take a statement that our current rules preclude charging as a clear statement by the FCC?

A It is a clear statement. I think the ambiguity associated with it is that most of the times when you are talking about interconnection, even in the court orders, it is local interconnection with the local BOC network. And this is not in the local BOC network, it's in another one.

MR. MELSON: That's all I have got. Thank you.

CHAIRMAN JACOBS: Staff.

MS. KEATING: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MS. KEATING:

Q Good afternoon, Mr. Ruscilli. I am Beth Keating and I will be asking you actually several questions on behalf of Commission staff.

A Good afternoon.

Q But you will be pleased to know that I don't have any questions on 12A.

A It's the only one I know anything about.

Q I would like to start out first by talking about the definition of local calling areas and the responsibilities of

carriers to compensate for transport of calls.

A Okay.

Q And the first thing I would really like to hit on is an example that you used in your prefiled direct testimony. And this was starting at Page 16. And I believe Mr. Lamoureux actually touched on this a little bit. There you discuss the exchange of traffic between the Jacksonville local calling area and the Lake City local calling area.

A Yes. Are you reading from Lines 13 forward?

Q Yes.

A Okay.

Q Now, correct me if I have misunderstood your use of this example, but it seems to me that you are using this example to highlight the costs that BellSouth would incur if required to haul the traffic from an ALEC customer in one local calling area back to the POI of the ALEC in another calling area and then send it back to the ALEC's customer in the original local calling area. Is that correct?

A That is correct.

Q And the Lake City and Jacksonville local calling areas, they are not contiguous, are they?

A No.

Q And so it looks to me like you are using this example to really highlight the fact that the traffic would have to be hauled further, therefore, it would be -- you would incur

additional costs, am I understanding this correctly?

A That is exactly right. You know, you could have as much as 150 miles between local calling areas, where a POI might be and an ALEC's customer might be. And the concern is having to haul the traffic that distance, first. And then secondly the concern is the facilities we have between those two locations were never designed or engineered to be transporting local traffic. They were designed and engineered to be handling toll traffic. So we would have under-engineered, possibly, some of those facilities.

Q Well, let me ask you this, and I believe that Mr. Moyle and Mr. Lamoureux also asked you this question, whether you know how many local calling areas BellSouth has in the State of Florida?

A I am embarrassed. I'm sorry, I don't know the exact number.

Q Would you accept, subject to check, that it is 102?

A That's fine.

Q And in how many of the LATAs in which BellSouth is the incumbent local exchange carrier in Florida is a single local calling area geographically not contiguous to another local calling area, and that is where BellSouth is the incumbent?

A Yes. We do have some contiguous local calling areas. And what you will see is sort of a stair-stepping effect where

somebody say that the southern end of a local calling area can call inside their local calling area, and somebody at the northern end might can call over to the other local calling area and call here, but the guy in the south couldn't talk to the person in the north as a local call. So, sometimes they are contiguous in the larger cities, larger areas where you have a dense cluster of cities like in the southeast LATA, but in most places they are not.

Q But do you know a specific number of how many of BellSouth's local calling areas are not contiguous?

A No, I don't. I would imagine they would be the majority, though.

Q Would you accept, subject to check, that the number is actually two, and that Lake City is one of them?

A I will take that subject to check. Obviously I was wrong in my interpretation of the majority.

Q So would you agree that actually by using this example it is a fairly unique situation in BellSouth's territory?

A In the State of Florida, yes. In our other states, more rural, no.

Q Now, as for the calling --

A But may I make a comment. If you have got the Tallahassee local calling area and the Lake City local calling area, they are not contiguous to each other, and AT&T could

have a switch here in Tallahassee and begin to serve customers in Lake City. We would still have the same problem. It doesn't mean they have to be next door to each other, it just depends on where they put their switch and what local calling areas they fan out to that are away from that switch.

Q But in situations where -- well, let me ask this question. But BellSouth can't carry traffic across a LATA, correct?

A At this point, no. We hope to soon.

Q So, if you had a concern about a POI in, say, one local calling area in one LATA and an ALEC customer in a whole another LATA, that is actually another problem, isn't it?

A Yes. But this problem, depending on how the resolution of this occurs, could actually create a worse problem. And let me use the example that I used with Mr. Lamoureux in Louisiana. They may decide they want to serve all of New Orleans with that switch in Missouri. And if we have interLATA and, therefore, interstate authority, AT&T could argue you have got to bring it all the way up here to Missouri to complete these calls.

Now that is really a farfetched extreme example, but that could occur. Or worse yet, look inside the single State of Florida. They could put one switch and say bring everything to me, bring everything from Miami up to Tallahassee and then we will ship it back down to Miami. And we just didn't design

our network to do local traffic that way, and those are costs we would never incur.

Q But right now that is not a problem that the Commission is being asked to address, correct?

A Today it is just within the LATA, but the Commission's decision is going to effect when we get interLATA relief, which we hope is shortly.

Q Well, as to the calling areas themselves, looking in your direct testimony at Page 16, starting with Lines 19 and going through 24?

A Yes.

Q You indicate that BellSouth's local calling areas were defined by this Commission or by BellSouth with approval of this Commission, correct?

A That is correct.

Q Do you know when those local calling areas were defined?

A No, I don't.

Q Would it be fair to say that in all likelihood most of BellSouth's local calling areas were defined prior to the Telecommunications Act of 1996?

A Yes, that is a fair statement.

Q To your knowledge were any of those calling areas defined for purposes of interconnection with competitive local exchange companies?

A Not to my knowledge. I don't know one way or the other.

Q And to your knowledge were those local calling areas defined for the purposes of delineating between local exchange service and intraLATA toll service in order to bill BellSouth customers?

A Could you repeat that one more time.

Q To your knowledge, was the purpose of defining the local carriers -- I mean, local calling areas to delineate between local exchange service and interLATA toll service?

A I wouldn't say that that was the only primary cause. Local communities serve as sort of a basis on what you want to determine is a local call, and so you look at a community of interest and that sort of defines the boundary. And then you have long stretches of highway with few houses that are really not in a community until you get to the next town or city which sort of defines the next local calling area. So it is not the primary thing to determine what is intraLATA toll, it was also based on the community of interest to the cities.

Q But for the most part they weren't really defined to address competitive issues, is that correct?

A I think it would be reasonable to assume these were designed well before the Act and the envision of competition.

Q Well, jumping back just a little bit, looking at Page 12 of your testimony, Lines 14 through 17. And you have

indicated there that 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, correct?

A Right. That is just for reciprocal compensation, that is not for retail customers of either BellSouth or the ALEC.

Q And I think Ms. Masterton may have touched on this, but are you suggesting that local calling areas should be negotiable between the parties?

A I am suggesting that the reciprocal compensation for local traffic should be negotiated between the parties. Local calling areas are determined for BellSouth by this Commission, and that is with respect -- you have two sides of the house, you have the retail side that faces the consuming and using public and then you have the wholesale side of the house where carriers send traffic back and forth. And this is discussing the wholesale side of the house.

And we should reach an agreement between another ALEC on what we are going to define as local for reciprocal compensation purposes so we know what we have to pay each other. But we are not suggesting that MCI WorldCom and BellSouth get together and redefine Tallahassee as a local calling area that incorporates Pensacola. We are not saying

that. That is the retail side of the house. That is the Commission's purview.

Q Well, when BellSouth and the ALEC have different interpretations of local calling area, what particular criteria does BellSouth have in negotiating compensation between those two carriers?

A Well, we have as a basis our local calling area and what we determine with the other carriers should be a local call and eligible for reciprocal compensation when they complete traffic to us. The ALEC has got the freedom, and some of them are expanding on that freedom to make much larger local calling areas because they want to incorporate a lot of users in a toll free zone as an example. The two carriers just have to get together and decide, okay, when these things overlap how are we going to compensate each other. I.

Think we have some agreements where regardless of the actual local calling areas, we compensate each other with reciprocal comp for all calls within a LATA. It is really a negotiation between the carriers how you want to compensate each other for the local traffic. But the basis is going to be our local calling area and their basis is going to be their local calling area.

Q But you don't really have any set standards of things that you would look at in going into that type of negotiation?

A Outside of that, no. I mean, we are just, you know,

we want to establish agreements with them if we can on a mutually-agreed basis.

COMMISSIONER DEASON: Let me ask a question at this point. You used the terminology that ALECs have the freedom to define their own local calling areas and may expand upon what you define as the local calling area. Did I understand you correctly?

THE WITNESS: Yes, that is what I was saying. And what I mean by that is BellSouth doesn't tell an ALEC how big its local calling area has to be.

COMMISSIONER DEASON: Well, I kind of took it that they have the freedom, and that it was implying that BellSouth does not have the freedom. Are you implying that or not?

THE WITNESS: No, no. I am just implying they don't have the freedom to tell me how my local calling area is set out, I don't have the freedom to tell them how theirs should be set out. That's what I'm meaning to imply. We can come before this Commission, or this Commission could order us to expand or contract a local calling area, or we could request. You have the authority to do that. AT&T or MCI doesn't have the authority to redesign my local calling area.

COMMISSIONER DEASON: But you have the ability to expand what you define to be a local calling area, is that correct?

THE WITNESS: Subject to this Commission's approval,

yes, it is my understanding.

BY MS. KEATING:

Q Now, BellSouth has entered into some agreements with carriers for a LATA-wide calling area, is that correct?

A For reciprocal compensation purposes, yes.

Q Well, would BellSouth object if this Commission were to determine that for purposes of reciprocal compensation a local calling area should be defined as a LATA-wide area?

A Well, no, I don't really think we would be able to object, simply because the provisions of the Act, I think it is 252(i), indicates that when we establish an agreement with a carrier, other carriers can opt into that agreement if they so choose. You know, subject to making sure they take the same terms and conditions. So we have done it once, so it is open to any carrier that wants to do it. There is not a need for the Commission to order it.

Q Do you see any administrative efficiencies in having one defined definition essentially of a local calling area?

A I imagine there could be some.

Q I'm going to look now at your direct testimony on Page 23. This is Lines 21 through 25. And here you are referencing the FCC's First Report and Order at Paragraph 199?

A Yes.

Q And I think this is, again, another area that Mr. Lamoureux touched on. And that paragraph reads in part the

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. Is that correct?

A Yes.

Q How should a determination be made as to what is a technically feasible but expensive interconnection as opposed to just a technically feasible interconnection?

A Well, there are a variety of points in the ILEC network that ALECs can interconnect at. In the end office on the trunk side, the tandem office, and each of those have got various interconnection rates associated with them. And those rates include a reasonable profit as it is today in the UNE cost docket. So, it's up to the ALEC to choose where they want to interconnect, and they can choose to connect at a particular traffic level, say like a DS-1 where the ports would be very cheap, or they can choose a more expensive version. But whatever they choose, however they want to interconnect, they are responsible for paying those costs.

As it relates to the issue that is before us on the POI, we think that this choice of interconnection of interconnecting in one local calling area, but trying to serve other local calling areas, increases its interconnection costs and that would also be an expensive choice. And we will let them do it. I mean, they can interconnect where they are

legally allowed to. We want to be compensated when they drive our costs up that are not recovered, which is what can happen.

Q But is there a bright line way to determine the difference between a technically feasible but expensive interconnection as opposed to just technically feasible?

A Oh, yes.

Q And what is the dividing line?

A Well, I think the bright line in that is the prices associated first with my first example with the different kinds of interconnection opportunities that are laid out in the UNE cost docket. So, I mean, you can just look at the rate sheet and determine which one meets your needs as an ALEC, and one may be more expensive than another. You know, coming in with an OC-3 versus a DS-1, OC-3 optical carriers are very expensive. So that is an example.

And then the second example is this choice here. The line is not quite so bright. But there is a cost burden that is being generated by their choice of interconnection and we think we are eligible to receive recovery of that at a reasonable price, that's why we are offering dedicated interoffice transport at the DS-3 level from the UNE docket.

Q Well, there has also been some discussion today about the TSR Wireless order.

A Yes.

Q Would you agree with me that that order really

addressed interconnection obligations between ILECs and wireless carriers?

A Certainly it did.

Q Do you believe that the rationale in there also applies to wireline carriers?

A Yes. Because, again, the MTA is the wireless carrier equivalent of a local calling area to a wireline carrier. It is the only order that the FCC speaks to the issues associated with interconnection and costs, and in this case it is looking at a CMRS provider. But it provides a perfect example for the wireline market. And in that you are obligated within the local calling area, within the MTA to deliver that traffic to the ALEC and you are responsible for the costs.

But there was no such obligation in that particular TSR Wireless to say instead of getting it from Flagstaff to Yuma, Arizona you have got to carry it over to somewhere in New Mexico and then bring it back in. So I think it provides a good illustration. We are responsible for what is in our local calling area, but there is nothing in there about taking it outside of that local calling area.

Q But can you point me, though, to anything actually in that order that says that those requirements do, in fact, apply equally to wireless carriers and wireline carriers?

A No, I don't remember anything in there that would say that.

Q And this is just a follow-up on some discussion about FCC's Rule 51.703.

A Uh-huh.

Q I believe you had some discussions with Mr. Melson and Mr. Lamoureux on this.

CHAIRMAN JACOBS: Staff, are you close?

MS. KEATING: I have probably another five or ten minutes.

CHAIRMAN JACOBS: That's okay. Why don't we go ahead and take a break. We will come back in ten minutes.

(Recess.)

CHAIRMAN JACOBS: We will go back on the record. Staff, you may continue.

BY MS. KEATING:

Q Moving on, Mr. Ruscilli. I've just got a clarification question on a discussion that was had regarding FCC Rule 51.703.

A Okay.

Q Do you happen to have a copy of FCC Order 01-131 that was released April 27th?

A Yes, I have one in front of me.

Q And this is the order on remand and report and order regarding intercarrier compensation for ISP-bound traffic?

A Yes, it is.

Q Would you mind turning to Page 61 of that order. It

is Appendix B, final rules.

A Page 61?

Q It is 61 on my version, but it is Appendix B, if you have --

A Okay. Page 61 on mine is the statement of Chairman Michael Powell. This is Page 60 on the one I have.

Q Okay. This is Appendix B?

A Yes.

Q And would you look at the very last paragraph on that page. It is numbered Item 3.

A Where it starts Section 51.701(a)?

Q Uh-huh.

A Okay.

Q Would you just mind reading that for me?

A Sure, I will do my best. Section 51.701(a), 51.701(c) through (e), 51.703, 51.705, 51.707, 51.709, 51.711, 51.713, 51.715, and 51.717 are each amended by striking local, in quotes, before telecommunications traffic each place such word appears.

Q Do you have any opinion on what the FCC might have meant by striking the word local from those rules?

A No, I don't. This is the first time I have looked at this.

Q I would like to go back then to your direct testimony. And I'm looking starting on Page 24 with Line 23.

And actually there is also a reference in your rebuttal testimony, as well, on Pages 12 and 13 where you are recommending an alternative --

A Yes.

Q -- to having ALECs replicate BellSouth's network?

A Yes.

Q And if I understand your alternative proposal correctly, what you are recommending is that the ALECs have a POI in every local calling area, whether it is a physical or virtual point of interconnection, is that correct?

A Not entirely. The offering we have on the table says that once traffic from an ALEC's customers in a local calling area that is different from where their POI is, once that traffic reaches a threshold of 8.9 million minutes of use a month for three consecutive months, then they should establish a POI or they could lease the dedicated interoffice transport facility at a DS-3 level from us. Up until that point we are not suggesting they do anything different than they do today.

Q But in that proposal, once they reach the threshold level, you are recommending that they be required to have a POI in every local calling area, is that correct?

A No, just in that local calling area. And I want to be clear about that. I don't want any confusion. It is not once they reach that level every local calling area has to have one of these lines in it. It is just the local calling area

where that traffic is coming from.

Q But if every local calling area, in every local calling area they reach that threshold, then you believe they should have to have a POI in every local calling area?

A Yes, or buy facilities. If they still want to have a single POI, they can do that or they can buy the facilities back to us.

Q Well, if the Commission were to require that, would that essentially be requiring an interconnection obligation on an ALEC?

A Yes.

Q I would like to hand you a copy -- or actually you are going to be handed a copy of FCC Rule 47 CFR 51.223, and I am specifically looking at Subsection A. And if you would just take a second to glance at just Subsection A.

A I want to make sure. 51.223(a) down at the bottom of Page 26?

Q That is correct.

A Okay.

Q Now, it appears to me that this rule prohibits state commissions from imposing obligations in Section 251(c) on a local exchange company that is not an incumbent. Do you agree with that interpretation?

A Well, yes, in its general sense. But the Commission has the right to determine interconnection and reciprocal

compensation. And what we are dealing with here is something that the FCC itself said in the First Report and Order in responding to an MCI inquiry on the same issue that this is something left to the states to decide. So I think the states have the authority to make this decision.

Q Okay. So just to be clear, you do not believe there would be a conflict with this rule were the Commission to require a POI in every local calling area?

A No.

Q I would like to move on then to the issue of assignment of numbers outside the assigned rate center.

A Yes.

Q Is it true that BellSouth used to charge reciprocal compensation for its FX customers for service, FX service?

A Yes, for some of them in a subset. And I will be specific, we had -- BellSouth had some ISPs that had FXs in those calling areas. And at one point in time we would charge reciprocal comp for FXs as long as they were not associated with an ISP. If the ISP had an FX, we did not charge reciprocal comp because that is not local traffic, that is traffic subject to interstate jurisdiction. But we have now stopped doing that and put some systems in place effective February 23rd on reciprocal comp. And we do not charge reciprocal comp for calls going to FX customers in any category.

Q Why did you stop doing that?

A Because it's not a local call.

Q And when did you make that determination?

A I wasn't back with BST at the time. I know they were looking at it last summer, some folks were, is what I have been told. So I was not party of the group that was examining that, but it was evident that it wasn't a local call and it was a toll call. And so they moved towards developing the systems that we need in the billing group so that we would not bill reciprocal calls -- reciprocal compensation for those calls.

Q For purposes of billing an ALEC, how did BellSouth delineate between calls terminated to an FX customer that was an ISP and an FX customer that was not an ISP?

A Well, some of them we had records where we knew where the ISPs were and they had FX, so that part was easy. The rest of it I think they made -- and, again, this happened before I came back to BST -- I think they looked at the traffic patterns.

Q And if I understand you correctly, BellSouth is now willing to pay access charges?

A Yes.

Q Does BellSouth assess access charges for calls from its customers to virtual NXX customers of ALECs?

A If an ALEC has a virtual NXX and a BellSouth customer calls that virtual NXX, we would expect to be paid access

charges.

Q Now, let me make sure I understand your position correctly. You believe that intercarrier compensation should be determined based on the physical location of the originating and terminating end users?

A Yes.

Q Well, is there any problem with separating long distance calls from local calls to end users assigned numbers outside of the same NXX?

A Well, long distance calls are by default. When you hit 1+, we know what that is, to make a long distance call. So we can discern a long distance call from a local call. What we can't discern is if an ALEC has a virtual NXX, whether or not that, in fact, is a virtual NXX or not. And what BellSouth is requesting the Commission do, consistent with what it did, I think, in the Intermedia order, is to require the ALECs to give BellSouth the correct information on the routing of the call so it can determine appropriately how to pay reciprocal comp or not.

COMMISSIONER JABER: Mr. Ruscilli, is a virtual NXX when an ALEC assigns a specific number to a specific switch, is that what a virtual NXX is?

THE WITNESS: When you get a bank of numbers from the North American Numbering Plan Administrator, you have to identify where that bank of numbers is homed to. In other

words, this is associated with this switch, these are the coordinates of that switch, so all the other carriers know how to rate calls going to that switch and how to route calls that are going to that switch.

Virtual NXX is where you take one of those codes that would, say, normally be associated with one switch and you disassociate it from where it is physically at, it is now appearing somewhere else. So someone in another local calling area just sees a local number and they dial it just like dialing an FX number, but the actual end user is somewhere else outside of that local calling area. So they are, in fact, facilitating a toll call.

BY MS. KEATING:

Q I think maybe if I used an example, maybe my question wasn't quite clear enough. Assume that an end user in Orlando places two calls, both are to the same local NXX. One call goes to his next door neighbor, the other call goes to a virtual NXX customer in Miami.

A Okay.

Q How is BellSouth going to pick up and identify that one is truly a local call and one goes to a virtual NXX in Miami?

A What BellSouth is requesting is that the carriers identify those calls that are set up as virtual NXX and provide the appropriate information for routing and rating. We can't

do that, we are requesting the ALEC industry to do that.

MS. KEATING: I believe those are all the questions staff has.

THE WITNESS: Thank you.

CHAIRMAN JACOBS: Commissioners? No further questions. Exhibits. I'm sorry, redirect.

MR. EDENFIELD: As painful as it may be. I will try to be quick. As long as Mr. Ruscilli has the right answers to my questions, we will move along quickly.

REDIRECT EXAMINATION

BY MR. EDENFIELD:

Q Mr. Ruscilli, Mr. Lamoureux had asked you a couple of questions about some arbitration decisions out of this Commission, specifically an AT&T and in a Level 3 concerning the point of interconnection. Do you recall those questions?

A Yes.

Q And that discussion. Is there another arbitration decision where this Commission has rendered a decision on the point of interconnection issue?

A Yes. I brought it up in my discussion with Mr. Lamoureux. There is a Sprint decision.

Q Let me ask you to take a look at this decision real quickly. Do you have a copy of that with you, the Sprint order dated May 8th, 2001 in Docket 000828-TP?

A No, sir, I don't. I don't have one with me here.

Q Well, Mr. Meza is coming around with one.

A And he looks sharp today.

Q Since Delta has his clothes I --

(Laughter.)

A I have that order before me.

Q Okay. Take a look, if you would, at Page 58, and the second full paragraph that starts, "Based on the evidence of the record," and read down just a couple of sentences to yourself, and then I've got a question for you.

A Okay.

Q Before I ask you the question, just let me kind of refresh what Mr. Lamoureux was talking about, and that was the fact in the AT&T and the Level 3 orders the Commission took up the point of interconnection. And when it got to the issue of transport costs it said there was not enough evidence in the record to reach a decision. Do you recall all of that conversation?

A Yes, I do.

Q What was the Commission's conclusion in -- this is not the paragraph I'm talking about, but what was the Commission's ultimate conclusion in the Sprint arbitration as to whether Sprint would have to reimburse BellSouth for transport costs?

A That in those situations where Sprint was serving customers in a local calling area outside of where its POI was

located that they, in fact, should reimburse BellSouth for those additional transport costs.

Q Okay. And that would be basically the Commission approved the position we are taking today at least in the Sprint arbitration?

A Yes, it did.

Q And the evidence that it talked about, and I will go to this paragraph I referred you to, the additional evidence that was talked about, is that what is referred to here?

A Yes.

Q And what evidence is that?

A Well, they were talking about the evidence of the direct interoffice trunk that was discussed in the Sprint case, and I have filed similar information in my direct testimony here.

Q So when it talks about BellSouth Witness Ruscilli identifies additional transport mileage that is involved, blah, blah, blah, that is testimony that you presented in this proceeding?

A Yes.

MR. MOYLE: Mr. Chairman, we have let this go pretty far, but the witness is being asked to interpret a Commission order. I mean, the record speaks for itself as to what happened previously. And to the extent that Mr. Edenfield is bringing in evidence in the other proceeding, I don't think

that is appropriate.

MR. EDENFIELD: First of all, I am not bringing in evidence from the other proceeding, I'm just asking him to read this Commission's order. Which the Commission is well aware of its order, and Mr. Ruscilli was the witness there. There has been a question raised about the distinction in the evidence raised in AT&T and Level 3 that was raised by Mr. Lamoureux. I am just demonstrating to the Commission that in the Sprint arbitration decision the Commission felt like there was sufficient evidence to reach a conclusion that Sprint had to reimburse us for our costs and just trying to figure out whether Mr. Ruscilli has presented that testimony here today.

CHAIRMAN JACOBS: Why don't you do this, why don't you restate your question. And I do think it would be inappropriate for him to restate evidence in the prior docket. You can ask him to what extent he is submitting the same here today.

BY MR. EDENFIELD:

Q Have you submitted the same evidence in this docket, Mr. Ruscilli?

A Yes, I have submitted similar evidence. It is on Page 25 of my testimony where I talk about the appropriate rates and the cost for that dedicated interoffice transport.

Q Dedicated interoffice transport, if you look in the Sprint order on Page 62 that you have there in front of you,

take a look at that. It is the first paragraph on the page. It's not a full paragraph, but the last sentence that says, "Therefore, BellSouth," do you see where I am?

A Yes.

Q Read that sentence to yourself. Actually read it out loud.

A "Therefore, BellSouth may only require Sprint to pay TELRIC rates for interoffice dedicated transport airline mileage between the V&H coordinates of Sprint's virtual POI, or VPOI, and Sprint's POI."

Q Are these TELRIC rates for interoffice dedicated transport the same rates that are in your testimony here on Page 25?

A Yes. I put in the rates in my testimony here. At the time I filed it the Commission had not yet approved the UNE cost docket, so I have also got the UNE rates, which are somewhat lower.

Q Okay. And just finally, look at Page 60 of this order real quick.

A Yes, sir.

Q Take a look at the second full paragraph?

A Okay.

Q It says, "We agree." Do you see where it says, "Therefore, we believe." Based on the evidence that was in the Sprint arbitration and similar evidence here, tell me what the

Commission concluded in the Sprint arbitration, just read that, "Therefore, we believe."

A "Therefore, we believe that where Sprint designates a point of interconnection outside of BellSouth's local calling area, Sprint should be required to bear the cost of facilities from that local calling area to Sprint's POI. We note that this is consistent with Paragraph 199 of the local competition order."

Q Okay. What is the date of this order?

A Issued May 8th, 2001.

Q Is that after the FCC's notice of proposed rulemaking?

A Yes.

Q Now, I believe it was Mr. Lamoureux also asked you concerning the geographic test and how BellSouth proposes that the ALECs satisfy this test. Do you recall the discussion about that?

A Yes, I do.

Q Do you happen to have staff exhibits in front of you that contain BellSouth's responses to Staff's First Set of Interrogatories, do you have those there in front of you?

A No, sir, I don't.

Q Do you happen to have our responses to the interrogatories there with you?

A Not at this table with me, no, sir.

Q Okay. Mr. Meza is going to hand you a copy of the staff exhibits that were passed out earlier. And when you get that you are going to have to dig through there just a little bit, it is kind of in the middle of a package. In Stip 6, which has been admitted in this docket as Exhibit Number 5, you see BellSouth's Responses to Staff's First Set of Interrogatories?

A Yes.

Q When you find those, find Item Number 4?

A Yes.

Q Take a look at our response there and then tell me whether these are the items that BellSouth contends the ALEC has to demonstrate in order to comply with the geographic coverage test?

A Yes, they are. These are the items that I supplied in the data response and that I spoke with Mr. Lamoureux on in trying to determine what the appropriate test would be.

Q And, finally, the NPA/NXX and the IP Telephony issues, both of those were addressed by this Commission in the Intermedia arbitration, do you recall that?

A Yes, I do.

Q Do you have a copy of the Intermedia arbitration order that is dated August 22nd, 2000 in Docket Number 991854-TP, do you have that?

A No, sir, I don't. I am woefully unprepared for your

cross.

Q We should have coordinated a little better, I guess.

A I have it before me now. Thank you.

Q Take a look -- and let's, I guess, look at the NPA/NXX issue first. Take a look on that order on Page 50, if you would?

A Yes, sir.

Q And this is under the section dealing with the Commission's decision. Take a look and read that paragraph there at the top of the page. "We agree with Intermedia," blah blah, blah. Do you see that?

A Uh-huh. Okay.

Q Is what the Commission ordered here in the Intermedia arbitration consistent with what we are asking the Commission to order in this docket as it relates to the NPA/NXX issue?

A Yes, identification of where it is homed and routing and rating information.

Q Turn over to page -- turn to the IP Telephony issue, just quickly. And I know that Mr. McGlothlin had mentioned something about the ellipsis clause or something you all were talking about. Take a look on Page 55, if you would. It's that first paragraph. Not the first full paragraph, but the first one.

A Okay. At the top of the page?

Q Right. You and Mr. McGlothlin had discussed the

FCC's April 10th, 1998 order?

A Right.

Q Do you recall that conversation with him?

A Yes, I do.

Q Take a look, does the Commission reference that same order, that April 10th, 1998 FCC order in this Intermedia arbitration order?

A Yes.

MR. McGLOTHLIN: Excuse me, I may have an objection to that line of questions. As I recall this issue was dealt with by the Commission, but then withdrawn in lieu of a stipulation by the parties. And if my understanding is correct, then I would object to any use of this order as having any precedential value.

MR. EDENFIELD: Well, I mean, this is an order of this Commission that was entered on August 22nd, 2000. Just because the parties may have, and I'm not sure that we did, but if the parties ultimately resolved the IP Telephony issue subsequent to the issuance of this order, then the order is still valid.

I mean, what Mr. McGlothlin appears to be saying is that this order is no longer valid, but that is not the case. This Commission entered this order. This order is in effect for Intermedia. Just because the parties may have ultimately resolved an issue that you entered an order on at some

subsequent date does not take away from the fact that the order is there or the validity of the order.

MR. McGLOTHLIN: Well, that might have some force if it weren't for the fact that the parties filed reconsideration on this order.

CHAIRMAN JACOBS: Let me ask this question of staff. Is there any -- as I would understand the stipulation, that simply goes to the effect of these provisions to the parties to this arbitration agreement, is that correct?

MS. KEATING: I'm not sure what the stipulation said, so I'm not really sure as to the effect on the Commission's order. I think I would have to take a look at whatever subsequent Commission order on reconsideration, what the language in that was. We could perhaps have an answer for you tomorrow. Or if you would like to take a break, we could try to get a copy of the reconsideration order.

CHAIRMAN JACOBS: Your basic objection is that there is no binding -- it is not probative of this issue because it has no real binding --

MR. McGLOTHLIN: Specifically my recollection is that the parties filed for reconsideration of this aspect of the order, and while that petition for reconsideration was pending, the parties then stipulated to the result rendering this order of no force and effect with respect to that issue.

CHAIRMAN JACOBS: I see. I don't think it prohibits

the questions. I think, however, it is of a tenuous nature given that whatever was decided in the order obviously was not intended to have a binding effect on the parties, and it is arguable what the impact is on our prior order.

It would probably be wise to look at the reconsideration. Let's do that. Let's look at the order on reconsideration and determine what the real effect on our order is. Is that sufficient, staff?

MS. KEATING: Yes, sir, that is fine. We could certainly get a copy of the order as quickly as possible. And one option may be to allow the questions and just give them the weight that they are due in view of the --

CHAIRMAN JACOBS: I'm sorry, Commissioner.

COMMISSIONER JABER: Mr. Chairman, I had a question of staff that has nothing to do with your ruling, but it triggered -- I was going to ask it earlier when Commissioner Deason was asking you if parties were prohibited from negotiating after our arbitration decisions. It occurs to me that that happens. And my question is this, when that happens, do we -- are portions of the order vacated? Because this is, I think, what Mr. McGlothlin is referring to. Now it seems appropriate to ask the question. When we enter an arbitration order and the parties go back and negotiate something different than what our arbitration order says, does that have the effect of nullifying that part of our order?

MS. KEATING: No, Commissioner, in my opinion it does not.

COMMISSIONER JABER: Unless we say so.

MS. KEATING: Correct.

COMMISSIONER JABER: Well, in analyzing this further, consistent with what Commissioner Deason requested, would you also think about that and whether we should start doing it. Because it seems to me at some point it would be confusing because we will have an arbitration order that says one thing and we might have a subsequent interconnection agreement that says something different.

CHAIRMAN JACOBS: It may be necessary to restate the order. Because essentially what all this says is that at one point we rendered this ruling, but this ruling has no further impact on the parties to that agreement.

COMMISSIONER PALECKI: Chairman Jacobs, since this is a legal issue, I would think that it would be something that the parties would be able to brief after this proceeding. My feeling is that Mr. McGlothlin would well be able to bring out what the result of the negotiation was, what the stipulation was, and why that would make this order no longer applicable.

CHAIRMAN JACOBS: Here is what I would like to do --

MS. KEATING: Mr. Chairman, I'm sorry to interrupt, but we actually have been provided a copy of that order.

CHAIRMAN JACOBS: The reconsideration order?

MS. KEATING: Yes, sir. This was issued April 24th, 2001. This is an order on reconsideration.

CHAIRMAN JACOBS: And the provision is still in there?

MS. KEATING: And this is indicated in the case background. It states Intermedia indicated that the agreement had gone into effect pursuant to 252(e)(4) of the Act, therefore, it indicates that it has withdrawn this issue from its motion for reconsideration based on the understanding that the parties' agreement renders our decision on this issue a nullity.

MR. EDENFIELD: In other words, they were untimely.

CHAIRMAN JACOBS: I am going to allow the question. And if there is some motion either -- and I will allow the parties to address this in their briefs, and I assume you have an option to deal with it on some motion to strike.

MR. McGLOTHLIN: Given that ruling, sir, I think I would be all right with that ruling if I would have a chance for some very brief recross after this question.

MR. EDENFIELD: I have no objection to that. I mean, if you would like to ask what the ultimate conclusion or the ultimate resolution was, that is fine with me.

CHAIRMAN JACOBS: I will allow your question which was the subject of the original objection.

MR. EDENFIELD: Let me see if I can remember where we

were.

BY MR. EDENFIELD:

Q I think the question I had, Mr. Ruscilli, was does it appear that the Commission in entering its Intermedia order, that it considered the FCC's April 10th, 1998 Report to Congress?

A It's here in the order, some quotes from it. It appears in that paragraph.

Q Okay. Now turn over to Page 57 real quickly, and this is the Commission --

CHAIRMAN JACOBS: Before you go on, Mr. Edenfield, you were asking what the ultimate resolution of that was. We allowed your question subject to recross by Mr. McGlothlin.

MR. EDENFIELD: And that's fine. I've got one more question on this topic, and then I'm happy to -- I'm done.

CHAIRMAN JACOBS: Okay.

BY MR. EDENFIELD:

Q Take a look, if you would, Mr. Ruscilli, on Page 57?

A Yes, sir.

Q The second full paragraph that starts with regard to Phone-to-Phone IP Telephony. Do you see that?

A Yes, sir.

Q Go down a little over halfway to where it says except for perhaps.

A Okay.

Q Do you see that? Read the Commission's decision into the record, if you will.

A "Except for, perhaps, calls routed over the internet, the underlying technology used to complete a call should be irrelevant to whether or not switched access charges apply. Therefore, like other telecommunications services, it would be included in the definition of switched access traffic. Therefore, we find that switched access traffic shall be defined in accordance with BellSouth's existing access tariff and include Phone-to-Phone Internet Protocol Telephony."

Q Is that consistent with what we are proposing in this docket?

A Yes.

MR. EDENFIELD: Chairman Jacobs, I have no more questions on the IP Telephony. Do you want to do that now or do you want me to go ahead and finish up with everything?

CHAIRMAN JACOBS: Why don't we go on with this. Mr. McGlothlin, while we are in this stream of consciousness, why don't we go ahead and do your recross.

RECROSS EXAMINATION

BY MR. McGLOTHLIN:

Q Sir, looking at Page 55 of the order that was referenced earlier, does it appear to you that the quotation there is a quotation from Witness Varner's testimony?

A It is from some witness -- yes, I had to go back to

the preceding page. It says Witness Varner.

Q And does it appear to you that based on the ellipses there, Witness Varner left out the same portions of the report that you left out in your prefiled testimony?

A Yes.

Q Including the sentence that came next in the report which indicated the FCC's refusal or decision to decline to adopt any definitive conclusions?

A Yes.

MR. McGLOTHLIN: That's all.

CHAIRMAN JACOBS: Thank you.

FURTHER REDIRECT EXAMINATION

BY MR. EDENFIELD:

Q In discussing the transport for the point of interconnection issue, at some point I think someone asked you was this a revenue issue or a cost issue. Do you recall that question?

A There was a line of cross on whether or not we had more local calling areas would there be more revenue.

Q Do you know whether BellSouth's costs increase if BellSouth is required to deliver traffic out of a local calling area?

A Yes, because it is going over facilities that were not engineered to handle that traffic.

MR. EDENFIELD: That's all I have. Thank you very

much.

CHAIRMAN JACOBS: Very well. Exhibits.

MR. EDENFIELD: BellSouth would move in Exhibit 11.

CHAIRMAN JACOBS: Without objection, show Exhibit 11 is admitted.

(Exhibit 11 admitted into the record.)

MR. MELSON: WorldCom moves 12.

CHAIRMAN JACOBS: Without objection, show Exhibit 12 is admitted.

(Exhibit 12 admitted into the record.)

CHAIRMAN JACOBS: And we didn't mark the other, did we? Very well. Thank you, Mr. Ruscilli. The next witness.

MR. EDENFIELD: BellSouth would call Doctor William Taylor.

CHAIRMAN JACOBS: For your information, we are going to work through till 6:00.

MR. EDENFIELD: I think Doctor Taylor is going to be quick. I'm not sure how much cross there is for him.

May I proceed, Chairman Jacobs?

CHAIRMAN JACOBS: You may proceed.

MR. EDENFIELD: Thank you.

MR. MOYLE: Mr. Chairman, a question of clarification. I was under the assumption that we were going to move down the witnesses in the order that they appeared in the --

MR. EDENFIELD: Well, it said all the rebuttal and direct have been combined. The problem is Doctor Taylor filed only rebuttal, so I assumed he would be going next in the BellSouth witness order. I would ask if that was not everyone's understanding, I would ask for a little consideration because Doctor Taylor needs to get back to a --

CHAIRMAN JACOBS: Before we do that, it would have been good to restate the order given the agreement to do direct and rebuttal combined. Am I to take it, then, that the parties would agree -- are you stating an objection to going through putting all one parties witnesses at once?

MR. MOYLE: I was just asking for clarification. I know that historically we have gone through the order as they have been listed there, and so I was a little curious mainly as to what -- I'm not objecting, and Mr. Edenfield is reasonable, if he has travel accommodations, you know, that's fine.

CHAIRMAN JACOBS: Let's get the answer to the first question, and that is whether or not we would intend to do all of BellSouth witnesses, all of Verizon, and then all of the ALEC witnesses.

MR. EDENFIELD: Certainly that appears to be the order in which it is set up. The BellSouth witnesses were first, and all the Verizon witnesses are grouped. Normally we go ILEC and then ALEC. I mean, I don't know that anybody really gave it that much thought other than there was agreement

that we would be doing rebuttal and direct together. Doctor Taylor didn't file direct, so obviously his name only came up under rebuttal, but --

CHAIRMAN JACOBS: Well, historically also if their witness was only rebuttal he would come after all witnesses who have filed both. He filed either only direct or direct and rebuttal. And that witness, the rebuttal-only witness, is my understanding, would be the last in that order.

COMMISSIONER JABER: Chairman Jacobs, we didn't talk about it at the prehearing. So I think that certainly in my mind when we were going through the order of witnesses, I was contemplating Ruscilli, Tolar, Jones, Beauvais. Now there was also some discussion about accommodating for travel.

CHAIRMAN JACOBS: Okay. Here is what -- so we will be clear going forward, we will go forward with witnesses by parties so that all BellSouth witnesses, all Verizon, all ALEC. Is that acceptable to the parties? And normally is the case, we will take them in order of direct. And, of course, if one of your witnesses only has rebuttal, he will be last.

MR. EDENFIELD: And I apologize for any misunderstanding. I certainly apologize. I didn't mean to upset the apple cart if the ALEC had prepared cross in a certain way. I just thought we were grouping by company, and I will tell you that Doctor Taylor is the only witness, as far as I can tell, that filed only rebuttal testimony. So he would be

the only one that is not as listed under direct.

CHAIRMAN JACOBS: Very well. And if there is no objection we will go ahead and put Mr. Taylor in out of order. You may proceed.

MR. EDENFIELD: Thank you.

WILLIAM E. TAYLOR, Ph.D.

was called as a witness on behalf of BellSouth Telecommunications, Inc., and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. EDENFIELD:

Q Doctor Taylor, will you confirm that you were previously sworn?

A Yes, that is correct.

Q State your name and occupation.

A William E. Taylor. I am an economist, Senior Vice-president at NERA, and head of the Cambridge office and the NERA telecommunications practice.

Q Are you the same Doctor Taylor that caused to be filed in this proceeding 19 pages of rebuttal testimony and one exhibit?

A Yes.

Q Do you have any changes or corrections to that testimony?

A No, I don't.

Q If I asked the questions that appear in your testimony to you today, would your answers be the same?

A They would.

MR. EDENFIELD: With that, I would move Doctor Taylor's testimony into the record as if read.

COMMISSIONER DEASON: Without objection, show the testimony of Doctor Taylor entered into the record as though read.

MR. EDENFIELD: And I would ask that his exhibit be marked for identification as Exhibit 13, I believe is the next one.

CHAIRMAN JACOBS: Yes. Show that marked as Exhibit 13.

(Exhibit 13 marked for identification.)

ON BEHALF OF BELLSOUTH TELECOMMUNICATIONS, INC.

REBUTTAL TESTIMONY OF WILLIAM E. TAYLOR, Ph.D.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 000075-TP (PHASE II)

APRIL 19, 2001

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION.

A. My name is William E. Taylor. I am Senior Vice President of National Economic Research Associates, Inc. ("NERA"), head of its Communications Practice, and head of its Cambridge office located at One Main Street, Cambridge, Massachusetts 02142.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL, PROFESSIONAL, AND BUSINESS EXPERIENCE.

A. I have been an economist for over twenty-five years. I earned a Bachelor of Arts degree from Harvard College in 1968, a Master of Arts degree in Statistics from the University of California at Berkeley in 1970, and a Ph.D. from Berkeley in 1974, specializing in Industrial Organization and Econometrics. For the past twenty-five years, I have taught and published research in the areas of microeconomics, theoretical and applied econometrics, which is the study of statistical methods applied to economic data, and telecommunications policy at academic and research institutions. Specifically, I have taught at the Economics Departments of Cornell University, the Catholic University of Louvain in Belgium, and the Massachusetts Institute of Technology. I have also conducted

research at Bell Laboratories and Bell Communications Research, Inc.

I have participated in telecommunications regulatory proceedings before several state public service commissions, including the Florida Public Service Commission ("Commission") in Docket Nos. 900633-TL, 920260-TL, 920385-TL, 980000-SP, 980696-TP, 990750-TP, and 000075-TP (Phase I). In addition, I have filed testimony before the Federal Communications Commission ("FCC") and the Canadian Radio-television Telecommunications Commission on matters concerning incentive regulation, price cap regulation, productivity, access charges, local competition, interLATA competition, interconnection and pricing for economic efficiency. Recently, I was chosen by the Mexican Federal Telecommunications Commission and Telefonos de Mexico ("Telmex") to arbitrate the renewal of the Telmex price cap plan in Mexico.

I have also testified on market power and antitrust issues in federal court. In recent work years, I have studied—and testified on—the competitive effects of mergers among major telecommunications firms and of vertical integration and interconnection of telecommunications networks.

Finally, I have appeared as a telecommunications commentator on PBS Radio and on The News Hour with Jim Lehrer. My curriculum vita is attached as Exhibit WET-1.

Q. PLEASE DESCRIBE NERA, YOUR PLACE OF EMPLOYMENT.

A. Founded in 1961, National Economic Research Associates or NERA is an internationally known economic consulting firm. It specializes in devising economic solutions to problems involving competition, regulation, finance, and public policy. Currently, NERA has more than 275 professionals (mostly highly experienced and credentialed economists)

with 10 offices in the U.S. and overseas offices in Europe (London and Madrid) and Sydney, Australia. In addition, NERA has on staff several internationally renowned academic economists as Special Consultants who provide their professional expertise and testimony when called upon.

The Communications Practice, of which I am the head, is a major part of NERA. For over 30 years, it has advised a large number of communications firms both within and outside the U.S. Those include several of the regional Bell companies and their subsidiaries, independent telephone companies, cable companies, and telephone operations abroad (e.g., Canada, Mexico, Europe, Japan and East Asia, Australia, and South America). In addition, this practice has supported a large number of legal firms and the clients they represent, and routinely provided testimony or other input to governmental entities like the FCC, the Department of Justice, the U.S. Congress, several state regulatory commissions, foreign regulatory commissions, and courts of law. Other clients include industry forums like the Unites States Telephone Association. Last year, the Warrington School of Business Administration at the University of Florida presented its International Business Leadership Award to NERA, citing work of the NERA Communications Practice on incentive regulation interconnection, and efficient competition and technological convergence.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked by BellSouth Telecommunications, Inc. ("BellSouth")—an incumbent local exchange carrier ("ILEC")—to address economic issues raised in the testimonies of witnesses representing alternative local exchange carriers ("ALECs") in this proceeding. I

review and comment on the testimonies of Lee L. Selwyn (representing AT&T Communications of the Southern States, Inc., TCG of South Florida, Global NAPS, Inc., MediaOne Florida Telecommunications, Inc., Time Warner Telecom of Florida, LP, Florida Cable Telecommunications Association, Inc., and Florida Competitive Carriers Association) and Timothy J. Gates (representing Level 3 Communications, LLC).

II. RESPONSE TO INTERVENOR TESTIMONY

Q. WHICH ISSUES DO YOU ADDRESS IN YOUR TESTIMONY?

A. I address Issues 12-15 as outlined by the Commission.

Issue 12: Pursuant to the Act and FCC's Rules and Orders:
(a) Under what condition(s), if any, is an ALEC entitled to be compensated at the ILEC's tandem interconnection rate?
(b) Under either a one-prong test or two-prong test:
(i) What is "similar functionality?"
(ii) What is "comparable geographic area?"

Q. HAVE YOU REVIEWED THE SAME LANGUAGE FROM THE FCC'S LOCAL COMPETITION ORDER THAT DR. SELWYN CITES IN HIS TESTIMONY [AT 5-6]?

A. Yes. I have reviewed paragraph 1090 of the Local Competition Order.[1] I have also reviewed the surrounding paragraphs 1085-1093, which offer additional insight into the FCC's intent.

Q. DO PARAGRAPHS 1085-1093 OF THE LOCAL COMPETITION ORDER

[1] FCC, *In the Matter of Local Competition Provisions in the Telecommunications Act of 1996*, CC Docket No. 96- (continued...)

SUPPORT DR. SELWYN'S ARGUMENTS [AT 5-13]?

A. No, the FCC's intent simply does not support the position that Dr. Selwyn and the ALECs have taken in this proceeding. Dr. Selwyn and the ALECs in this proceeding have argued that carriers should receive inter-carrier compensation at the tandem rate based solely on the geographic area served by the terminating carrier's switch. If implemented, this approach would fail to produce a cost-based rate (which the FCC has required for inter-carrier compensation) and, consequently, fail to be economically efficient. An inter-carrier compensation rate that does not reflect the termination cost of the carrier receiving local exchange traffic from another carrier would open the door to inefficient competitive entry and, in many cases, undesirable arbitrage. The availability of inter-carrier compensation in excess of actual cost has already caused a proliferation of entry by ALECs nationally with the sole or primary purpose of receiving and switching Internet-bound traffic to Internet service providers ("ISPs"). Recognizing the enormous scope for arbitrage by ISP-specializing CLECs or CLEC-ISP alliances, some states (led by Massachusetts and Colorado) have taken steps to end inter-carrier compensation in its present form for such traffic.

Q. ON WHAT BASIS DO YOU CONCLUDE THAT THE FCC INTENDED TO ESTABLISH COST-BASED RATES FOR INTER-CARRIER COMPENSATION?

A. One need only look at the Telecommunications Act of 1996 ("the Act"). Section 252(d)(2)

(...continued)

98, First Report and Order ("Local Competition Order"), released August 19, 1996.

of the Act requires that inter-carrier compensation be paid "on the basis of a reasonable approximation of the additional costs of terminating such calls." Indeed, the FCC cites this provision from the Act when it concludes that the ILEC's cost of transport can be used as a proxy for the costs incurred by interconnecting carriers.

Q. WHY WOULD DR. SELWYN'S APPROACH RESULT IN RATES NOT BASED ON COST?

A. Any inter-carrier compensation received by an ALEC at a rate that does not reflect "a reasonable approximation of the additional costs of terminating traffic" would fail to be cost-based. To best convey the error in Dr. Selwyn's position, consider two Scenarios, A and B. In Scenario A, an ALEC receives compensation at the tandem rate, yet only incurs the costs of end office termination (end office switching). In scenario B , an ALEC receives compensation at the tandem rate, and incurs the costs of tandem termination (tandem switching + transport + end office switching). I expect that Dr. Selwyn would argue that both scenarios are appropriate for compensation at the tandem rate as long as the geographic area served by the ALEC's switch at its point of interconnection ("POI") is comparable to the geographic area served by BellSouth's tandem. However, Dr. Selwyn's position would result in a rate for Scenario A that is not truly cost-based. Recall that in Scenario A, the ALEC receives compensation at the *tandem rate*, yet *only incurs the costs of end office termination.* This outcome is clearly at odds with both the provisions of the Act and the policies adopted by the FCC in this regard.

Q. WHAT IS WRONG WITH INTER-CARRIER COMPENSATION RATES THAT

ARE BASED SOLELY ON GEOGRAPHY AND NOT ON COST?

A. First, as I noted above, that would conflict with both the Act and the FCC's own regulations to implement the Act. For that reason alone, the Commission should ensure that only cost-based rates are used for inter-carrier compensation.

Second, if the Commission were to determine that inter-carrier compensation rates should be based solely on the size of a carrier's service area rather than also on a measure of the carrier's termination costs, then the Commission would first have to resolve a number of problematic issues. Specifically, the Commission would have to determine what constitutes the geographic serving area of a tandem. Which tandem, and whose tandem, should the Commission measure for that purpose? How should the serving area itself be measured: on the basis of geography alone or with reference to the number of access lines served?

Third, as is already evident with Internet-bound traffic, compensation rates that are not cost-based create opportunities for arbitrage that tends to enrich the terminating carrier. Moreover, because the arbitrage is triggered by a flaw in a regulatory policy, it is not likely to be self-healing, i.e., the arbitrage will not itself be temporary and cure the distortion that generates it in the first place.

Q. DR. SELWYN ARGUES [AT 13] THAT "IT IS A GOOD THING" FOR AN ALEC TO BE ABLE TO RECEIVE A HIGHER TANDEM RATE EVEN WHEN ITS COSTS OF TERMINATION ARE BELOW THOSE OF AN ILEC THAT PERFORMS SIMILAR FUNCTIONS. DO YOU AGREE?

A. Absolutely not. This is a familiar argument, a variant of which Dr. Selwyn and others have

employed to justify inter-carrier compensation of ALECs at rates that exceed their true cost to deliver Internet-bound traffic to ISPs. It is true that the FCC established the so-called symmetry rule, which ties the inter-carrier compensation rate available to both the ILEC and the ALEC to the ILEC's termination cost, regardless of the ALEC's own termination cost. The FCC justified that rule by reasoning that symmetry in rates would force symmetry in costs as well, i.e., induce ILECs to become more efficient and lower their termination costs to at least the level of the ALEC's costs. However, at a practical level, the Commission would find it almost impossible to enforce that rule to the satisfaction of all parties, including itself.

First, the kind of symmetry in costs that the FCC hoped to induce cannot be considered a certainty in a market in which one party (the ILEC) is regulated and subject to franchise obligations while the other party (the ALEC) is essentially free to operate in any manner it chooses, including regarding whom it serves and where and what services it provides. The ILEC's costs are, in large part, driven by its regulatory circumstances, but the ALEC's are not.[2] The ILEC cannot pick and choose customers to serve, or serve only customers that receive more traffic than they originate. In contrast, the ALEC has all of these options.

Second, an ALEC can construct a network that specializes in terminating (i.e., receiving incoming) traffic. This network can be configured differently than that of the ILEC and avoids costs that a network providing several different services and features must

[2] For example, one reason why ILECs have more hierarchical architectures for switching than CLECs is because ILECs must serve low-density geographic areas and provide network access to many customers who generate

(continued...)

take on. The proliferation throughout the nation of ALECs that serve only ISPs demonstrates this possibility. An ALEC network specialized in this manner may have a lower unit termination cost to which even the most efficient ILEC could not aspire. Unlike the specializing ALEC, the ILEC provides the call termination function as only one among several other functions. For the ILEC to become "more efficient" with respect to any one function is an ambiguous goal. It could conceivably do so by reallocating resources and production priorities but that could happen, at least in the short run, at the expense of its other services and functions. Alternatively, it could try to lower its costs in the long run by adopting more efficient technologies, redesigning the network, and utilizing its human and other resources differently. However, costs of a multi-service network are the outcomes of a large number of complex interactions. Also, such a network has neither the luxury to re-design its network from scratch (something to which new entrants could aspire), nor the ability to upgrade to new technologies or network architectures in a continuous and seamless manner.

Third, the asymmetry of the circumstances of the ILEC and the ALEC virtually ensures that the ALEC would be able to take full advantage of any policy that guarantees the ALEC a higher rate of compensation than the cost it incurs. The arbitrage that this asymmetry makes possible can only lead to an endless transfer of revenues from the ILEC to the ALEC with virtually no prospect of its reversal or of the arbitrage opportunity itself disappearing. Despite its well-intentioned goals, the outcomes of this public policy cannot

(...continued)

very small amounts of local and toll traffic. CLECs generally do not seek out such customers.

be those expected by Dr. Selwyn.

Finally, in view of that asymmetry, the compensation each carrier receives should not be allowed to differ significantly from *its* unit termination cost. Until that asymmetry disappears, the effects of the policy advocated by Dr. Selwyn can never be beneficial to society. Ironically, if a policy of symmetric compensation rates absolutely must be retained, then it would be better to set the inter-carrier compensation rate at the level not of the ILEC's (potentially higher) unit termination cost, but that of the ALEC's (potentially lower) unit termination cost. This would still encourage the regulated entity (the ILEC) to lower its unit termination cost (an outcome that Dr. Selwyn desires) while eliminating the possibility of any arbitrage by the unregulated and unconstrained entity (the ALEC). Although I do not necessarily advocate such a policy, it would at least have the salutary effect of removing the arbitrage carrot and encouraging ALECs to become full service providers, i.e., to compete with the ILEC for the full spectrum of local exchange services.

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

Q. DO YOU AGREE WITH DR. SELWYN [AT 19] AND MR. GATES [AT 8-9] THAT IT IS APPROPRIATE FOR ALECs TO ADOPT LOCAL CALLING AREA DEFINITIONS THAT DIFFER FROM THOSE OF THE ILEC?

A. Yes. In fact, I would expect ALECs to offer their customers local calling areas that differ from the incumbent's local calling areas. Competition is expected to produce new service options for customers. How an ALEC defines its local calling area for its own customers is certainly one means of differentiating itself in the market.

Q. SHOULD AN ALEC'S LOCAL CALLING AREA AFFECT HOW "LOCAL CALLING AREA" IS DEFINED FOR PURPOSES OF RECIPROCAL COMPENSATION?

A. No. The local calling area for retailing purposes is entirely different from the local calling area for interconnection purposes. The issue in this proceeding is how to define the local calling area *for interconnection purposes*. While each ALEC should be permitted to establish local calling areas for its own customers, the definition of a local calling area for the purposes of paying reciprocal compensation is a different matter entirely. The most appropriate mechanism by which to determine the local interconnection calling area for compensation purposes is the use of negotiations between interconnecting carriers. Interconnecting parties themselves are in the best position to negotiate where and how interconnection should occur between their respective networks and whether local interconnection or access charges should be the basis for inter-carrier compensation.

Q. WHAT WOULD BE THE ECONOMIC CONSEQUENCES IF ILECs WERE REQUIRED TO MATCH EACH ALEC'S CLAIMED LOCAL EXCHANGE AREAS FOR RECIPROCAL COMPENSATION PURPOSES?

A. Chaos. If inter-carrier compensation depended solely on the definition of the local exchange area of the originating carrier, each terminating LEC would need to be able to rate each call for reciprocal compensation according to its local exchange area definition and of every other LEC in Florida. Today, each LEC switch uses a routing table that references originating and terminating NPA-NXXs to classify calls as local or toll according to the LEC's own definitions. If inter-carrier compensation were determined by

the local calling area of the originating LEC, each LEC would require routing tables for every other LEC, and the classification process would become unwieldy.

In addition, the definitions of local calling areas for individual LECs are frequently ambiguous and change over time. LECs should be free to define local calling areas for their retail services in any way they choose. Thus, for each LEC, calls between particular NPA-NXX pairs could be local in some retail packages and toll under other circumstances, depending on the LEC's perceptions of its customers' needs.

LECs should, therefore, be free to negotiate to determine whether particular NPA-NXX pairs represent local or toll calls for the purpose of reciprocal compensation. Moreover, the classification for inter-carrier compensation purposes need bear no relationship with the retail packaging process, so that LECs can change their retail offerings without negotiating new rules for inter-carrier compensation.

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. DO YOU AGREE WITH DR. SELWYN [AT 37] THAT AN ALEC NEED ESTABLISH ONLY ONE POINT OF INTERCONNECTION WITH AN ILEC ANYWHERE IN EACH LATA?

A. Yes. It is consistent with both the Act and the FCC's implementing rules for each ALEC to be allowed to establish only one POI in each LATA for collecting local exchange traffic headed to its network. Doing so allows competitors entering the market to build their

networks slowly, thus allowing them to expand their networks with growth in their customer bases. Requiring ALECs to replicate the ILEC's network as a condition of entry can be burdensome enough to become a barrier to entry.

Q. SHOULD, AS DR. SELWYN SUGGESTS [AT 42], THE ORIGINATING CARRIER BE REQUIRED TO CARRY *WITHOUT COMPENSATION* LOCAL EXCHANGE TRAFFIC TO A TERMINATING CARRIER'S POI REGARDLESS OF WHERE IT IS PHYSICALLY LOCATED IN THE LATA?

A. No. This is where I disagree with Dr. Selwyn. ALECs have been granted an opportunity to expand their facilities-based networks gradually with growth in their own customer bases. However, this opportunity granted to ALECs by Congress and the FCC should not become a "free ride" for them . Allowing ALECs to use one POI for interconnection is simply recognition by regulators that replicating the ILEC's network for interconnection purposes could be prohibitively costly and an entry barrier for potential competitors. A more cost-effective strategy for these entrants is to purchase transport (that it cannot provide itself) from other sources. Instead of ALECs building switches themselves in each local calling area, ALECs have the opportunity to purchase transport from other carriers who may already have a presence in those areas. The transport market is well established and stands ready to offer ALECs these services.

Second, I note Dr. Selwyn's concern [at 41] with allowing an ILEC to dictate where ALECs with which it interconnects should place their POIs or, as he puts it, allowing that ILEC to "shift financial responsibility for some or all of the transport costs incurred on its side of the POI to the ALEC." On this point, Dr. Selwyn offers the following "principle:"

> ... a local carrier should be responsible for the costs of transport from the point at which the call originates on its network to the POI. This principle must apply whether or not the transport will extend beyond the originating caller's local calling area.

Ironically, Dr. Selwyn expresses no concern for the possibility that this principle could shift financial responsibility for transport back to the ILEC. Consider how such strategic behavior could arise. Suppose the arrangement is for the originating carrier to pay for all transport from its customer up to the POI and for the terminating carrier to absorb the cost of transport from that POI to the called customer. The decision to locate the POI is itself asymmetric: it is entirely the ALEC's call and the ILEC has no say (for reasons discussed above). Now suppose the volume of traffic flowing from some of the ILEC's local calling areas to the ALEC's network is disproportionately larger than the reverse flow of traffic. That is, relatively little traffic is returned by the ALEC to those ILEC local calling areas. Next, suppose that precisely the opposite is true for traffic flowing back and forth between the rest of the ILEC's local calling areas and the ALEC's network. An ALEC that is free to locate its POI would obviously seek to minimize its own costs of transport. This it could easily do, in Dr. Selwyn's scheme of things, by locating its POI very close to the ILEC local calling areas to which it *sends* a lot more traffic than it receives, and as far away as possible from the other ILEC local calling areas from which it *receives* a lot more traffic than it sends.[3] While this perfectly rational cost-minimizing strategy would serve the ALEC's interest, it would also maximize the shift of transport cost to the ILEC—a fact that Dr. Selwyn simply chooses to ignore. The transport costs of the two carriers are a zero-

[3] In some cases, the ALEC may even consider locating its POI *within* a local calling area to which it sends the most (continued...)

sum game. What one carrier saves on transport cost by locating its POI in a particular place becomes extra transport cost for the other. Therefore, while the ALEC should be free to locate its POI anywhere in the LATA, it should not be absolved of all responsibility for the manner in which it can shift the greatest "financial responsibility" for transport costs on to the ILEC.

Third, both Dr. Selwyn [at 41-42] and Mr. Gates [at 22-23] argue that ALECs should not be required to incur transport costs even if they choose to locate their POIs outside of the local calling area in which the call originates. This principle mis-interprets FCC policy which, in my reading, only requires the ILEC to deliver traffic to the ALEC's POI within the local service area in which the call originates. Moreover, the principle would violate the economic foundation of reciprocal compensation for local exchange traffic in which it is supposed that the costs incurred by the originating carrier are recovered from its local exchange customers. If the ILEC is required to haul traffic outside its local calling area to an ALEC POI, there is no possibility that local exchange rates recover the transport costs of that call.

(...continued)

traffic, or even collocating at an ILEC switch in that 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. DR. SELWYN ASSERTS [AT 44] THAT "CARRIERS...SHOULD BE ALLOWED TO DEFINE BOTH THEIR OUTWARD AND INWARD LOCAL CALLING AREAS..." DO YOU AGREE?

A. Yes. For retail purposes, all carriers should be free to bundle and price local exchange services in whatever manner they perceive their customers want. However, those definitions of local calling areas for retail purposes should not necessarily be the definition of local calling area for the purpose of determining whether the method of inter-carrier compensation for interconnection is carrier access charges (for toll calls) or reciprocal compensation (for local calls).

Q. DO YOU AGREE WITH MR. GATES [AT 26-29] THAT ALECs SHOULD BE PERMITTED TO ASSIGN NXX CODES TO CUSTOMERS OUTSIDE THE LOCAL CALLING AREA?

A. Yes. ALECs and ILECs should be free to offer foreign exchange-like services ("virtual NXX service" in Mr. Gates' terminology). However, assigning an NPA/NXX code to a customer outside the rate center in which the NPA/NXX is homed does not change the basic nature of the call. If the call originates and terminates in different local calling areas, the call is a toll call and not subject to reciprocal compensation.

Q. DR. SELWYN ARGUES AT LENGTH [AT 44-52, INCLUDING FIGURES 1-4]

THAT THE ILEC'S *COSTS* ARE NOT AFFECTED BY THE LOCATION AT WHICH THE ALEC DELIVERS TRAFFIC TO ITS CUSTOMERS. MR. GATES MAKES THE SAME POINT [AT 33]. DO YOU AGREE WITH THIS CONCLUSION?

A. In general, yes. The ILEC's costs are unaffected by the location of the ALEC's customer.

Q. BOTH DR. SELWYN AND MR. GATES CONCLUDE FROM THIS FACT THAT RECIPROCAL COMPENSATION, NOT ACCESS CHARGES, SHOULD BE PAID FOR THIS VIRTUAL FX TRAFFIC. DO YOU AGREE?

A. No, not at all. The originating carrier pays reciprocal compensation on local traffic while it receives carrier access charges on toll traffic. Irrespective of costs, a virtual FX call is not a local call; it originates in one local calling area and terminates in another, which makes it a toll call.

The situation is identical to a toll call, where the LEC carries the call from its end office to the interexchange carrier's point of presence ("POP"). When the POP is in the local calling area of the originating end user, that call is functionally similar to a local call, from the perspective of the LEC. However, such calls are not classified as local calls but as carrier access calls. Carrier access rates rather than local usage rates are applied to those calls, and the rates are set so that the LEC recovers its economic costs plus contribution (in an amount determined by the regulator). While interexchange carriers would prefer to classify switched access calls as local exchange calls—thereby avoiding access charges—regulators do not permit it, recognizing that prices for other services (e.g., basic exchange service) are set with the expectation of contribution from switched access service.

Q. MR. GATES CLAIMS [AT 36] THAT LECs RECOVER THE COST OF CARRYING VIRTUAL FX TRAFFIC FROM THEIR OWN CUSTOMERS. DO YOU AGREE?

A. No. First, virtual FX calls are not local calls, so they are not included in the count of calls used to determine local usage costs for flat-rated local exchange service. In that sense, local exchange rates were not set to recover these costs. Second, Mr. Gates distorts the quotation from the FCC's TSR Order he purports to explain. That Order, as cited by Mr. Gates [at 35-36], clearly reads

> The originating carrier recovers the costs of these facilities through the rates it charges its own customers *for making calls.* [Emphasis added]

Thus, the TSR Order is *not* talking about recovering traffic-sensitive costs of originating local traffic from "subscriber line charges, vertical services..., universal service surcharges, extended area service charges and contribution from access charges for intraLATA and interLATA toll" as suggested by Mr. Gates [at 36]. Indeed, Mr. Gates appears to argue that so long as sufficient sources of contribution exist to fund a subsidy to virtual FX traffic, the LEC can be said to "recover its costs" of providing the service. Such an interpretation does obvious violence to the intention of the Act which explicitly sought to remove implicit subsidies from telecommunications prices.

Q. DR. SELWYN CLAIMS [AT 53] THAT THE ONLY IMPACT ON THE ILEC OF AN ALEC VIRTUAL FX SERVICE IS IN THE NATURE OF "A COMPETITIVE LOSS." DO YOU AGREE?

A. No. Reclassifying a virtual FX call from toll to local would represent a regulatory anomaly or loophole, not a competitive loss. When the ILEC responds to customer demand for toll-

free calling, it offers FX service, in which callers dial toll-free numbers and the ILEC recovers the cost of the service from the FX subscriber. As the call is classified as a toll call, no reciprocal compensation is paid when an ALEC subscriber dials the FX number. In contrast, the virtual FX service described by Dr. Selwyn is free to both the callers and the FX subscriber, and, in addition, the ALECs that wish to provide it want to receive reciprocal compensation from the ILEC when its customers dial the virtual FX number. While both the ILEC and the ALEC are free to offer FX-like services under any pricing structure they want, it is important that both ALEC and ILEC services be subject to the same regulatory treatment. Since the call originates and terminates in different local calling areas, it is not a local call and neither ALEC nor ILEC should pay reciprocal compensation when its subscriber dials such a number.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BY MR. EDENFIELD:

Q Did you prepare a summary of your testimony, Doctor Taylor?

A Yes, I did.

Q Would you give that now, please, sir?

A Yes, thanks. Good evening. My rebuttal testimony addresses the economic content of the various disputes in applying the words of the Telecommunications Act and the FCC's local competition order to the intricacies of intercarrier compensation for termination of local traffic. These are issues numbered 12 to 15 on your score card, and I address really two questions.

First, there seems to be general agreement on at least one thing, that ALECs should be absolutely free to establish their services however they want, however they think their customers want; that is, they can define their local flat rate calling areas irrespective of how the ILEC has done it. They can change it every night, they can do it any way they like. That is what competition is supposed to bring.

Similarly, they can assign numbers, NXXs, wherever they want. I didn't believe there is any issue that there is any disagreement that both of those are a proper thing to do. However, this flexibility in marketing should have no necessary bearing on the classification of calls for the purpose of assessing either reciprocal compensation for calls that are

local calls or carrier access charges if the calls are toll calls.

Now, the economic characteristics of these calls may be similar, but the LECs, ILECs, and ALECs should be free to negotiate terms of local calling areas. The FCC definition of what a local call is and what a long distance call is is perfectly clear, and the rates that have been set historically for ILEC services have assumed that the costs of calls within a local exchange are recovered or not recovered, but in basic exchange rates, and the cost of calls that go between local exchanges are recovered or not recovered from toll and carrier access charges. And undoing the distinction between toll and local calls will create arbitrage opportunities between reciprocal compensation and carrier access charges that I don't think anyone intends.

The second general observation, economic principle, is on the point of interconnection issue. When an ALEC's point of interconnection is located outside the local calling area where the call originates, the ALEC ought to be responsible for the additional cost of transport from the local calling area to the point of interconnection.

I won't go over the orders and the precedence because I am just speaking as an economist. There is one good economic reason why that is true. The economic foundation of reciprocal compensation for local exchange traffic is kind of based on the

idea that the costs that an originating carrier incurs are recovered from the local exchange carrier. So BellSouth has a customer, a customer makes a call, a local call, BellSouth gets the money from the customer. If BellSouth terminates the call locally, that money is to cover the cost of termination. If the call terminates to an ALEC customer, BellSouth takes the money and gives it to the ALEC to terminate the call.

But the important thing is that the costs that are incurred for local calls are recovered from -- or not recovered from, but they are based on what the ILEC gets from the local exchange customer. And that would be violated if the ALEC's POI outside the local calling area did not create a revenue stream back to the ILEC, because there is nothing in the local exchange rates when these were set up to cover the costs of transporting calls outside of the local calling area.

So these are the two main economic issues that I raise in my testimony. I also discuss tandem switching, but the FCC seems to have taken that one off the table. And that concludes my summary.

CHAIRMAN JACOBS: Counselor, you stated that Mr. Taylor had an exhibit. I don't find one for him.

MR. EDENFIELD: He referenced it in his testimony, was it not attached? It is just his curriculum vitae. I will put it this way, I will withdraw the exhibit if it wasn't attached. I don't want to cause problems. I think the

Commission is familiar with Doctor Taylor.

CHAIRMAN JACOBS: Yes. Very well.

MR. EDENFIELD: My apologize for that. I know it referenced it, but I didn't realize we didn't attach it. Sorry. Doctor Taylor is available for cross.

CHAIRMAN JACOBS: Very well. Ms. Caswell. Ms. Masterton.

MS. MASTERTON: No questions.

CHAIRMAN JACOBS: Mr. Lamoureux.

CROSS EXAMINATION

BY MR. LAMOUREUX:

Q I have hopefully just one question with no follow-up. Hopefully. Page 15 of your testimony, Lines 8 through 10, you say --

A Yes.

Q -- this, and you are referring to statements in Doctor Selwyn and Mr. Gates' testimony?

A Correct.

Q And you say this principle misinterprets FCC policy which in my reading only requires the ILECs -- I'm sorry, only requires the ILEC to deliver traffic to the ALEC's POI within the local service area in which the call originates.

My question is what FCC rule or regulation are you reading that specifically says the ILEC is only required to deliver traffic to the ALEC's POI within the local service area

in which the call originates?

A Actually that sentence standing by itself isn't quite correct. It is not that the ILEC is required or is not required to deliver traffic to the ALECs POI within the local service area, it is without additional compensation that the ILEC is not required to deliver the traffic. And the FCC rule -- and I am embarrassed that I can't cite it, but it is the one that relates to additional costs of expensive interconnection; that is, when interconnection is either technically more expensive, or in this sense for distance more expensive that additional charges should be levied. And I forget the rule.

Q Well, specifically you are referring to the same paragraph from the local competition order that Mr. Ruscilli was referring to, I think Paragraph 199, the one that talks about an expensive form of interconnection?

A Yes, that is correct.

Q When you say "in my reading," that is specifically what you are referring to for this principle?

A Yes.

Q Nothing else?

A Nothing else with respect to FCC policy, that is correct.

MR. LAMOUREUX: That's all I have.

MR. McDONNELL: No questions.

CHAIRMAN JACOBS: Mr. Moyle.

MR. MOYLE: Just a quick question.

CROSS EXAMINATION

BY MR. MOYLE:

Q You have testified on numerous occasion in front of this Florida Public Service Commission, have you not?

A Many, yes.

Q Have you ever provided testimony on behalf of an ALEC?

A No.

MR. MOYLE: Nothing further.

MR. McGLOTHLIN: No questions.

CHAIRMAN JACOBS: Mr. Melson.

MR. MELSON: Just a couple.

CROSS EXAMINATION

BY MR. MELSON:

Q Doctor Taylor, Rick Melson representing MCI WorldCom. I believe at the very end of your summary you said in essence your discussion of Issue 12, which is the tandem compensation rate, had been made moot by a recent FCC announcement. Did I get that right?

A Yes, you did. The rule has been made moot; that is, the FCC has stated quite clearly what it says it meant, even though that isn't what I read that it said. But, yes, it is moot in that sense, that there is no argument now about what

the FCC says it means.

Q And is it, therefore, fair to say that your testimony about the FCC's intent in that rule and what the FCC must have intended is testimony that essentially the Commission would be justified in disregarding at this point?

A Yes. I looked carefully after the order from the FCC came out, and actually the Commission should always disregard people's testimony when they talk about intent. I mean, how does anybody know what the FCC's intent is. On the other hand, the Commission, the Florida Commission should pay careful attention to the economics of it because at least, according to Footnote 173 in the notice of proposed rulemaking of April 27th, 2001, the FCC does give flexibility to state commissions on grounds that I think based on the economic arguments I make, the Florida Commission would be wise to consider.

Q Well, I guess the bottom line, has the FCC -- would you agree with me the FCC has now said that geographic coverage alone is sufficient to entitle -- comparable geographic coverage alone is sufficient to entitle an ALEC to the tandem interconnection rate?

A Yes, I would agree with that. What the FCC has done, though, is to fudge what they mean by geographic comparability. And in discussing the New York PSC order and the Texas PSC (sic) order, this is Footnote 173, they say both the Texas PUC and the New York PSC concluded that large imbalances in traffic

flow strongly suggest that a carrier is serving a higher proportion of convergent customers rather than a large distribution of customers similar to those served by an ILEC tandem switch. And they go on, but to me that is suggesting what the FCC might consider to be a definition or an issue in what comparable geographic service might mean.

Q But your testimony as filed does not deal with the question of what comparable geographic service means?

A Oh, no, it does. And I do bring up where I talk about this the problem of defining what geographic -- comparable geographic service is.

Q Exactly. And you say that is a problem the Commission would face if they decided a geographic comparability test apply. But you don't offer any standard by which to measure geographic comparability, is that correct?

A That is correct.

MR. MELSON: Thank you. That's all I've got.

CHAIRMAN JACOBS: Doctor Taylor, on Page 9 of your testimony --

THE WITNESS: Yes.

CHAIRMAN JACOBS: -- this is -- and it is an interesting part of this discussion we have been having, because one arguably could say that, and I am specifically looking at Page 9, Lines -- the end of Line 3 down through Line 14.

THE WITNESS: Yes.

CHAIRMAN JACOBS: And you discuss this tension that we are having here. And it sounds like you are concluding that our evolution here into a competitive market should essentially mean we stand pat, we don't pursue the efficiencies, at least in the ILEC network, which seems to contradict the idea of a forward-looking approach. And I am specifically looking at the last sentence where it says, "Also, a network has the luxury to design its network from scratch," which you argue shouldn't be done, "nor the ability to upgrade to new technologies or network architectures in a continuous and seamless manner."

I have always thought that that is exactly what is happening in -- the latter part of that statement is exactly what is happening in the network today. And what we are seeing are technologies being evolved which are lower in cost and are providing efficiencies.

THE WITNESS: Sure, I don't think this passage means or should be taken to mean that the network ought to be static or that we ought to set rates that would encourage the network to be static. In fact, I go on on Page 10 to discuss sort of a different way rather than using the interconnection rate appropriate for the costs of the ILEC, which may for the reasons we have put out on the paragraph on Page 9 be higher, would equally be a -- it would equally encourage firms, the ILECs and the ALECs alike to be more efficient if a common

symmetric interconnection rate were based on the lower of those costs.

So, you know, all I am giving on Page 9 are reasons why one network, a snapshot of one network is different from a snapshot of an ALEC network. I mean, ILECs got to be where they are because they have been serving people over time. ALECs are coming in from scratch. Of course the networks are different. But I don't think there is anything in the reciprocal compensation proposals that we are talking about here that asymmetrically discourage the ILEC from lowering its costs.

CHAIRMAN JACOBS: It would then seem that we -- that at least that your argument would lead to ultimate removal of the symmetrical requirement, then, at least from the standpoint of an ALEC. Arguably they are never going to see symmetrical compensation.

THE WITNESS: No. I mean, I don't think that is where I'm going. They are never going to see symmetric costs in the sense that the ILEC network is always going to have different cost characteristics for terminating traffic than the ALEC network. That is probably a fact of life until 100 years now when sort of everything has merged.

But that is costs, that is not rates. Symmetric rates, I think, are the law of the land more or less. And I don't think I am disagreeing with that as a principle. In

fact, I raise on Page 10 the notion that it might not be the higher rate, but the lower rate at which we would have symmetric compensation.

CHAIRMAN JACOBS: And my final question goes to what -- how would you interpret then the FCC's statements. And, I'm sorry, I don't have the quote, but I believe it was cited in the testimony of Mr. Ruscilli as well as maybe Doctor Selwyn, and it is that passage where the FCC says then if we can't come up with some easy barometer here, then let's add up what the transport and termination costs are of the ILEC and figure out how to drive towards that.

THE WITNESS: Right.

CHAIRMAN JACOBS: That doesn't sound like they are looking for a cost standard, per se, would you --

THE WITNESS: No, that is right. That does have the characteristic, using the ILEC's costs as opposed to the ALECs' costs, has the problem, the disadvantage that it is not cost-based as far as the ALEC is concerned. And, yes, I think the FCC recognizes that as a disadvantage. It encourages arbitrage, it encourages lots of things that we would like to avoid. On the other hand, I don't think we are arguing here that we should abandon that standard.

CHAIRMAN JACOBS: Okay. Thank you. Any questions, Commissioners? Staff.

MS. KEATING: Staff has no questions for Doctor

Taylor.

CHAIRMAN JACOBS: Redirect.

MR. EDENFIELD: None.

CHAIRMAN JACOBS: And no exhibits.

MR. EDENFIELD: Mr. Chairman, can Doctor Taylor be excused?

CHAIRMAN JACOBS: Very well. Thank you, you are excused, Doctor Taylor.

THE WITNESS: Thank you, sir.

CHAIRMAN JACOBS: Next witness.

MR. EDENFIELD: That concludes BellSouth's presentation.

CHAIRMAN JACOBS: Very well. Verizon, I think your first witness is --

MS. CASWELL: Verizon calls Doctor Beauvais.

CHAIRMAN JACOBS: Well, why don't we do Mr. Jones and get his into the record?

MS. CASWELL: Yes, that's a good idea. Mr. Jones had only direct testimony, and if I could ask that that be moved into the record at this time.

CHAIRMAN JACOBS: Without objection, show the direct testimony of Mr. Jones is entered into the record as though read.

MS. CASWELL: And Mr. Jones also had two exhibits, I believe, actually HLJ-3 through HLJ-6, and I would like those

marked for identification and moved into the record, please.

CHAIRMAN JACOBS: Very well. Do they need separate identification?

MS. CASWELL: A composite is fine.

CHAIRMAN JACOBS: Very well. We will mark that composite as Exhibit 13.

MS. CASWELL: I think it is 14 actually.

CHAIRMAN JACOBS: No, we never --

MS. CASWELL: Oh, he withdrew his. I'm sorry, it is 13. Thank you.

CHAIRMAN JACOBS: Very well. You may proceed. I'm sorry, did you ask for those to be admitted? Without objection, we will show Composite Exhibit 13 is admitted into the record.

MS. CASWELL: Thank you.

(Composite Exhibit 13 marked for identification and admitted into the record.)

DIRECT TESTIMONY OF HOWARD LEE JONES

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Howard Lee Jones and my business address is 600 Hidden Ridge, Irving, Texas 75038.

Q. ARE YOU THE SAME HOWARD JONES WHO SUBMITTED DIRECT AND REBUTTAL TESTIMONY ON BEHALF OF VERIZON FLORIDA INC. IN PHASE I OF THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will address Phase II issue number 11, which asks what types of local network architectures are currently employed by incumbent local exchange carriers (ILECs) and alternative local exchange carriers (ALECs), and what factors affect their choice of architectures. I understand this is an informational issue for the Commission, and that it requires no Commission action.

Q. WHAT TYPES OF NETWORK ARCHITECTURES DOES VERIZON CURRENTLY USE FOR ORIGINATION OF CALLS?

A. Verizon employs primarily analog copper loop customer premise connections to circuit switches or end offices located roughly every three to five miles apart. Almost half the time, the copper loops are "line-concentrated" at either a remote switching unit or a remote line unit before

reaching their full-featured serving end office. The transport from these remote units to the end office is usually fiber optic time division multiplexed transport facilities, such as DS-1 or DS-3 facilities. In the case of copper loops directly reaching the end office, these are line-concentrated at the end office, rather than remotely. In both cases, approximately four customer loops share one call path into the call switching equipment of the end office.

Verizon is a longstanding incumbent carrier of last resort, and its network is ubiquitous. As such, its network architecture has not grown from any single, comprehensive plan, but has evolved over many decades, taking in equipment and design factors appropriate to the time and mode of regulation. To the extent that network performance enhancement opportunities have been available and their costs justifiable over a long depreciation period, Verizon has implemented these enhancements without delay. But as I discuss later, the network architecture of an incumbent carrier should not be the only cost factor considered in the determination of an appropriate methodology for reciprocal compensation; the cost of the ALEC's network must be considered, as well.

Q. WHAT TYPE OF NETWORK ARCHITECTURE DOES VERIZON USE TO TRANSPORT CALLS BETWEEN END OFFICE SWITCHES SERVING END USERS?

A. Within and between metropolitan areas, inter-office transport is generally provided over fiber-optic self-healing rings. Fiber optic facilities will also

likely be used in rural or less densely populated areas, but the inter-office route will be point-to-point transport without the self-healing ring configuration. In both metropolitan and rural areas, many of the transport links will be direct interoffice routes with no intermediate or tandem switching points. In other words, traffic originated in Hyde Park will go directly to Temple Terrace.

Q. WHEN ARE TANDEM SWITCHES USED?

A. Tandem, or intermediate, switches do not serve end users and are used primarily as overflow switching points when direct trunks are fully occupied. Tandem switches are also used as intermediate switching points if the end office pairs (originating office and terminating office) do not have enough traffic to justify the 24-path DS-1 direct trunks. Tandem switches will have an average of 40 - 50 subtending end offices and serve as either local only or toll and local tandems. It is important to note that tandem switches, by definition, only switch traffic between their subtending end offices or the end offices of ALECs. So if a company is not providing switching between two or more separate and distinct local end offices, it is not performing a tandem function.

Q. WHAT KIND OF NETWORK ARCHITECTURE DOES VERIZON USE TO DELIVER CALLS TO ISPS?

A. The attached schematic, (Ex. HLJ-3) shows the "ILEC PRI Model," which applies when the ISP is served solely by Verizon. On the left side of the schematic are multiple Verizon end offices with many alternative routes

for traffic to reach the ISP premise on the right side of the vertical bar. Ultimately, in most cases, Verizon will route the traffic to the ISP premise based upon efficient traffic engineering principles from a single end office, even though the traffic could potentially traverse a widely distributed set of intermediate transport paths. The service to the ISP premise will most likely be an end office trunk based multi-line loop of either copper DS-1 or fiber optic DS-3 facility.

Q. IS THE ILEC PRI MODEL THE ONLY NETWORK ARCHITECTURE VERIZON USES TO SERVE ISPS?

A. No. The CyberPOP model shown in Exhibit HLJ-4 is the other common architecture allowing Verizon to provide service to ISPs. CyberPOP is a federally tariffed service providing ISPs a dial-up modem and connection to Verizon's switch. With CyberPOP service, the ISP obtains special access to transport packetized dial-up traffic to an interexchange carrier or internet backbone network.

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE VERIZON NETWORK SCHEMATICS?

A. Exhibits HLJ-3 and HLJ-4 both show how Verizon manages the routing of high-volumes of traffic from a carrier's network destined for a specific location. In the ILEC PRI model (Ex. HLJ-3), the objective is to connect the end office switch with the dial-up modems handling high volumes of traffic. This is accomplished by aggregating all dial-up traffic bound for a given ISP from the ILEC's dispersed network to a single point and then

routing this traffic to the dial-up modems over a facility that is designed to efficiently accommodate a high volume of traffic. The same holds true for the CyberPOP model (Ex. HLJ-4), except that the connection to the internet backbone is accomplished directly, without an ISP premise.

Q. WHAT TYPE OF FACILITY ARRANGEMENT IS TYPICALLY USED TO TRANSPORT TRAFFIC FROM THE ILEC'S END-OFFICE SWITCH TO THE ISP'S DIAL-UP MODEMS?

A. Since the traffic is highly concentrated and one-directional, the typical ISP serving arrangement is a trunk-to-trunk type of network configuration. These trunk-to-trunk arrangements are very different than the network architecture used to serve residential and small-to-medium sized businesses.

Q. ARE THERE OTHER REASONS WHY ISPS PREFER TO BE SERVED BY A TRUNK TO TRUNK ARRANGEMENT SUCH AS ISDN PRI?

A. Yes. There are customer service issues that would make ISDN PRI desirable. For example, ISDN PRI allows the ISP to provide connectivity to its dial-up customers at speeds up to 56 kbps, whereas an ordinary business line connection will not. Since 56 kbps modems are the most widely used method of connecting on a dial-up basis, it would be detrimental to an ISP's service level if it could not meet this customer demand.

Q. DO THE ALECS USE NETWORK ARCHITECTURES SIMILAR TO

THOSE OF THE ILEC?

A. The ALECs, of course, are the only entities with firsthand knowledge of their network architecture choices, so the Commission should seek comprehensive answers directly from them on this point. I can, however, make certain general observations about ALEC network architecture, based upon industry publications and my knowledge of industry network design practices and equipment efficiencies available to carriers that may have a relatively high proportion of Internet-bound traffic to traditional voice traffic. I would advise the Commission to view with skepticism ALEC claims that their networks are similar to the ILECs' networks; in fact, very different factors affect the ILECs' and ALECs' choice of network architecture.

ALECs that target specific customer sets, like ISPs, will deploy different architectures that can most efficiently serve those customers. As an example to demonstrate ALEC network architecture, I have diagrams and information obtained from NaviNet industry forum presentations (Ex. HLJ-5, Mar. 1, 2000 NaviNet Presentation; Ex. HLJ-6: Sept. 14, 1999 NaviNet Presentation.) NaviNet is a firm that acts as a broker between ISPs and ALECs to establish network architectures using SS7 Gateways.

Q. WHAT DOES DIAGRAM 1 (BATES-STAMPED PAGE 183) IN EX. HLJ –5 SHOW?

A. This diagram shows a joint provisioning of ISP service by the ILEC and the ALEC.

- The left side of the diagram shows the ILEC origination, multiple switching and transport of the ISP call.
- The middle part shows the ALEC end office which serves the ISP premise. The trunks labeled "IMT" (inter-machine trunks) go from the ILEC end office or tandem directly to the Remote Access Server (RAS) or dial-up modem, thus bypassing the ALEC switch.
- The right side shows the ISP dial-up modems. In this diagram, the ILEC switch is replaced as the end office serving the ISP when compared to Exhibit HLJ-3 that I discussed earlier.

Q. WHAT DOES DIAGRAM 2 (BATES-STAMPED PAGE 183) IN EX. HLJ –5 SHOW?

A. Diagram 2 shows a form of joint provisioning of ISP service with trunk-to-trunk switching between the ILEC and ALEC utilizing SS7 signaling.

Q. WHAT DO THE NETWORK ARRANGEMENTS SHOWN IN THE DIAGRAMS IN EXHIBIT HLJ-5 INDICATE?

A. The diagrams in Exhibit HLJ-5 demonstrate that ALECs have different ways to manage high volume traffic destined for the dial-up modems of ISPs. Some of these methods, such as that shown in Diagram 1, at page 183 of Exhibit HLJ-5, involve the complete bypass of the CLEC's switch. Other methods, such as that shown on the bottom of Diagram 2 at page 183, Exhibit HLJ-5, involve the use of traffic management techniques, such as trunk-to-trunk switching utilizing SS7 signaling. Both diagrams show the kinds of traffic management tools available and actively

marketed to ALECs today.

Q. DO CLECS, IN FACT, USE THESE ALTERNATIVE METHODS OF TRAFFIC MANAGEMENT?

A. The Sept. 14, 1999 NaviNet presentation included as Exhibit HLJ-6 shows, on Bates-stamped page 195, a deployment status of ten POPs, with 6,000 to 12,000 ports per POP. Therefore, we can be reasonably sure the ALEC clients of this broker can and do make use of this network architecture.

Q. WHAT FACTORS WOULD INFLUENCE AN ALEC'S DECISION ON THE TYPE OF NETWORK ARCHITECTURE TO DEPLOY?

A. The primary factor driving the determination of network deployment would be the business plan of the ALEC. ALECs who target ISPs serving dial-up customers would likely deploy an architecture that is designed to efficiently handle a high volume of one directional traffic. As demonstrated by Diagram 3, at page 187 of Exhibit HLJ-5, the cost of providing service to an ISP is significantly lower using inter-machine trunks ("IMTs") when compared to the use of ISDN PRIs. For example, the cost of providing service to an ISP, on a DS-0 basis, ranges from $0 to $22 per month when using inter-machine trunks ("IMTs"). This cost increases to $17-$43 a month per DS-0 when using ISDN PRI. Therefore, an ALEC that is targeting ISPs would most likely find the lower cost of provisioning service attractive and deploy SS7 based IMTs in their network architecture.

Q. CAN YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. ALECs and ILECs can be expected to have different types of network architecture because their network choices have been driven by different factors. The ILEC, as the carrier of last resort, serves a dispersed and diverse array of customers. Its network has evolved over many decades, with design factors influenced by regulatory directives and the state of technology at particular points in time. ALECs, on the other hand, are free to focus on particular customer sets (for example, ISPs) and so will design their networks to most efficiently serve these particular customers. Their networks are all relatively new. The ALECs' newer and more efficient networks (for the customers served) can be expected to produce lower costs relative to the ILECs' networks. If the Commission chooses to establish a reciprocal compensation mechanism, it should consider the difference in networks and cost characteristics as between ALECs and ILECs.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

MS. CASWELL: Chairman, would you like to do the other witness, Verizon witness that is to be stipulated, which is Elizabeth Geddes, or would you like to remain --

CHAIRMAN JACOBS: No, we can just go ahead and do it now. That would be good.

MS. CASWELL: Elizabeth Geddes also had only direct testimony, and at this time I would like that to be moved into the record as though read.

CHAIRMAN JACOBS: Without objection, show the prefiled direct testimony of Elizabeth Geddes is entered into the record as though read.

MS. CASWELL: And she had no exhibits.

CHAIRMAN JACOBS: Very well.

MS. CASWELL: Thanks.

DIRECT TESTIMONY

OF

ELIZABETH A. GEDDES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Elizabeth A. Geddes. My business address is 2107 Wilson Boulevard, Floor 11, Arlington, Virginia 22201. I am employed by Verizon Network Services Group as a member of the Technical Staff.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelors of Science in Mechanical Engineering from University of Notre Dame and a Masters of Science in Applied Biomedical Engineering from Johns Hopkins University. I have three years of experience in the telecommunications industry.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?

A. The purpose of my testimony is to address issue 16(a): What is the definition of Internet Protocol (IP) telephony?

My testimony will focus exclusively on the technical aspects of IP telephony. Issue 16b, concerning compensation for IP telephony, will

be addressed by Verizon witness Dr. Edward Beauvais.

In order to understand IP Telephony, it is helpful to first define the terms "Internet" and the underlying suite of protocols upon which the Internet relies .

Q. WHAT IS THE "INTERNET"?

A. The term "internet" refers to any collection of connected networks. The "Internet" (with a capital I) is a worldwide collection of interconnected computer networks that got started in the late 1960s when the U.S. Department of Defense's (DoD's) Advanced Research Projects Agency (ARPA) funded a research project that led to the development of ARPANET, an experimental network that demonstrated the feasibility of connecting computers via a packet-switched network. ARPANET has since evolved into the Internet, which connects thousands of networks worldwide. Today, a variety of applications such as email, file transfers, "surfing" the World Wide Web (WWW), and some forms of Internet Protocol (IP) telephony are concurrently run over the Internet.

Q. WHAT IS "INTERNET PROTOCOL"?

A. "Internet Protocol" is a standard protocol that provides a connectionless, unconfirmed transmission and delivery service.

The International Organization for Standardization (ISO), a worldwide

federation of national standards bodies from some 110 countries, developed a model that permits unique systems to communicate regardless of their underlying architecture. The components that comprise this model, which I will describe in more detail, are commonly referred to as a protocol. This model is known as the Open Systems Interconnect (OSI) model, which consists of seven distinct layers. Each layer performs a distinct function that is transparent to each of the other layers, and, each layer can only communicate with the layers immediately above and below it.

The Internet relies on the Transmission Control Protocol/Internet Protocol (TCP/IP) suite of protocols, which, although not part of the OSI model, roughly corresponds to the layers in the OSI model. The OSI model consists of seven layers as follows (beginning with layer one): the physical layer, the data link layer, the network layer, the transport layer, the session layer, the presentation layer and the application layer. (Generally, layers 5 and 6, the session and presentation layer respectively, are not employed by the TCP/IP suite of protocols.) A packet is really just the data associated with the application layer wrapped inside a transport protocol packet that, in turn, is wrapped in a network protocol packet, and so forth.

Although the Internet consists of networks that rely on different lower layer technology (i.e., layers 1 and 2), each of these networks primarily relies on the TCP/IP suite of protocols for their higher layers

(i.e., layers 3 – 7). The Internet Protocol (IP), which roughly corresponds to layer 3 of the OSI model, the network layer, is designed for routing a packet to its destination. IP is a protocol that provides a connectionless, unconfirmed delivery service. Connectionless means that no handshaking occurs between IP nodes prior to sending data. Unconfirmed means that IP sends a packet without sequencing and without an acknowledgment that the destination was reached. Instead, IP makes a best effort to deliver packets to its final destination. The IP header contains information necessary for routing the packet, including source and destination IP addresses. Because each router decides independently where to forward a packet, a packet's path between two sites is not necessarily the same as the next packet's path. Additionally, because of various transit delays, each packet can arrive in a different order from which it was sent. Higher layer protocols may be employed for reliable transport of IP packets. For example, the Transmission Control Protocol (TCP), which roughly corresponds to layer 4 of the OSI model, the transport layer, is designed for reliable transmission of a packet. Alternatively, another transport layer protocol, User Data Protocol (UDP) is designed for "best effort," unconfirmed transport of IP packets. While IP combined with TCP is an ideal protocol suite for the transmission of data packets for email and "surfing" the Internet, most IP Telephony applications rely on IP combined with UDP, for optimal transport of real-time voice packets.

Q. PLEASE DESCRIBE THE BASIC UNDERLYING TECHNOLOGY EMPLOYED IN IP TELEPHONY.

A. IP Telephony encompasses a very diverse array of applications ranging from the somewhat crude conversation conducted between two users via their personal computers to the more innovative "click to talk" application in which a user, by selecting a hyperlink on a web page, is instantly connected to a live representative in a call center. While there may not be a single definition for IP Telephony, IP Telephony generally refers to voice or facsimile telephony services that are at least partially transported over an IP network in lieu of the traditional circuit-switched network. (While, today, the Public Switched Telephone Network (PSTN) primarily relies on a circuit-switched network, in the future, the PSTN may employ a packet-switched network in place of portions of the existing circuit-switched network. It is therefore somewhat misleading to simply contrast IP Telephony with the PSTN.) The basic steps involved in an IP telephony call are the conversion of the analog signal to a digital signal and the subsequent translation of that signal to packets of data for transmission over a packetized network. The reverse process occurs at the packets' receiving end, where the many packets are reassembled in the proper sequence, and then converted back to analog. Thus, IP telephony is typically achieved in combination with the PSTN.

Q. PLEASE DESCRIBE THE TECHNICAL CHARACTERISTICS OF IP TELEPHONY.

A. Transporting voice over an IP network, rather than over the traditional circuit switched network, increases bandwidth utilization efficiency of the network in three ways. First, it allows the consolidation of voice and data onto one single network rather than having to maintain two separate costly networks. Secondly, it only occupies bandwidth when there is data (i.e., voice packets) to transmit. In a circuit-switched network, when a user makes a telephone call, a dedicated path is allotted to those end users. In an IP network, voice packets are transmitted over a shared network in a "best effort" manner. During periods of silence in a telephone conversation, a circuit-switched network continues to reserve that bandwidth because it has been dedicated to those users even though the conversation is idle. In a packet-switched network, bandwidth is not occupied during those times of silence, leading to increased efficiency throughout the network. Thirdly, by employing complex compression algorithms in the analog to digital conversion, the voice channel may occupy significantly less bandwidth than occupied on a standard Time Division Multiplexed (TDM) telephony channel, used in circuit-switched networks. However, degraded quality of service, as compared to circuit-switched networks, is a consequence of this increased efficiency.

As I mentioned above, IP telephony is an unconfirmed delivery

service. An efficiency/service quality trade-off arises because each router independently determines a packet's path and different packets may arrive at a destination at different times and out of sequence. Some packets may never even reach their destination. These factors lead to increased latency, jitter and packet loss, all of which contribute to the degradation in the quality of service. Jitter is the random variation in the time it takes a packet to reach its destination. Latency is the time it takes for a packet to cross a network connection, from sender to receiver. While latency is not generally an issue for non-real time services (e.g., "surfing" the Internet), in real-time, two-way communications such as telephony, latency over a certain threshold may lead to intolerable service quality. Similarly, if too many packets are lost, then this may lead to intolerable service quality (i.e., at the receiving end of the conversation, the sound may appear broken up).

Q. IS THERE A DIFFERENCE BETWEEN IP TELEPHONY AND PACKET-BASED TELEPHONY?

A. Yes. It is important to make a distinction between packet-based telephony and IP Telephony. Packet-based telephony is a more general term for IP Telephony, indicating that the underlying network is based on IP rather than some other type of network (*e.g.*, ATM or Frame Relay). (To make matters even more complicated, IP packets may be carried as payload inside ATM cells or Frame Relay frames.) Many types of packetized telephony fall under the purview of packet-based telephony, including IP Telephony, Voice over Asynchronous

Transfer Mode (VoATM), and Voice over Frame Relay (VoFR).

Q. IS IP TELEPHONY CARRIED OVER THE SAME INTERNET USED FOR "SURFING" THE WWW AND EMAIL?

A. A common misconception is that IP Telephony only refers to telephony carried over the Internet (with a capital I), which is the network used to "surf" the WWW and to send and receive email. In reality, the underlying IP network used in IP telephony just as easily may be a private internet as the Internet. In fact, in many cases, a private internet is used in IP telephony in order to increase the quality of service. There is a term, Internet Telephony, that encompasses only telephony sent over the Internet. Internet Telephony is a subset of IP Telephony. However, for simplicity, for the remainder of these comments, I will use the term Internet to include both the Internet and private internets.

Q. PLEASE DESCRIBE THE DIFFERENT CONFIGURATIONS OF IP TELEPHONY.

A. There are many different possible configurations of IP Telephony. IP Telephony may be offered between two Personal Computers (PCs), between two telephones or between a telephone and a PC. Following is a brief overview of these three different configurations of IP telephony.

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

A. Originally, IP Telephony was a telephony application between two Personal Computers (PC). For PC-to-PC IP telephony, each PC requires an active connection to the Internet, a sound card, a microphone, and speakers. Additionally, for the most part, both PCs need to be running the same application software. (For example, a user running DialPad software could not successfully make a call to another user with a PC running Net2Phone software since the two pieces of software are not interoperable.) Typically, the caller "dials" a person by selecting someone from a list of users currently on-line who are able to receive calls. Since the PSTN is not used to switch the call, user names rather than the traditional 7- or 10-digit North American Numbering Plan (NANP) telephone numbers are used to identify the desired terminating party. In fact, the only PSTN resources used in this service are the facilities used to connect to the Internet via an Internet Service Provider (ISP).

Communication between users is limited to the set of users who have an active connection set-up to the Internet, and further limited to the subset of users equipped with identical application software running on their PCs. Because of these limitations, PC-to-PC IP telephony, although a rudimentary form of telephony, probably cannot serve as a substitute for the PSTN.

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

A. PC-to-Phone IP telephony employs a single gateway. With the introduction of gateways, IP Telephony could be offered as a telephony service between a PC and a conventional telephone, significantly expanding the range of the service. (A gateway is software or hardware that permits communications between two different networks based on different protocols. For example, an IP telephony gateway translates IP packets to Pulse Code Modulated (PCM) traffic suitable for travel over the PSTN and vice versa.) In PC-to-Phone IP Telephony, beyond the gateway, the PSTN will be used to switch the call to the termination telephone. Therefore, users now must "dial" a terminating party by inputting a 7- or 10-digit NANP telephone number. Additionally, the PC-to-Phone configuration requires only one party, the calling party, to have a PC and an active Internet connection.

Q. PLEASE PROVIDE EXAMPLES OF APPLICATIONS OF IP TELEPHONY THAT RELY ON A PC-TO-PHONE CONFIGURATION.

A. An application of the PC-to-Phone configuration, which is gaining popularity in the e-commerce world, is "Click to Talk." In this application, by simply clicking on a designated web page hyperlink, a user may be instantly connected to a live representative in a call center to answer questions or provide additional information. In this scenario, the user "dials" by the click of a button. For dial-up users with one telephone line for voice and data, this permits users to have

their questions answered while on-line, rather than having to disconnect to make the phone call.

Another application of this configuration, with a twist, is popular with customers who want to consolidate their voice and data traffic onto a single network. For example, large business customers whose voice network employs either a PBX switch on their premise or Centrex service, which is provided by their telephone carrier, may consolidate their voice network onto their existing Local Area Network (LAN). In an IP PBX configuration, a gateway compatible with their existing PBX may be deployed to translate the packetized voice traffic to traffic suitable to travel over the PSTN. In a Centrex configuration, a telephone carrier may provision an IP Centrex service in which the gateway is deployed next to the Centrex switch in the carrier's central office. In either IP PBX or an IP Centrex configuration, an IP phone may be used in lieu of a PC in a configuration similar to the PC-to-Phone configuration described above. An IP phone, used on an Ethernet LAN connection, may be designed to look and work just like a conventional Plain Old Telephone Service (POTS) phone, but it plugs into an Ethernet RJ-45 wall jack instead of the traditional RJ-11 analog telephone jack. In this scenario, the functionality of a PC used for IP Telephony is placed in an IP phone. That is, the digitization of an analog voice signal and subsequent packetization actually occurs in an IP phone rather than in a PC. Users may directly dial both users served by the PSTN and users served by other IP phones.

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

A. Phone-to-PC IP telephony also employs one gateway. To initiate a call, typically, the originating party first has to dial an access telephone number to access a gateway. Once a connection is established with the gateway, the party dials the terminating party's telephone number, again using 7- or 10- digit NANP telephone numbers from a conventional POTS telephone. The telephone number is a unique telephone number that has been assigned to a user who has registered for this particular service. The PSTN routes the call to a gateway that connects the PSTN to the Internet. In Phone-to-PC IP Telephony, beyond the gateway, the Internet will be used to route the call to the terminating party. The Phone-to-PC configuration requires the called party, rather than the calling party, (as in the PC-to-Phone configuration) to have a PC and an active Internet connection.

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

A. Phone-to-Phone IP telephony employs two gateways instead of just the one gateway that is used in PC-to-Phone IP telephony. With the employment of two gateways, the scope of IP Telephony was further expanded to permit IP Telephony service between two conventional telephones. In this configuration, neither party is required to use a PC or to be connected to the Internet. To initiate a call, the originating party may first have to dial an access telephone number to access a

gateway. (If the party directly dials the terminating party's telephone number, the call will be routed over the default route, which is usually the PSTN.) Once a connection is established with the gateway, the party dials the terminating party's telephone number, again using 7- or 10- digit NANP telephone numbers. (In some configurations, the default route for a telephone service provider may be a packetized network through the use of gateways. In that case, there is no need to first dial an access number.) A second gateway is employed near the called party. Essentially, in this configuration, IP telephony service may appear to the user as no different from traditional circuit-switched telephony service.

Q. IS PACKET-BASED TELEPHONY A HIGHLY EVOLVED TECHNOLOGY?

A. No. Packet-based telephony, of which IP Telephony is a subset, is still a rather nascent technology, which, as I have explained, can take many forms. The more widespread deployment and use of broadband access and next generation networks (converging voice, video and data) can be expected to further drive the development of packet-based telephony. As Verizon witness Beauvais notes in his testimony, it is important for policymakers to avoid precipitous action in this area, which might hinder further innovation.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The term IP Telephony encompasses a broad variety of services. IP

Telephony may be offered in various configurations (i.e., between two PCs, between a phone and a PC or between two phones). IP Telephony may be offered over a combination of different types of underlying backbone networks (e.g., the public Internet or a private managed internet). IP Telephony may also be offered over different types of access networks (e.g., corporate intranet, broadband connection or PSTN). In addition, there are other types of packet-based telephony beyond IP Telephony, and packet telephony may be offered using different underlying protocols (e.g., ATM, Frame Relay, and IP).

In its deliberations in this docket, the Commission should remain aware that packet-based telephony is still a relatively new technology and, as Dr. Beauvais notes, policy needs to be set accordingly.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

CHAIRMAN JACOBS: You may proceed, I'm sorry.

MS. CASWELL: Verizon calls Doctor Beauvais.

CHAIRMAN JACOBS: Have you been sworn?

THE WITNESS: No, sir, I haven't.

(Witness sworn.)

CHAIRMAN JACOBS: You may be seated.

EDWARD C. BEAUVAIS, Ph.D.

was called as a witness on behalf of Verizon Florida, Inc., and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. CASWELL:

Q Would you please state your name and business address?

A Yes. My name is Edward Beauvais, B-E-A-U-V-A-I-S, in case the spelling is not terribly obvious. The address is 600 Hidden Ridge, Irving, Texas 75038.

Q By whom are you employed and in what capacity?

A I am employed by GT -- Verizon Communications as Director, Economic and Public Policy.

Q Did you file direct testimony in this proceeding?

A Yes, ma'am.

Q Do you have any changes or additions to that testimony?

A No, ma'am, I don't.

Q So that if I asked you those same questions today,

your answers would remain the same?

A That is correct.

Q Did your direct testimony include one exhibit labeled ECB-2?

A Yes, it did.

MS. CASWELL: Mr. Chairman, at this time I would like to ask to move Mr. Beauvais' testimony into the record as though read.

CHAIRMAN JACOBS: Without objection, show the direct and rebuttal testimony of Doctor Beauvais is entered into the record as though read.

MS. CASWELL: May I also have Exhibit ECB-2 marked for identification?

CHAIRMAN JACOBS: Show that marked as Exhibit 14.

(Exhibit 14 marked for identification.)

MS. CASWELL: And if the rebuttal testimony has also gone into the record, can I ask for his Exhibit ECB-3 to be marked, as well.

CHAIRMAN JACOBS: Show that marked as Exhibit 15.

(Exhibit 15 marked for identification.)

DIRECT TESTIMONY OF EDWARD C. BEAUVAIS, Ph.D.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE.

A. My name is Edward C. Beauvais. My business address is 600 Hidden Ridge Drive, Irving, Texas, 75038. I am employed by Verizon Services Group as Director - Economic and Public Policy in the Regulatory and Governmental Affairs Department and am representing Verizon Florida, Inc. ("Verizon") in this proceeding.

Q. ARE YOU THE SAME PARTY WHO SUBMITTED TESTIMONY IN THE FIRST PHASE OF THIS CASE?

A. Yes. I provided both direct and rebuttal testimony previously in this case.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PHASE OF THE DOCKET?

A. I will address certain issues that have been identified for resolution in this second phase of the docket. My testimony will cover issues 12, concerning the test for an ALEC's entitlement to compensation at the tandem interconnection rates; 13, concerning the definition of "local calling area" for reciprocal compensation purposes; 14, concerning the responsibilities for an originating local carrier and the associated compensation that may be due; and 16b, concerning the compensation mechanism for IP Telephony. I will also touch on issues 10, 17, and 18, although these issues are primarily legal in nature and will be addressed more fully in Verizon's posthearing brief. Issue 10 asks about the

Commission's jurisdiction to specify compensation for transport and delivery of traffic subject to Section 251 of the Telecommunications Act (Act); issue 17 asks whether the Commission should establish a default compensation mechanism for transport and delivery of traffic subject to Section 251 of the Act; and issue 18 asks how the Commission should implement the policies it establishes in this docket.

The remaining issues identified by the Commission are addressed by Verizon witnesses Jones (11), Haynes (15a and 15b), and Geddes (16a).

Q. WHAT IS THE EXTENT OF THE COMMISSION'S AUTHORITY TO SPECIFY THE RATES, TERMS, AND CONDITIONS GOVERNING COMPENSATION FOR TRANSPORT AND DELIVERY TRAFFIC SUBJECT TO SECTION 251 OF THE ACT?

A. Under the Act section 251(b)(5), local exchange carriers have the duty to establish reciprocal compensation arrangements for the transport and termination of telecommunications. This provision is intended to ensure that when local carriers collaborate to complete a call, both the carrier originating the call and the carrier terminating the call will receive appropriate compensation. The FCC has interpreted the Act's reciprocal compensation requirement to apply to only "local telecommunications traffic." (47 C.F.R. sec. 51.70(a).) Such local traffic is typically defined in Verizon's interconnection agreements with ALECs as traffic that originates on one party's network and terminates on the other party's network within a local calling area. This definition is consistent with the

FCC's order, which held that reciprocal compensation provides for "recovery by each carrier of the 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." (In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, First Report and Order, 11 FCC Rcd 15499, (First Report and Order) at ¶ 1034 (quoting 47 U.S.C. § 252(d)(2)(A)(i)) (emphasis added) (1996).) (As I explained in my Direct Testimony in Phase I of this proceeding--and as the FCC has confirmed--local traffic does not include Internet-bound calls, which are jurisdictionally interstate.)

Thus, when Verizon and an ALEC negotiate an interconnection agreement, they are obliged to include reciprocal compensation arrangements which would encompass a bill-and-keep option for local traffic. If they cannot successfully negotiate such arrangements, then either may petition the State Utilities Commission to arbitrate the issue. Although I am not a lawyer, that is what I understand the Commission's jurisdiction to be—stepping in to determine reciprocal compensation arrangements for local traffic when the parties' negotiations fail.

Q. THE COMMISSION HAS ASKED WHEN AN ALEC MIGHT BE ENTITLED TO COMPENSATION AT THE ILEC'S TANDEM INTERCONNECTION RATE. IF THE COMMISSION ADOPTS YOUR PROPOSED APPROACH, IS A GENERIC RESOLUTION OF THIS ISSUE NECESSARY?

A. Not necessarily. The question seems to assume that there will be a nominal compensation paid by one carrier to another for use of a carrier's tandem switching facilities. But as I explained in my Phase I testimony, if a rate structure is adopted for intercompany compensation of "local" traffic which is consistent with the rate structure paid by the end users in Verizon Florida's areas of operations, then there is no explicit nominal compensation to be paid. Under a bill-and-keep approach, each carrier simply interconnects its facilities to that of other carriers and traffic flows between and among networks according to the arrangements in the carriers' interconnection agreements. In such situations, there is no explicit compensation to be paid by any carrier to another at the tandem rate or any other positive price per minute of use. The compensation is that each carrier allows other carriers to use its network in completing calls which both originate and terminate within the agreed-upon local calling area.

If the Commission approves a bill-and-keep arrangement in this proceeding as the preferred default when parties fail to negotiate other arrangements, then it need not resolve the tandem interconnection issue in a generic sense. The tandem interconnection issue, however, is likely to arise in arbitrations if the Commission does not approve a bill-and-keep approach here.

Q. IN THESE INSTANCES, WHAT DO THE ACT AND THE FCC RULES REQUIRE BEFORE AN ALEC IS TO BE COMPENSATED AT THE

ILEC'S TANDEM INTERCONNECTION RATE?

A. As background for understanding this issue, it is first necessary to define a tandem switching arrangement. Tandem switching refers to the practice of using intermediate trunk-to-trunk switching in routing a call from its originating end-office switching location to the end office serving the customer for whom the call is destined. This intermediate switching is done to replace the requirement for direct trunking between all possible pairs of end office switches. Thus, tandem switching is adopted by carriers as an economically cost efficient method of concentrating traffic when a local exchange carrier has many end office switches serving a given geographical area.

In its First Report and Order implementing the Act, the FCC recognized that the costs incurred when a carrier transports and terminates a call originating on another carrier's network are likely to vary, depending on whether tandem switching is involved. That is, tandem switching will likely entail a cost over and above that which would be incurred if just end office switching were utilized. The FCC therefore concluded that "states may establish transport and termination rates in the arbitration process that vary according to whether the traffic is routed through a tandem switch or directly to the end office switch." In doing so, it directed the states to consider whether the competitive carriers performed functions similar to those of the ILEC's tandem switch. It further observed that, where the interconnecting carrier's switch serves a geographic area comparable to that of the ILEC's tandem switch, the appropriate proxy for

the interconnecting carrier's additional costs is the ILEC's tandem interconnection rate. (First Report and Order at. para. 1090.) The FCC codified the guidelines for assessment of the tandem rate in its Rule 51.711(a).

Thus, assuming that some level of nominal compensation is to be paid (as an alternative to a bill-and-keep approach), then the ALEC must meet a two-prong test under the FCC's Order adopted pursuant to the Act. To receive compensation at the ILEC's tandem rate, the ALEC's switches must serve an area comparable to the ILEC's tandem switch; and the ALEC's switches must perform functions similar to the ILEC's tandem switches. In order for any payment to result in an efficient outcome, payments must be based on a switching function actually performed, not just that a switch is capable of performing such a function. That is, if an ALEC actually performs the tandem function -- intermediate trunk-to-trunk switching -- in routing a call, then assuming that reciprocal compensation is to be paid, the ALEC would be entitled to bill for that call.

There is an important caveat in the above, however. If an ALEC only performs a single switching function, even if that same switch could serve as a tandem, then any charge should only be for the single switching function actually performed in the routing of that call, again assuming that a nominal reciprocal compensation arrangement has been agreed to by the carriers. Given how ALEC switches are likely to be configured, as discussed in Mr. Jones' testimony, Verizon's tandem cost estimate may

be useful as a proxy for the cost an ALEC might likely incur in routing ISP-bound traffic, as such switching is performed on a trunk-to-trunk basis, just as is a tandem switching configuration.

Q. WHAT IS "SIMILAR FUNCTIONALITY" UNDER THE FCC'S TWO-PRONG TEST?

A. As noted, similar functionality means what it says it does—that the ALEC's equipment must perform functions like those of the ILEC's tandem switch. The FCC defines "tandem switching capability" to include "trunk-connect facilities"; "the basic switching function of connecting trunks to trunks"; and "the functions that are centralized in tandem switches (as distinguished from separate end-office switched), including but not limited to call recording, the routing of calls to operator services, and signaling conversion features." 47 C.F.R. sec. 51.319(c)(2). As the South Carolina Commission concluded recently in an arbitration of this issue between AT&T and BellSouth, this language "means that AT&T's switches must connect trunks terminated in one end office switch to trunks terminated in another end office switch." In that case, the Commission concluded that because AT&T's switches did not connect in such a manner, "they cannot be found to perform tandem switch functions." (Petition of AT&T Comm. of the Southern States, Inc. for Arbitration of Certain Terms and Conditions of a Proposed Interconnection Agreement with BellSouth Tels., Inc. Pursuant to 47 U.S.C. Section 252, S.C. P.S.C. Order No. 2001-079, at 34 (Jan. 30, 2001).) Court decisions confirm that the South Carolina Commission's

common-sense interpretation of the FCC's rules is correct. (MCI Telecomms. Corp. v.Ill. Bell Tel., 1999 U.S. Dist. LEXIS 11418 (N.D. Ill., June 22, 1999); U.S. West Comm. v. MFS Intelenet, Inc., 193 F.3d 1112, 1124 (9th Cir. 1999). The same analysis is warranted here in a statement of general policy to be applied in the context of any arbitration of the tandem interconnection rate issue.

Q. WHAT DOES "COMPARABLE GEOGRAPHIC AREA" MEAN UNDER THE FCC'S RULES?

A. In this context, the straightforward meaning is that the area served by the ALEC's switch is about the same physical area as that served by the ILEC's tandem switch. Again, if either of the geographic comparability or the tandem functionality prongs are not met, then incremental compensation at the tandem interconnection rate (in addition to the end office switching rate) is not appropriate.

Q. HOW SHOULD A "LOCAL CALLING AREA" BE DEFINED FOR PURPOSES OF DETERMINING THE APPLICABILITY OF RECIPROCAL COMPENSATION?

A. "Local calling area" should be defined in the parties' local interconnection agreements, as is the case today. Typically, that definition relies on the ILEC's local calling scope as reflected in its local exchange tariffs. It is quite possible that an ALEC's local calling area will be different from that of the ILEC, just as the local calling scope of a wireless carrier may be different from that of the ILEC. But given that the ILEC's local calling

scope is subject to regulation by the Florida Public Service Commission, the fact that the retail calling scopes may be different should have no bearing on the definition of the local calling area for purposes of applying reciprocal compensation or other Commission policies or practices, such as access charges. For instance, an ALEC may define the entire state as a local calling area, but it cannot, by doing so, avoid the payment of access charges and the underlying policy of support flows to basic local services. Certainly it can be said that the Florida Commission has established access rates as a matter of public policy and such a policy should not be circumvented merely by the declaration of a calling scope as local. If it could be, then an unregulated carrier could say the entire state is its local calling area and avoid paying access charges as intended by the FPSC. Mr. Haynes' testimony on behalf of Verizon covers the issue of calling scope in much greater detail. As a practical matter, Verizon is not at liberty under Commission regulation to simply change its calling scopes in private negotiation.

One aspect that should be beyond contention is that to be eligible for reciprocal compensation purposes, the call must be local under the definitions in place; that is, the call must both originate and terminate in the local calling scope agreed to by the parties. As I emphasized in the first phase of this proceeding, Internet-bound calls are not local because they do not terminate in the local exchange calling area, but rather continue beyond the ISP's modem.

Q. WHAT ARE THE RESPONSIBILITIES OF AN ORIGINATING LOCAL CARRIER TO TRANSPORT ITS TRAFFIC TO ANOTHER LOCAL CARRIER?

A. The first thing to point out is that it is obviously necessary for carriers to interconnect with each others' networks if an efficient form of local exchange competition is to occur. The originating carrier has an affirmative obligation to enter into negotiations with competitive local exchange carriers so as to be able to complete the calls of customers to which it offers service under its tariffs. Likewise, connecting carriers have that same obligation, so that mutually advantageous arrangements can be reached. However, as in the case of the local calling area, a number of possible arrangements can be adopted in the private interconnection agreements between the parties involved in handling the call with respect to transport arrangements.

The first option is for the originating carrier to agree to provide the transport facilities within the local calling area to the carrier serving the user to whom the call is destined. The point of interconnection at the receiving carrier's facility can be mutually agreed upon, but it might be the receiving carrier's end office.

A second option is for the receiving carrier to agree to provide the transport facilities within the local calling area from the carrier serving the user from which the call originates. Again, the point of interconnection at the originating carrier's facility can be mutually agreed upon, but it might

typically be in a co-location arrangement at the originating carrier's end office. As an example, an ALEC interested in building out a rival transport network might be interested in providing the transport facilities in lieu of the ILEC doing so, or if the ALEC believe its facilities are more efficient than those of the ILEC.

A third option would be that the interconnecting local exchange carriers could agree to a meet-point with each carrier providing its own facilities to the agreed upon point, much as is done in switched access arrangements.

Each of the above options is quite consistent with the obligation of an originating carrier to arrange for the transport of traffic to the carrier receiving the call. Again, the obligations assumed by the originating carrier should be specified in the interconnection agreement between the carriers. Those arrangements need not be the same between all pairs of carriers and all can exist with a given local calling area among different pair of companies simultaneously.

Q. FOR EACH ARRANGEMENT YOU JUST IDENTIFIED, WHAT FORM OF COMPENSATION, IF ANY, SHOULD APPLY?

A. Again, the intercompany compensation would depend upon the specifics of the agreements between the two companies. In the simplest arrangement, I would argue for matching the intercompany compensation arrangement to the end user rate structure most prevalent in the local

calling area. In the case of Verizon Florida, that suggests a zero marginal price for usage—the bill-and-keep arrangement I have already recommended. If that is the case, no explicit nominal compensation need take place for the transport facilities between the carriers on a usage-sensitive basis.

Q. ARE THERE ANY RECENT DEVELOPMENTS WHICH MIGHT BE RELEVANT TO THIS COMMISSION'S CONSIDERATION OF THE APPROPRIATE RECIPROCAL COMPENSATION?

A. In a matter which bears directly on the level of compensation for any such calls and their transport, Global NAPs, which operates in Florida, recently reported that it is the first local exchange carrier to move to an all-packet-based broadband network. By abandoning traditional circuit switch equipment, this ALEC says it can deliver four times the capacity in one-tenth the space and at one-tenth the cost. Global NAPs says that all of this equipment has been interconnected into a distributed, high-capacity "virtual" switch that carries more than 2 billion minutes of traffic each month. "Our next-generation broadband network is an order of magnitude more efficient than any other carrier's circuit switch network," Frank Gangi, president and CEO of Global NAPs, has asserted. "What previously consumed 15,000 square feet of central office space now requires just 1,500 square feet. This watershed event heralds the first major step in achieving Global NAPs' publicly stated goal of 'all calls are local.' We are now in a position to provide voice, transport and data services better, faster and cheaper than anyone else." (Global

NAPS February 7, 2001 release, posted on its website, attached as Ex. ECB-2.)

In addition to maintaining its own nationwide SS7 network, Global NAPs also has a switched gigabit Ethernet IP fiber backbone along the East Coast. Wholesale customers for that network include ISPs Mindspring, WebTV and Prodigy. Global NAPs says that about 75 percent of all dial-up Internet traffic in the New England states flows through its network. (Id.)

Q. HOW SHOULD THIS INFORMATION FACTOR INTO THE COMMISSION'S DECISION?

A. If the information provided is accurate, then it suggests two items which might affect the Commission's deliberations in this docket. First is the observation that Global NAPs would consider all calls to be "local", which obviously bears on the Commission's question posed above with respect to calling scopes. This ALEC operates in numerous states and asserts that it carries 75% of the Internet traffic in New England. Judging from its statement, then, a call originated by a customer in one of the New England states could terminate in Tampa to a Verizon customer. Global NAPs may well consider that call to be "local" for its own marketing to its customers. I certainly would not object to that. However, under current jurisdictional definitions, such a call would be interstate and not subject to reciprocal compensation payments. Likewise, should a Verizon customer in Tampa call a Global NAPs customer located in New England,

that call would not be considered local by Verizon, even though Global NAPs might consider the call to be local. Thus, the call would not qualify for any nominal reciprocal compensation payment.

The second aspect to consider is the level of cost being reported by Global NAPs, which indicates an order of magnitude reduction from current cost levels. That is, if the current cost of switching a minute is $0.004, as an example, then using the Global NAPs engineered network, the cost would be reduced to only $0.0004 for that same minute of use. If it is true, and that network design is that efficient, then the applicability of the ILECs' current forward-looking cost estimates needs to be closely examined, especially with relation to the costs incurred by ALECs with a network design like that of Global NAPs. To the extent that Internet telephony moves in the direction of that type of network, as described by Ms. Geddes, then the use of a zero marginal price for intercompany compensation makes even more sense.

Q. ARE YOU SUGGESTING THAT AS INTERNET PROTOCOL (IP) TELEPHONY DEVELOPS, THE COMMISSION WILL HAVE TO CONSIDER OTHER ISSUES ASSOCIATED WITH INTERCOMPANY COMPENSATION?

A. Yes. For instance, one of the issues the Commission has identified in this case is what carrier-to-carrier compensation arrangements, if any, should apply to IP telephony. As the ALECs' witness Selwyn pointed out in his Direct Testimony in Phase I of this case, use of non-circuit switched

technologies to provide IP telephony is "negligible today". (Selwyn Phase I DT at 53.) I believe at least most parties to this docket would agree with the assessment that there is relatively little IP telephony today, especially for voice traffic. Thus there is no pressing need for the Commission to address this compensation issue now, at least in a generic sense. This is particularly true because the FCC is expected to initiate its own proceeding to address the matter, perhaps as early as this spring. This topic was also covered indirectly in the two FCC working papers I supplied in my Phase I Rebuttal Testimony on January 10, 2001 (Exhibits ECB-1 and ECB-2). Indeed, the Commission could not likely issue an empirically supported decision on compensation for IP telephony in this case. In terms of technology, this is an extremely complicated area; as Ms. Geddes testified, there is no single definition of IP telephony and the technology used in IP telephony is still very much evolving. There are numerous complex issues in this docket, and the definition of IP telephony is just an informational issue. Verizon believes that if the preliminary information the Commission gathers in this case indicates some need for the Commission to go forward with consideration of a compensation mechanism for traffic utilizing an IP protocol, then that process should take place in a separate docket where the Commission can focus exclusively on that issue. In fact, I would suggest that non-adversarial workshops might be a better approach initially than formal hearings.

Although it is premature to engage in any detailed policy discussions about internet telephony at this time, I can observe that it does seem quite likely that there may be serious future implications for the overall design of rates. I would just generally reiterate the observation I made in Phase I of this proceeding that the issue of relative prices is very much affected by the Commission's decisions. Based on the testimony of Ms. Geddes, and the public statement of Global NAPS, it would appear that the use of packet technologies will very much confuse the jurisdictional nature of the traffic being carried, making it even more difficult to segregate state, interstate and local, as is called for in current rate-making. If IP-based telephony becomes widespread, it may be necessary for significant public policy reforms with respect to the pricing mechanisms currently utilized in the industry.

Q. SHOULD THE COMMISSION ESTABLISH COMPENSATION MECHANISMS GOVERNING THE TRANSPORT AND TERMINATION OR DELIVERY OF TRAFFIC SUBJECT TO SECTION 251 OF THE ACT TO BE USED IN THE ABSENCE OF THE PARTIES REACHING AN AGREEMENT OR NEGOTIATING A COMPENSATION MECHANISM? IF SO, WHAT SHOULD BE THE MECHANISM?

A. As I explained above and in Phase I, if parties to interconnection negotiations cannot agree on an intercarrier compensation mechanism for local traffic under the Act, then the Commission may, in the context of an arbitration, establish such a compensation mechanism. But, as this Commission-designated issue seems to recognize, the Commission

cannot order parties to use a generic compensation mechanism without first allowing negotiations to conclude.

If parties seek arbitration of a compensation mechanism, then the Commission can conceivably use policies it establishes here to guide its decision in the arbitration, depending on the specific facts of the case. As I recommended in Phase I, the best approach is to allow the additional costs associated with the increase in ISP-bound traffic, including compensation costs, to be reflected in end user rates. If that approach is not taken, then the Commission should establish a policy preference for bill-and-keep arrangements for all local traffic under Section 251 of the Act.

Q. HOW SHOULD THE POLICIES IN THIS DOCKET BE IMPLEMENTED?

A. As I discussed above, and as advised by my attorney, it is Verizon's legal position that any policies established in this docket can be implemented only in the context of arbitrations under the Act.

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Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

REBUTTAL TESTIMONY OF EDWARD C. BEAUVAIS, Ph.D.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE.

A. My name is Edward C. Beauvais. My business address is 600 Hidden Ridge Drive, Irving, Texas, 75038. I am employed by Verizon Services Group as Director - Economic and Public Policy in the Regulatory and Governmental Affairs Department and am representing Verizon Florida Inc. ("Verizon") in this proceeding.

Q. ARE YOU THE SAME EDWARD BEAUVAIS WHO SUBMITTED TESTIMONY EARLIER IN THIS CASE?

A. Yes. I provided both prefiled direct and rebuttal testimony previously in Phase I of this docket. In addition, I prefiled direct testimony in this Phase.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PHASE OF THE DOCKET?

A. The scope of the direct testimony filed in this phase of the docket covers a rather wide arc of topics, ranging from current and potential future calling scopes, to compensation arrangements for the provision of transport services, to scenarios for the provision of telecommunications services using Internet Protocols ("IP") and associated technologies. Although the coverage is very broad, it is possible to identify a few key policy points that especially merit rebuttal. In this regard, I will direct my rebuttal testimony to addressing the ALECs' positions on the topics of the

designation of points of interconnection and compensation for transport and tandem switching. Since the ALECs all took essentially the same position on these matters, I have addressed them collectively, rather than using a witness-by-witness approach.

Q. ARE THERE ANY AREAS IN WHICH THE PARTIES SEEM TO AGREE?

A. Yes. The one area in which there seems to be a general agreement among the parties is that it is too soon to consider the issues associated with IP telephony in any great detail. As Ms. Geddes pointed out in her direct testimony, there may not even be a unified notion of what will constitute IP telephony. It is clear that IP telephony is in its initial stages and will continue to evolve; the Commission is correct in attempting to stay at least current with that development. At a policy level, with respect to pricing issues associated with IP telephony, I would note my agreement with BellSouth that simply because a different technical protocol is utilized does not change a call or minute of use that would otherwise be subject to switched access charges under the Florida PSC definitions into any other classification of call, as the ALECs' witness Gillan would have the Commission believe. I can well agree that it might be far harder for all parties to identify and segregate those calls in the future as IP telephony develops. But this does seem to be the one area in this phase of the docket where there is reasonable agreement that the time is not ripe for the Commission to take any specific actions to establish a generic compensation scheme for IP telephony.

Q. THE ALECS BELIEVE THEY HAVE A UNILATERAL AND UNCONDITIONAL RIGHT TO SPECIFY A SINGLE POINT OF INTERCONNECTION (POI) FOR EXCHANGE OF TRAFFIC. DO YOU AGREE?

A. No. The ALECs claim an undisputed right to specify one point of interconnection within a LATA at which all traffic can be exchanged, so that the carrier with which traffic is being exchanged has no say in the matter. I would first point out that a LATA typically contains numerous local exchange areas, many of which would be toll calls to each other, subject to access interconnection arrangements, rather than "local" calls subject to local interconnection and reciprocal compensation under the Telecommunications Act. I would next point out that the Telecommunications Act calls for bi-lateral negotiations among interconnecting carriers on terms that are mutually advantageous to both parties. This latter consideration suggests that the parties should engage in negotiations to determine where one (or more) physical points of interconnection should be efficiently established.

I would readily agree that it is likely that many ALECs may intially desire a single point of interconnection, given their network architecture, as this would appear to minimize their costs. Indeed, there may well be ALECs with business plans utilizing number assignments and reciprocal compensation, as described more fully in Mr. Haynes' testimony, which may seek a single point of interconnection indefinitely. At the same time,

the ILEC may well prefer multiple interconnection points in an attempt to optimize its own network efficiency. This, of course, immediately suggests that contrary to the statements made by Dr. Selwyn, the ILECs will not be indifferent to the location of the point(s) of interconnection, as it does affect the costs incurred for transport facilities, as well as implicating pricing issues. At the very least, it suggests that negotiations between the interconnecting carriers are called for to attempt to reach a settlement.

Q. YOU MENTIONED ABOVE THAT THE NUMBER AND LOCATION OF PHYSICAL POINTS OF INTERCONNECTION AFFECT THE COSTS OF TRANSPORT FACILTIIES. DON'T DR. SELWYN AND OTHER ALEC WITNESSES ASSERT THAT TRANSPORT COSTS HAVE BEEN FALLING RAPIDLY AND THAT DISTANCE IS NO LONGER A COST DRIVER?

A. Yes, they do and I am in agreement that such costs have decreased. That is, if one asks the question as to how does the cost of an additional minute of use vary with the distance of the call transport, I believe Dr. Selwyn and I would agree that the answer is that they are far less significant than they once were. However, it is still the case that transport facilities do have a positive cost and that for any given capacity, building those facilities for twenty-five miles is more expensive than building them for only one mile. So the location of the physical point of interconnection does, in fact, matter, especially if additional facilities must be added to handle the increased traffic.

Q. YOU ALSO MENTIONED ABOVE THAT THERE ARE TYPICALLY NUMEROUS LOCAL CALLING AREAS WITHIN A LATA. IF A SINGLE POI IS ESTABLISHED, COULDN'T THIS LEAD TO SITUATIONS WHERE THE ILEC IS ASKED TO CARRY WHAT WOULD APPEAR TO IT TO BE TOLL TRAFFIC WITHOUT COMPENSATION AND BE RESPONSIBLE FOR THE COSTS OF THE TRANSPORT AT THE SAME TIME?

A. I would say that result is likely, depending upon the geographic distribution of an ALEC's customer base. The problem obviously arises from the difference in the definition of local calling scopes between pairs of carriers. I completely agree with the ALECs that they should be at liberty to define their local calling scopes as they desire for retail purposes (to their originating customers). Such a characteristic is likely a desirable element of rivalry in the marketplace and can indeed help differentiate one firm's offering from that of another to the end user making the purchasing decision. I would not advocate suppressing this element of inter-firm competition by imposing the ILEC's local calling scope on the ALEC for retail marketing to consumers. By the same token, the ALECs should not be able to force their definitions on the ILECs or any other carrier when it comes to inter-firm compensation.

This situation once again calls for compromise by both parties, rather than futile speculation about what the FCC may or may not have meant when it made particular statements. Again, Congress established bi-

lateral negotiations as the preferred process for determining interconnection terms and conditions.

Q. WHAT IS VERIZON'S POSITION WITH RESPECT TO THE POINT OF INTERCONNECTION?

A. The cleanest method from Verizon's point of view would be to have a POI in each of its local exchange/rate center areas. However, it is understood that ALECs, given their network architectures, would not be very amenable to such a physical arrangement. Verizon does not necessarily object to an ALEC being able to select a physical point of interconnection at any technically feasible point on the ILEC's network, within reason. At that physical point of interconnection, traffic can be exchanged between the carriers. However, keep in mind that we are talking about the exchange of "*local*" traffic. Thus, Verizon suggests, that in addition to the physical POI, each ALEC designate a virtual interconnection point ("VIP") in every local exchange/rate center. When a Verizon customer originates a "local" call to a customer served by an ALEC, then the ILEC assumes responsibility for delivering the call to the ALEC's VIP within or at the boundaries of that local exchange/rate center area. If that call goes beyond the local exchange/rate center area of the ILEC, then the ALEC is responsible for the costs associated with those facilities to the physical point where the carriers' networks meet--the POI.

Q. IS THIS WHAT THE ALEC WITNESSES REFER TO AS "COST SHIFTING?"

A. That is indeed how they characterize this approach when referring to BellSouth's position. It is certainly not Verizon's intention to inefficiently impose costs on other parties. But I view the above-described proposal as a method to effect a fair and reasonable compromise between the competing exchange definitions. Recall from my direct testimony that I stated that the cost of the transport facilities should be negotiated between the carriers. Assuming that an ILEC customer originates a call, there is no debate that the provision of the facilities up to the virtual IP within a local exchange/rate center area are the responsibility of the ILEC; likewise, there is no debate that from the physical POI onward, the responsibility is that of the ALEC. This means that a compromise must be reached on the facilities between the VIP(s) and the POI. One view of this position is that the ALEC should bear complete responsibility for all the costs between the VIP(s) and the POI -- what the ALECs describe as the BellSouth position; another view is that the ILEC should have one hundred percent of the cost responsibility for those facilities -- what I would describe as the ALECs' current position. The BellSouth or Verizon position is no more an attempt to shift costs to the ALECs than is the ALEC position an attempt to shift costs to the ILECs. I would recommend that the costs of these facilities be shared between the two carriers as negotiated and agreed to between the parties.

Q. MOVING ON TO A DIFFERENT MATTER, THE ALECS ARGUE THAT THEY SHOULD BE COMPENSATED FOR HANDLING CALLS AT A RATE WHICH INCLUDES LOCAL SWITCHING, TRANSPORT, AND

TANDEM SWITCHING, BASED ON THE ILEC'S RATES. DO YOU AGREE?

A. In a sense, I do agree, but with qualifications. To the extent that the ALECs provide such services, then *assuming a usage-sensitive compensation system*, they should indeed receive compensation for what services they provide in handling a call. The issue really is what services do they, in fact, provide and at what costs. While these factors can be discussed in general, I believe they will have to be addressed on a company-by-company basis, depending upon the network configuration of the ALEC involved.

Consider the simplified network diagram in Verizon Rebuttal Exhibit ECB-3, page 1 of 2. It is, obviously, quite basic, but it is useful for considering the issue before the Commission at a policy level. In all of the scenarios, I am assuming that the interconnected switching networks are in the rate center area of Verizon.

In the upper half of the exhibit on page 1, labeled Scenario 1, assume that the IP and POI are one and the same and that point is located at the ALEC's switching center. Further assume for purposes of exposition that the call is from an ILEC end user to an ALEC customer. In this case, the facilities connecting the ILEC end user to the network (labeled "A") are <u>not</u> part of the reciprocal compensation issue for "local" calls. The ILEC provides the originating end office switching ("B"), the interoffice transport to the tandem office ("C"), the tandem switching ("D") and the transport

("E") to the ALEC's switch. The ALEC then takes the call, provides the switching ("F") necessary to route the call onto the end user and the facilities to carry the call from the network to that end user ("G"). In this example, the ALEC has provided none of the functions or facilities traditionally associated with interoffice transport and tandem switching.

In the bottom portion of the exhibit, page 1 of 2, the POI has been moved to a point at the tandem switch. Again, that portion of the network, most typically known as the loop ("A"), is not part of the reciprocal compensation structure. The ILEC again provides the originating end office switching, that portion of the end office transport between the originating end office and the tandem, the tandem switching, but now hands the call off to the ALEC. The ALEC performs the same functions as before, but now the ALEC does, indeed, perform traditional transport functions, as well, in completing the call. In this case, the ALEC would be eligible for compensation for that portion of the transport it does provide ("E"), in addition to the switching services provided on that call ("F"). Note, however, that the ALEC still does not provide the tandem switching in this Scenario 2.

Scenario 3, at the top of page 2 of 2 of Rebuttal Exhibit ECB-3, illustrates a situation in which the POI has been placed at a meet point along interoffice transport facilities ("C"). In this scenario, I am assuming that all the facilities to the right of the designated interconnection point, including the tandem switch, are provided by the ALEC rather than the

ILEC. In Scenario 3, the ALEC would be eligible to receive compensation for some portion of the transport facilities it provides in competing the call from the IP onward, a portion of ("C") as negotiated in the contract between the carriers, the tandem switching ("D"), the transport between the tandem, and the switch serving the receiving customer ("E" and "F"), again assuming a usage based compensation arrangement. In this case, the ALEC has, indeed, provided tandem switching and a substantial portion of the transport facilities, as well, and would be compensated for those services.

In the bottom half of the exhibit on page 2 of 2, there is an interesting variation. Suppose that the ALEC has designated the POI to be at the originating carrier's originating switching location and then picks up this traffic on its fiber ring. In a very real sense, this is the case in which the ALEC is using its facilities as a substitute for the tandem and interoffice transport network that would normally be employed by the ILEC to deliver a local call. I would argue under these conditions that the ALEC is providing a service which is eligible for such transport compensation, as well as the switching service it provides.

Q. AT THE VERY END OF YOUR LAST RESPONSE YOU INDICATED THAT THE ALEC WOULD BE ELIGIBLE FOR TRANSPORT COMPENSATION. WHAT ABOUT THE TANDEM SWITCHING ELEMENT?

A. As I indicated in my direct testimony and here again, the carrier should

be paid for the services it actually performs. Unlike the previous case, in which the ALEC actually utilized a tandem switch and provided an end office routing function, in this last scenario, the call was only switched, at best, once by the ALEC at its office. Thus, while I believe that such a call would be eligible for compensation for transport and a single switching function, it is not appropriate or economically efficient to compensate for tandem switching the ALEC does not perform, given its network configuration.

In addition, of course, we have several ALEC witnesses stating that transport services are already considerably less expensive than switching and that their networks are more efficient than ILEC network arrangements, so to compensate ALECs at the higher rates would certainly lead to them receiving economic rents. Economic rents are payments over and above the amount necessary to induce a company to provide service in the market.

Q. BUT DR. SELWYN CONTENDS (AT PAGE 13 OF HIS DIRECT TESTIMONY) THAT IT IS POSSIBLE FOR ALECS TO GET A HIGHER TANDEM RATE EVEN THOUGH THE COSTS THEY INCUR TO PROVIDE THE FUNCTIONS ARE ACTUALLY BELOW THE ILECS' COSTS. HE FURTHER CONTENDS THAT SUCH AN OUTCOME IS A GOOD THING. DO YOU AGREE?

A. I agree that the presence of economic rents can be an incentive for carriers to engage in behaviors designed to maintain those rents or

attempt to capture them for themselves. However, I disagree with Dr. Selwyn when he states that the presence of such rents does not affect the end users. Payments to ALECs from ILECs are a legitimate cost of doing business in a multi-provider marketplace for local service, which is what we are discussing here. Likewise, any payments to ILECs from ALECs are a legitimate part of the ALECs' cost of providing service. We have certainly heard that same argument from the IXCs when the topic is access charges and they were quite correct in making it; switched access charges are a legitimate component of the IXCs' cost of service. Intercompany compensation costs are an integral part of a local exchange carrier's costs as well. If competition among carriers is to result in economically efficient outcomes, then the consumers must see those costs reflected in the prices they face in the marketplace. If those rents are present, as is likely to be the case--in that I agree with Dr. Selwyn--then while those rents are good for the ALEC, they also must be reflected in the prices seen by the consumers. That is, the prices consumers see will be higher than would otherwise be the case.

To the extent that the charges are on a usage-sensitive basis and that usage between carriers continues to increase (in what appears to be predominantly a single direction -- ILEC to ALEC, for most carrier pairs), the total economic rent received by the ALECs will continue to grow, everything else equal. Again, that increasing cost to the ILEC is properly reflected in the prices seen by the consumer. If those costs cannot be reflected in the end user prices, then the principal mechanism that could

be employed to eliminate those rents is eliminated and carriers are incented to continue to receive the rents, rather than compete for the end user directly.

Q. SO WHAT WOULD YOU RECOMMEND TO THIS COMMISSION AS TO HOW TO PROCEED IN THIS AREA?

A Again, I would suggest that the Commission must examine the network configurations of the ALEC on a case-by-case basis, if the ALECs and ILECs cannot reach a compensation agreement. As I have attempted to show, different network arrangements are possible, and each will lead to different outcomes. There are cases in which ALECs might well qualify for compensation for the transport and switching services they provide, including tandem switching. However, there are other arrangements in which they will not. As a general principle, the carriers, both ILECs and ALECs should only be compensated for the services actually provided. Furthermore, to reduce the impact on end user rates, those intercompany compensation rates should be set as close to the relevant incremental cost of provision as possible.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BY MS. CASWELL:

Q Mr. Beauvais, do you have any changes or additions to your rebuttal testimony?

A No, ma'am.

Q Do you have a summary of your direct and rebuttal testimonies?

A I do.

Q Would you give that to us now, please.

A Surely. This is following Doctor Taylor. Good evening, Commissioners. Just like in the first phase of this docket, we kind of -- the Commission finds itself in the position of investigating a set of topics that our friends at the FCC have now launched an NPRM on.

But unlike the case of the ISP-bound traffic, I really don't see a decision in this newest NPRM coming out of Washington anytime soon. Still it puts us in something of an awkward position. Adding to that, on a personal basis today I find myself following Bill Taylor on the stand. I don't know that I will add a lot to his comments, since his evaluation of the economics underlying the public policy recommendations for the Commission to adopt this proceeding are similar to mine. Therefore, I will attempt to be relatively brief, at least for me.

Perhaps it is in some sense easier to start with what Verizon is not asking or not seeking from this Commission.

First, we are not asking the Commission to adopt any new or different compensation mechanism for traffic handled under an IP protocol. While I believe that such traffic will become quite important in the future and, in fact, is frequently used by Internet surfers today as a substitute as well as a compliment to traditional toll services offered by the LECs, both ALEC and ILEC, as well as the IXCs today for things like instant realtime messaging, such traffic is still in its relatively early stages of development.

Thus, and I think most other parties in this docket believe that this is not a critical item that the Commission must act on immediately. Rather the traffic should be considered and compensated under whatever rules the Commission and/or the FCC adopt based on the regulatory jurisdiction of this traffic; that is, if the traffic is interstate under traditional circuit switched protocols, it would still be interstate if an IP protocol were used instead. Identification of the correct jurisdiction or jurisdictional treatment under an IP protocol I think can be quite tricky, but I think the principle also remains intact.

As to the matter of establishment of points of interconnection, Verizon is not seeking to dictate to the ALECs where they must locate their points of presence in a LATA or even dictate how many should be established. I believe that TELCOMAC (phonetic) calls for negotiating this aspect in an

interconnection agreement. It well may be the case that a single POI is the most efficient way to exchange traffic in many situations. In others it may not be. Thus, the reliance on negotiation between carriers to arrange for a mutually advantageous outcome should be the initial mechanism to establish the points of physical interconnection of the networks.

In the event that the parties cannot reach such an agreement, then I certainly do not dispute that the ALECs have been allowed to designate one physical point of interconnection within a LATA. This property right was assigned to the ALECs by the FCC, since it was assumed by the FCC at least in my reading that the ALEC would likely have to pay for any transport facilities provided by the ILEC to reach that point beyond a reasonable calling scope. This provided the balance to assure that the selection of the POI by an ALEC resulted in a reasonably balanced distribution of benefits between the parties.

To achieve this mutually beneficial outcome, Verizon is seeking an arrangement to effectively and efficiently assign the cost of transport between the carriers involved. That is when an ALEC decides to select a physical point of interconnection in a distant local calling area from the one in which the call was originated, the ALEC should bear the causal responsibility for the costs associated with the transport

capacity over and above what the ILEC would normally incur to transport a call within the local calling area. I think in that manner the assumption established by the FCC for a mutually advantageous selection of a POI can be achieved.

Even for calls within a given local calling area, an ALEC might find it useful and economical to provide its own transport and possibly even its own tandem switching facilities as a substitute for those provided by the ILEC. When it does so, the ALEC should reflect those costs of the services it actually provides in its prices and charges to other carriers, both ILEC and other ALECs. Verizon is not attempting to deny any ALEC payment for the services it actually performs.

To the extent an ALEC actually provides the interoffice transport for a call, it should reflect that in the compensation prices for that part of the transport it provided. Likewise, to the extent that an ALEC actually performs tandem switching associated with the call, as compared to end office switching, it should reflect those costs in the prices, as well.

Verizon's position is simply that the ALECs and ILECs alike should only charge for those services actually performed. If due to the ALECs network configuration choices it only switches a call once, then it should not reflect the cost of intermediate tandem switching as prices to other users.

Some of the difficulty encountered in this docket are

driven by the differences in how the ALECs and the Commission have defined local calling areas for regulatory or pricing purposes and how ALECs define them, the former typically defining the local calling scope as contained in the retail tariffs approved by the Florida Public Service Commission and typically being smaller than how an ALEC might wish to set its local calling area.

Indeed, as I pointed out in my direct testimony, there is at least one ALEC who believes that there is no distinction between local and toll in the future and perhaps in the present, as well. Verizon is not attempting to place any limits on how an ALEC defines its local calling scope for retail customers. Any attempt to do so would be anti-competitive.

The local exchange market is never going to be a perfectly competitive market as defined by economists and will be characterized by firms attempting to differentiate their service offerings. Local calling area is certainly one of those potential differentiators. Still for interconnection compensation purposes, given the pricing conventions in place, the differences in local calling areas must be accounted for. Simply by establishing a different retail calling area should not authorize an ALEC to circumvent the access charge regime established by the Commission or that of the FCC. But, once again, the FCC has also got this NPRM out now and they are

reevaluating that, as well.

I have suggested that the local calling area for reciprocal compensation purposes in my testimony should be established if at all possible by negotiations between the carriers. If such negotiations fail, then I suggest the local calling areas contained in the ILEC tariffs be the basis for reciprocal compensation purposes between carriers. That is not a suggestion based on some belief on my part that the ILEC area definitions are somehow superior or any attempt to subject the ALEC to some obsolete regulatory regime.

Again, the ALECs are at liberty to specify whatever retail calling area they want for local purposes and whatever they may find in their interest. Rather, my recommendation is based on the simple notion that the ILECs, unlike the ALECs, are not completely at liberty to adjust their calling areas at will and presumably along with the price changes likely to accompany such local calling scope definitions, for the ILEC calling scopes are well known and defined for all carriers to examine as well as the Commission has, which hopefully will facilitate the negotiation process.

In addition, I would argue that the reliance on the ILEC calling scopes is likely to put the least pressure on the -- at least in the short run on other price levels already established. Just as I maintained in the first phase of this docket, any reciprocal compensation costs are legitimate costs

of doing business in a multi-carrier marketplace, just as access charges are for IXCs and should be reflected in the prices seen by consumers if efficient market outcomes are to be achieved. And it is that type of a market arrangement that I have tried to reflect in my testimony prepared for the Commission in this docket. Thanks.

MS. CASWELL: Doctor Beauvais is available for cross.

CHAIRMAN JACOBS: Ms. Masterton.

MS. MASTERTON: No questions.

CHAIRMAN JACOBS: Mr. Lamoureux.

MR. LAMOUREUX: I have just a few questions.

CROSS EXAMINATION

BY MR. LAMOUREUX:

Q Mr. Beauvais, I am Jim Lamoureux, I represent AT&T.

A Nice to meet you, sir.

Q I didn't catch the exact wording you used in your summary, but can you refer me to a specific FCC rule, regulation, or order that says that ALECs are responsible for the costs of getting a local call from the originating part in one local calling area to a POI that may be in another local calling area?

A As I think we talked about earlier with the earlier witnesses, I believe you said it was Paragraph 199 in your words. And that is where the notion came, I think the statement was something like they are likely to have -- the

ALECs will likely have to bear any costs in addition to what would normally be provided for transport.

Q Well, in fact, doesn't that paragraph talk about ALECs perhaps having to pay for technically feasible but expensive interconnection rather than anything about transport or hauling calls?

A Well, presumably -- well, I guess expensive is a relative term. The costs would be relatively more expensive than it would be to haul it within the LATA if it has got a -- or within the local calling area if it has to go some distance beyond it. So it is a relatively term, obviously.

Q But that paragraph is among other paragraphs in this FCC order discussing technically feasible forms of interconnection, is it not?

A Well, sure. Technically infeasible forms of interconnection doesn't seem to be a likely outcome.

Q My point is this is not a section that deals with transport responsibility or financial responsibility obligations for hauling calls, does it?

A Well, I think technical feasibility has at least some implications for the costs that would have to be incurred. But I believe you are right just from recalling this section.

Q Is that the only FCC cite that you are relying on in suggesting that an ALEC is responsible for that cost of getting the call out of a local calling area to the POI that may be in

another local calling area?

A Nothing else leaps to mind from the FCC. I think the Florida Commission has made a similar ruling in an arbitration case.

Q Well, in fact, the Florida arbitration has made the exact opposite ruling in both the Level 3 and AT&T arbitration cases, has it not, against BellSouth?

A I seem to remember a Sprint one, I don't remember the other two.

Q Now, as I seem to understand your testimony on this issue, your preference is that the parties reach some sort of compromise on this transport obligation, is that a fair assessment?

A Yes, sir, that is a fair assessment.

Q Now, obviously if the parties are not able to compromise, that is what brings them to the Commission, right?

A And keeps us all employed, yes, sir.

Q If it is correct that the ALECs have no legal obligation to bear the cost of that transport, do you think it is fair that they should have to compromise and agree to pay for a part of that transport?

A If you believe that they have no obligations or legal responsibilities, then it wouldn't be. On the other hand, if I believe they do, then we are back to the Commission.

Q And conversely, if it is correct that the ILECs have

a legal prohibition against charging the ALECs for that transport, would you agree with me that it would not be fair for the ALECs to have to compromise and to pay for some of that transport?

A Given your conditional statement of if, yes.

Q In your rebuttal testimony you say that this isn't really cost shifting, generally, is that a fair paraphrase?

A That's fair. We are not trying to shift costs onto ALECs that we think they are casually responsible for.

Q If the ILECs are currently bearing these costs, wouldn't moving the cost to the ALECs be cost shifting?

A No, sir, it would be reassignment of the costs that you should have been bearing all along.

Q Is that cost shifting? Reassignment, isn't that cost shifting?

A That is not how, at least as I was reading, how the ALEC witnesses were using the term cost shifting.

Q Would you agree with me that moving the cost from one party to another could be pretty fairly characterized as cost shifting?

A Not in the sense that I was reading the ALECs using the term cost shifting. There way very well result a shift in causal responsibilities to a more appropriate basis of splitting between ALECs and ILECs as a result of you taking responsibility for providing transport facilities beyond an

ILEC local calling area, if you choose to do so.

Q Looking at your direct testimony at Page 8, you have a question there, what does comparable geographic area mean under the FCC's rules. And you say that the straightforward meaning is that the area served by the ALEC switch is about the same physical area as that served by the ILEC's tandem switch, is that correct?

A Yes. Terribly precise, about the same.

Q I was going to say that is as precise as your test for geographic comparability gets, is that right?

A That they are serving an area about the same, yes, sir.

Q There is nothing in your testimony about what sort of proof, or evidence, or tests an ALEC might have to meet in order to prove that it serves about the same physical area, is there?

A No, sir, other than suggesting that they need to, you know, be actually serving customers located throughout the area.

Q Well, where do you say anything about customers?

A In all of this I must have said customer somewhere, but --

Q Well, I mean, you just said that the area served by the ALEC's switch is about the same physical area?

A Is about the same physical area. But you have to

have customers there and actually serving customers as opposed to just saying, I serve Florida, you know, if all the customers are in one location, for our case in downtown Tampa.

Q Well, doesn't that put the ALEC in a pretty Catch-22 bind that it can never get the tandem rate at one customer, even though its switch may be fully capable of serving as big or bigger an area than the tandem switch of the ILEC?

A I don't think it puts them in a bind. If they are only serving one customer you don't need a tandem switch and don't, in fact, use it as a tandem switch. That is not really putting it in a bind because they wouldn't be incurring the cost of intermediate switching.

Q How about two customers?

A Once again, if you are a providing tandem switching function and it is a necessary and efficient part of your business, I think we should compensate for that. If you don't, we shouldn't.

Q Well, they don't have to prove that they are providing a tandem function under the new FCC guidance, correct?

A Well, they are entitled to tandem compensation as I read, if you serve a comparable geographic area, or in my words about the same as the ILEC. That means you would actually be performing the tandem function for that geographic area.

Q So it is your testimony that when the FCC said that

you only have to prove a geographic comparability test that meant that you also have to prove a functionality test?

A You have to be providing the tandem switching for that area in order to get that -- for that geographic area.

Q In holding that you only have to prove a geographic comparability, didn't the FCC specifically distinguish that from also having to prove functional equivalency?

A Sir, I'm not arguing functional equivalency. Let me try an example of this, and I will use Tampa since that is obviously our big exchange. You know, there is an area on West Shore Avenue that is a relatively up and coming business area. And AT&T, as an example, could very well say, yes, I serve the entire Tampa, St. Pete, Clearwater, Bradenton, Sarasota area, but all the customers are really located in my West Shore Avenue. I don't know that is the case or not. But if that is the case, then I say you are not really serving the customers throughout the geographic area, you are serving those customers right there and that is not the tandem function.

If, in fact, you have got customers distributed out over the area, it doesn't have to be the same number of customers that the ILEC serves, but you would have to use the aggregation function of a tandem then, yes, that is the geographic comparability standard I think the FCC is referencing.

Q Can you show me anywhere in any of the FCC orders, or

decisions, or even in your testimony where it says anything about proving where your customers are located?

A I believe that is what serving customers, serving geographic area means.

Q So when I've got a switch out there and I am offering service to anybody that will come to me and get it, my switch isn't serving that area, is that what you are testimony is until I've got customers?

A Until you have the customers, yes, sir. Which means you might not be eligible today, and you might be eligible a week from now.

Q Can you tell me how many customers I have to have in a geographic area in order to be able to get the tandem rate?

A No, sir.

Q Can you tell me where my customers have to be located in a geographic area in order to be able to get the tandem rate?

A I would think you would need some geographic dispersion. How much? No, sir, I didn't say.

MR. LAMOUREUX: That's all I have. Thank you.

CHAIRMAN JACOBS: Mr. Hoffman.

MR. HOFFMAN: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. HOFFMAN:

Q Doctor Beauvais, my name is Ken Hoffman. I have some

questions on behalf of Level 3. Let me start by trying to get some clarification in following up on some questions from Mr. Lamoureux. As I understand it, it is your position that an ALEC is required to pay transport and termination to Verizon to haul a call from Verizon's local calling area to the point of interconnection, is that correct?

A Not all the way from our switch to the local calling -- to your POI. I'm sorry, let's try this again.

Q Is it your position that an ALEC is required to pay the cost of transport and termination that Verizon incurs to carry a call from Verizon's local calling area to the ALEC's point of interconnection?

A For the capacity costs over and above what Verizon would otherwise incur to transport that call within the local calling area, but not all of it.

Q Okay. And you would agree, would you not, that there is no ALEC that is taking the position in this case that Verizon or any other ILEC is responsible for the ALEC's costs of transport on the ALEC's side of the POI, is that correct?

A On the ALEC side of the POI, I think that is correct.

Q Okay. Do you believe that Verizon has any responsibility for paying transport costs to the ALEC for the ALEC's costs on its side of the POI?

A No, sir.

Q Okay. So under the regime, I guess I will use that

word that you would propose, the ALEC would cover all of its costs on its side of the POI, but the ILEC would not. The ILEC would look for a contribution from the ALEC for its costs on its side of the POI, correct?

A Well, the POI is a physical interconnection point. What I have suggested is -- and we are willing to provide the capacity to get traffic to your POI if you select a single one. Part of that, however, is our responsibility for cost causation ought to end at our local calling area because that is what we would provide. So in that sense we are not trying to say -- you should have been providing the other part to begin with.

Q Can I take that as a yes to my question?

A I think so.

Q Okay. Let me follow-up now on the questions Mr. Lamoureux asked concerning the clarification that the FCC made in the April 27, 2001 notice of proposed rulemaking. Would you agree that the FCC has now clarified in that notice of proposed rulemaking that FCC Rule 51.711(a)(3) requires only the comparable geographic area test to be met before an ALEC is entitled to the tandem interconnection rate for local call termination?

A That is essentially what they tried to say in Paragraph 105, yes.

Q Do you think they succeeded in saying that?

A Well, I think, you know, by -- I believe they used

the word serving a geographic comparable standard. It is the serving geographic area that seems to be still some confusion. I agree they took the functionality test out.

Q Okay. So you would agree that they have clarified and moved to a comparable geographic area test only, can we agree on that?

A With some debate about what comparable geographic area means, yes, sir.

Q Okay. And if we can agree on that, then if you would turn to Page 8 of your direct testimony?

A I'm here.

Q Page 8 on Lines 10 through 12, you would agree that under the test as clarified recently by the FCC, that your test is that an ALEC is entitled to the tandem interconnection rate if the area served by the ALEC's switch is about the same physical area as that served by the ILEC's tandem switch. That is your testimony?

A Yes, sir.

Q Let me just ask you a couple of questions about your rebuttal testimony on negotiations, Doctor Beauvais.

A Sure.

Q I am on Page 3 of your rebuttal.

A Okay.

Q On Page 3, Line 13, you state there that the fact that the Telecom Act calls for bilateral negotiations suggests

that the parties should negotiate as to the location of one or more points of interconnection, is that right?

A Yes, sir. I think that is the first thing one should do.

Q Okay. You would agree that the bilateral negotiations could also be aimed at addressing other issues in the interconnection agreement?

A With probability one, yes.

Q I'm sorry, I didn't hear you?

A With probability one they will do more than just the point of interconnection in interconnection agreements.

Q Right. So, for example, those negotiations could focus on how the parties think it best to interconnect at a single point, rather than where that single point of interconnection may be?

A On one point, two points, as many as they might find mutually advantageous.

Q They could negotiate, for example, using collocation or leasing entrance facilities, could they not?

A Certainly, yes.

Q Now, let me move to Page 4 of your rebuttal testimony. On Lines 20 through 23 you discuss there the fact that transport has a positive cost, is that correct?

A Yes, sir.

Q So am I right that Verizon is concerned about bearing

the cost of transport to an ALEC's single point of interconnection?

A Over and above what we would otherwise provide, yes.

Q So it is your position that a determination as to where the parties established points of interconnection should involve financial or economic considerations, such as the cost of transport, is that correct?

A Yes, sir. I would certainly think, you know, the financial considerations are important to everybody here.

Q Are they important to Verizon on this issue?

A The last I heard, yes.

Q Let me ask you now to move to Page 6 of your rebuttal.

A Yes, sir.

Q I think on Page 6 of your rebuttal beginning with the question on Line 4, you suggest that an ALEC would not need to build-out to each local exchange under your proposal, is that correct?

A That is correct.

Q Instead, the ALEC could lease facilities from Verizon to establish a virtual interconnection point in each exchange, is that right?

A Or other people, but, yes.

Q And what would an ALEC pay for those facilities under your proposal?

A It would, again, be negotiated in the agreement and it may be TELRIC rates or some approximation of incremental cost of those facilities. It could also be a tariffed rate.

Q Okay. Have you presented any specific evidence in this proceeding as to what an ALEC would pay for the facilities under your proposal?

A No, sir. Since my first fallback would be a negotiation process, I didn't put it in there.

Q Okay. But you would agree that your position is that the ALEC would basically either need to build-out or lease facilities from Verizon at X dollars per month to reach each Verizon local exchange from the ALEC's point of interconnection, is that correct? That is your position?

A From Verizon or some other party, or build your own.

Q In other words, the ALEC has its point of interconnection, it is your position that the ALEC should be required to build facilities to each Verizon exchange or lease facilities from Verizon to reach each Verizon exchange and pay whatever the charges are?

A For the transport, yes, sir.

Q Okay. And what would those charges be?

A As I have just suggested, it would be contained in the interconnection agreement. And I don't know what they are in those cases. Because as we said, we are negotiating on numerous points within an agreement and that would be subject

to the agreement among the parties as to what the applicable prices would be.

Q Would there be a facilities cost?

A I would suggest there probably are facility costs.

Q Okay. Would there be a usage cost?

A If depends on the compensation agreement between the parties. There may or may not be.

Q Now, under this proposal, as I am calling it, when would an ALEC first be required to pay Verizon for these facilities under whatever terms are negotiated or tariffed?

A I guess when you establish the interconnection agreement and physically made the interconnection between the two carriers. So on a going-forward basis you would begin at that point.

Q Okay. Would it occur whenever an ALEC advises Verizon that it intends to provide service in Verizon's service area, would that be the triggering points for payment for the facilities?

A The intent to provide service?

Q Right.

A No, sir. I think you may intend to do it today and if you don't actually incur the cost today, we wouldn't charge you. I mean, that is when the connection would be made and the costs to be incurred.

Q Okay. So your testimony is that the ALEC would begin

paying Verizon for the facilities that would haul traffic from Verizon's local calling exchange to the ALEC POI as soon as the interconnection is completed?

A Beyond Verizon's local calling area.

Q Beyond it, okay. Beyond the Verizon local calling area to the ALEC POI, those payments would begin once those interconnections are completed?

A Correct.

Q Now, it seems to me that that is how it would work if either the ALEC was building facilities to Verizon, to Verizon's local calling area, or there was some type of meet point, so to speak. What about if the ALEC is just leasing facilities from Verizon to go from outside the local calling area to the POI, when does the ALEC start paying Verizon?

A On the effective date of the lease, I would imagine.

Q On the effective date of what lease?

A The lease of the facilities that you just mentioned. I mean, if you want the facilities starting tomorrow, I would assume the payments start with tomorrow.

Q Okay. So it is whatever the parties might negotiate?

A Yes, sir.

Q Okay. Let me try an example. Let's say that an ALEC tells Verizon that it plans to offer service in seven Verizon exchanges, and then the ALEC tells Verizon that it wants to set up a physical point of interconnection at the ALEC's switch and

would establish what I will call virtual IPs in each of the six other exchanges where it does not have a physical presence. Are you following that?

A I think so.

Q Now, would the ALEC have to accomplish all of this before it begins providing service?

A Well, certainly the interconnection would have to be made between your POI and our switches before service could be provided.

Q Okay. So the ALEC would either have to accomplish the leasing arrangements or the necessary construction to interconnect down to the Verizon exchanges from its POI?

A Yes.

Q Okay. Now, that is accomplished. Let's just assume that that is accomplished. What if the ALEC doesn't sign up a customer for six months, does the ALEC have to pay Verizon for leasing facilities that are not being used?

A For the lease of the facilities? The lease of the facilities is for the capacity for those facilities, and in that sense you are using the facilities at that point. When you say, Verizon, build those facilities to me, we have built them, we have incurred the additional costs of that at that point.

Q Okay. Let's say that we didn't ask Verizon to build, let's just say there were facilities in place and the ALEC was

leasing capacity from those facilities. Same scenario, same example, we don't get a customer for six months. Would the ALEC be required to pay Verizon for those six months without any traffic?

A Yes, my answer would essentially be the same if you have put them in place. But, again, that is something that can be negotiated between the parties.

COMMISSIONER JABER: This is one of the things I have been searching for in this docket is what kind of direction or guidance could this Commission give you all for the purpose of negotiating? And if you could answer Mr. Hoffman's question in that regard that would be helpful to me. Just personally speaking, it is always preferable for me when the parties negotiate because I think that that is the optimal solution, that the parties come up with their own resolution. But in an effort to give some guidance to all of the parties or direction where needed, what might we want to be looking at?

THE WITNESS: Well, I think what you are really looking at is who has the causal responsibility in this case for the transport facilities between the local exchange areas of Verizon, if we are using our definitions, and a POI. I mean, I think actually in most cases as a practical matter today most of the POIs of the ALECs are located within the local calling scopes of Verizon. I mean, they are not really using it, so --

COMMISSIONER JABER: But in Mr. Hoffman's hypothetical, the second part of his hypothetical where he said that if an ALEC comes to Verizon and leases facilities that Verizon has already put in place, why should there be a cost?

THE WITNESS: Well, the facilities have costs and you would be reserving the capacity for their future use, presumably not using that capacity for yourself. You know, it is the opportunity cost of holding those, reservation demand for ALECs would be the issue there. And clearly if the capacity is already in place, this is one of the short-run dichotomies between short-run and long-run. If all the facilities are in place for all of this, the incremental cost in the short-run can be quite low, but that is not the long-run kind of incremental cost notions that we have been talking about.

I guess in terms of guidance, what the Commission should probably do is set what it believes is the causal responsibility for the transport, who has it. Do we have the responsibility to take -- we being an ILEC, you know, to wherever an ALEC may decide, or do the local calling area definitions really mean something. Are we responsible for providing average length of transport within an exchange and once it goes beyond that the ALEC should be responsible for picking up the costs? That seems to me to be a fairly practical and generic statement of policy that the Commission

could issue and then leave the details to the negotiations between the parties.

BY MR. HOFFMAN:

Q But, Doctor Beauvais, under my second example, you would agree that the ALEC could find itself in a situation where it is making lease payments for capacity to Verizon while it continues to search for customers, it may not have any customers?

A In a sense just like any other start-up business rents a location, a store and for the first couple of months it may not be generating a lot of retail business, but it's still paying rent to the landlord. Yes, sir, that is a possibility. And that's what I'm staying, some of this may be able to be negotiated in a settlement between the two parties.

Q And obviously that would not be the case if this Commission were to accept the ALEC's position that the ILEC is responsible for all costs associated with transport on the ILEC's side of the POI, correct?

A That would be correct.

Q Doctor Beauvais, have you will provided any evidence or cost data in this record that would support the notion that it would be cost prohibitive for Verizon to interconnect at a single interconnection point with an ALEC?

A No, sir, I haven't provided any cost evidence one way or another. In fact, I have even suggested a single point of

interconnection may be an efficient arrangement depending upon the type of network that whoever we are interconnecting with may have.

Q Okay. And you have not provided any evidence, or cost data, or analysis in this case that shows Verizon's costs of interconnecting at any given location, have you?

A No, sir.

MR. LAMOUREUX: No further questions. Thank you, Doctor Beauvais.

THE WITNESS: Thank you, sir.

CHAIRMAN JACOBS: Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chairman.

CHAIRMAN JACOBS: Before you begin, Mr. Moyle, let's kind of take a survey here. Do we have much more cross for Doctor Beauvais?

THE WITNESS: The correct answer is no.

MR. MOYLE: I don't have much.

MR. MELSON: Ten minutes or less.

MS. KEATING: Five minutes or less.

CHAIRMAN JACOBS: Okay. We will shoot to try to and complete then Mr. Beauvais today.

CROSS EXAMINATION

BY MR. MOYLE:

Q Let me ask you a question with respect to your testimony today. Your title with Verizon is what?

A What is it this week, Director of Economic and Public Policy, I think. I don't even get the Verizon part right half the time, so --

Q You are not testifying as an expert then, are you?

A I am an economist by training, yes, sir.

Q So are you testifying as an expert in economics with your testimony today?

A Yes, sir, I'm an economist.

Q Are you testifying as an expert in any other disciplines?

A To the extent that economics applies to public policy, that's what I do.

Q In response to a question from counsel for AT&T, I think you were talking about legal responsibility and legal obligations. You are not testifying on matters of law today, are you?

A Much to the relief of the legal profession, I am not an attorney.

Q Okay.

A And to mine, too, by the way.

Q Your direct testimony in this case was filed on March 12th, isn't that correct?

A Yes, sir.

Q And Mr. Hoffman, I think, asked this question and clarified it, but I wanted to try to bring it to your attention

because when your lawyer asked you whether you had any revisions to your testimony I think you said no, but the FCC issued their notice of proposed rulemaking after you filed direct testimony, correct?

A I believe they issued it after we filed direct and rebuttal.

Q And with respect to the question about functionality, similar functionality under the FCC's two-pronged test on Page 7 of your direct testimony --

A Yes, sir.

Q -- do you still stand by that testimony in light of your answers to Mr. Hoffman with respect to the geographic area?

A I believe what I have said is how Verizon would approach it, and what I believe is the correct thing to do. But I also agree that the FCC has said geography only. We can argue what geographic serving area means, but --

Q But given, I guess, Verizon's view and the FCC's view, you would probably side with the FCC's view, would that be a fair statement?

A Given Verizon's view and the FCC view, I tend to side with the view of my boss. I side with the FCC's -- that that is what the FCC says that they meant. I still think Verizon's is probably closer to being economically correct.

MR. MOYLE: I have nothing further.

CHAIRMAN JACOBS: Mr. Melson.

CROSS EXAMINATION

BY MR. MELSON:

Q Let me follow up on that last one just a minute. You would agree that to the extent the FCC has a rule and the rule is clear, that this Commission is going to need to follow the rule rather than do what might be more economically correct, is that --

A I think economics matter, yes, sir. But to the extent that there are rules and those rules govern, we should abide by the rules.

Q All right. Would you turn -- do you have a copy of the prehearing order?

A No, sir, I don't.

Q I don't want to belabor the point, but I'm trying to understand what Verizon's bottom-line position is now in light of the FCC's statement about its rule. And I would refer you to Page 16 of the prehearing order at the top of the page. It is Verizon's position on Issue 12A. Are you with me?

A Yes, sir.

Q All right. Is it fair to say that in light of the FCC's clarification, it would be appropriate where you see a semi-colon down on the start of the fifth line, to change that to a period and then to strike the remainder of that sentence?

A I don't see the colon.

Q Semi-colon. Let me read the sentence to you. "If the Commission adopts a positive price compensation scheme as opposed to bill and keep, an ALEC may receive compensation at the ILEC's tandem rate if the ALEC switches serve an area comparable to that served by the ILEC's tandem switch." Given the FCC's ruling, would it be inappropriate to put a period at it that point and strike the rest of the sentence?

A That would certainly be what the FCC rules seem to suggest. Again, with the clarification that what serving a geographic area means can be different.

Q And then the next sentence talks about if either condition of the two-pronged test is not met, and the second prong being performing similar functionality, then compensation at the tandem interconnection rate is not appropriate, that sentence would also go?

A Under Paragraph 105, yes, sir.

Q Okay. And in the next sentence it says, "In addition, the ALECs should only be permitted to bill at the tandem rate to the extent that it offers an end office alternative" -- "the ALECs should only be permitted to bill at the tandem rate to the extent it offers an end office alternative." That sentence would have to go, too, would it not?

A Once again, if you take the -- given my caveats about what serving a geographic area means and the difference between

that and what the FCC said, yes, that would go as well.

Q All right. Does Verizon have any local tandems in its network?

A In Florida?

Q Yes.

A Yes.

Q Do you have any local tandems that serve switches located in more than one local calling area?

A No, because they wouldn't be local tandems then. I mean, the local tandem would be like in Florida where you have a number of local end office switches in the Florida local calling -- in the Tampa local calling area where you wouldn't have high usage trunks between all possible end offices and rather you use the local tandem as intermediate switching among those local, but that is all within a local calling area. We also have two access tandems, but the local tandems would be at the local calling areas.

Q And do the access tandems ever provide tandem switching for local calls?

A Not that I am aware of.

MR. MELSON: No further questions. Thank you.

CHAIRMAN JACOBS: Staff.

CROSS EXAMINATION

BY MS. KEATING:

Q Good evening, Doctor Beauvais.

A Ma'am.

Q I'm Beth Keating, I've got just a few questions for you on behalf of staff. First, I would like to ask do you have a copy of staff's stipulated exhibits handy?

A I don't think so. Okay.

Q Great, thanks. I would like to refer you to what is staff's Stip 8, which is now for reference purposes Hearing Exhibit 9. That is Verizon's responses to staff's first set of interrogatories. And I'm looking at Item 2.

A This is Stipulation 8?

COMMISSIONER JABER: Page 3?

MS. KEATING: Actually Page 4 is where the response is. And just to be clear, somebody tells me I have misstated, it is actually Hearing Exhibit 7 now for reference purposes. Have you found where I'm looking, Doctor Beauvais?

THE WITNESS: I am at Stipulation Number 8.

BY MS. KEATING:

Q Okay. If you would look on Page 4 of that?

A Okay.

Q And you see at the top of the page, B?

A Yes. What information should an ALEC provide?

Q Okay. Then we are on the right page, then. In that response Verizon discusses the information that ALECs should be required to provide to show that their switch serves a geographic area comparable to an ILEC tandem, is that correct?

A Yes. I suggested this is information that might be useful for doing so. It is not a mandate on anybody's part, just here is a possible way of going about it.

Q Okay. And just to be clear, it is your position that an ALEC should be required to provide a combination of maps depicting geographic coverage and information regarding customers served in the particular areas?

A Yes, ma'am. I'm suggesting that is one possible way of going about the geographic serving -- you have to have these things fitted. Ordering them through the mail doesn't work.

You have to -- it's one method, it's not a requirement, it's just a suggestion. You know, you can look at the maps and look at the distribution of customers on that map and that is one way you could approach the issue.

Q Well, when you are talking about customer information, what kind of customer information?

A Where are they.

Q That's it?

A That was it.

Q Okay. Now, regarding the matter of carriers responsibilities to transport traffic, if I could direct your attention to Page 10 of your direct testimony. And here you seem to be indicating that compensation arrangements stemming from the interconnection between two carriers should really be handled on a case-by-case basis. Is that a fair assessment of

your testimony?

A Yes, ma'am, I think it is, because I think the networks are potentially very different across ALECs.

Q Okay. And turning over onto Page 12. This is really just for clarification, but you appear to be advocating a bill and keep arrangement, is that correct?

A I have always been a big fan of measured service, as Doctor Selwyn is well aware. We go back a long time on that, and I still think there is a lot to be said for it. But given the decreasing cost of usage that we have seen and the ISP problems along those lines, I think there really is something to be said for going to a bill and keep type arrangement on this over time, just like the FCC seems to be suggesting in its notice. Even though there are certainly consequences of doing so. Was that a long enough answer to a short question?

Q If I got the answer, you are saying yes, you are advocating bill and keep.

A Right.

Q And, finally, I would like to follow up on a line of questions that Mr. Hoffman asked you. It appears in your rebuttal testimony that you're recommending the use of a virtual POI in each local calling area?

A Yes, ma'am.

Q Okay. Doesn't this effectively compel an ALEC to mirror the ILEC's network architecture?

A No, not at all.

Q Could you explain why it doesn't?

A Well, all it says is if we adopt the ILEC's definition of the local calling scopes, you know, they can use fiber rings, cable TV systems, whatever technology, whatever arrangements they want. They can specify whatever local calling scope they would like. They can make it the United States. Whatever price they would like, but if you want to get to a local calling scope and we are providing the transport to that, that is not dictating their technology or their calling scope at all.

Q So in your opinion this would not be imposing interconnection obligations on ALECs?

A Well, it is imposing the obligation negotiated in the state commission's -- who has responsibility for what part of the costs, but I don't think it is -- it is not dictating their arrangements of technology or network deployment.

Q Finally, Doctor Beauvais, if you know, with regard to local calling areas and how those were established, what is your understanding as to how local calling areas were established?

A Well, in some sense I guess they were kind of accidents in a previous world where you had relatively high costs of transport, and I think we are probably -- all the parties agree that the costs of transport have decreased. In

that environment what you had was the economic desirability to keep local rates low by keeping calling areas relatively within a community of interest. Clearly those have changed over time, but then the local calling area definitions and scope have also changed over the years. But they were largely a community of interest considerations in the past along with the economics.

Q Did it have anything to do with issues regarding competition?

A There was very little competition probably when those local calling areas were established.

Q So can I understand your answer to be probably not?

A Probably not.

MS. KEATING: Thank you, Doctor Beauvais. Those are all the questions that staff has.

THE WITNESS: Thank you, ma'am.

CHAIRMAN JACOBS: Commissioner Palecki.

COMMISSIONER PALECKI: Doctor Beauvais, on the area of defining the local calling area, it is your testimony that this is something that should be negotiated between the parties, but if the parties are unable to come to an agreement, we have a default in that the ILEC local calling areas would control, is that correct?

THE WITNESS: Yes, sir, that would be my recommendation.

COMMISSIONER PALECKI: It has been my finding that in

negotiation they are usually more effective when there is a fear of the unknown. And if you have a default that is the ILEC's local calling area, would the ILEC really be that motivated to make concessions?

THE WITNESS: Number one, there is quite more than just one item, I think as we discussed it here, being negotiated in these interconnection agreements. It is also -- while the fear of the unknown may be a factor, also with some degree of certainty in all of this as to what the default is also reduces the negotiations costs and transaction costs and the length of time it may take to reach an agreement. So I think there is some countervailing pressures there.

COMMISSIONER PALECKI: Well, if rather than having a default of the ILEC's local calling area we just had the issue go to the Commission for the Commission to decide, then neither party would know what the default position would be in the case of a non-negotiated agreement. Wouldn't we in that circumstance be more likely to see a free back and forth negotiation?

THE WITNESS: You could very well. It probably depends on the dynamics of everything else that is being initiated, but in that sense, yes. Some uncertainty says if everybody is worried about what you will do, then there is clearly more incentive to reach agreement privately.

COMMISSIONER PALECKI: Thank you.

THE WITNESS: Yes, sir.

CHAIRMAN JACOBS: One quick question. In your rebuttal, Page 4, it kind of says that this additional cost that the ALECs would arguably impose by selecting one point of entry may not be that significant. In other words, the underlying question here I think is the supposition made by Doctor Selwyn that those transfer costs may be decreasing in nature.

THE WITNESS: Commissioner, I don't think there is any dispute even between Doctor Selwyn and I that transport costs have come down, and especially on a per minute basis simply because the capacity has grown so large and a lot of the transport costs are, in fact, driven by the electronics on the end. However, I think it is also true that an additional mile of transport facilities costs -- five miles costs more than four miles.

CHAIRMAN JACOBS: I understand. Here is my point, if we are here balancing policy, and what I hear you saying and what I have heard all along is that the prevailing policy that would harm ILECs here is that we allow them to unilaterally absorb that cost. And then on the other end of that scale what I hear is that if we don't allow these, these new network architectures will require the ALECs to have to -- how should I say -- have to conform to the old architectures, so we are here balancing that. It sounds to me like that should be a factor

that I should consider. The extent to which those costs are absorbed, if they are not overwhelming then I would like to spur innovation in that area.

THE WITNESS: It may very well be the case that we are arguing a lot of this on principle as opposed to -- the costs may not be overwhelming. And if we are talking about a Tampa, for example, or St. Pete, pick your favorite local calling area for Verizon. I mean, and let's say the average length of haul of transport that Verizon would provide for itself and its customers today is ten miles and some customers, you know, one mile and some customers maybe 15 miles, but on average we provide ten miles of local calling, or transport of a call. It could very well be the case that an AT&T or a WorldCom says, gee, I'm going to put my POI outside of your local calling area, and it is 11 miles away. That extra mile, and Verizon will say, hey, we are willing to offer ten at no charge, and the extra mile may not be all that costly. And that is an absolutely true statement.

CHAIRMAN JACOBS: Very well. Redirect.

REDIRECT EXAMINATION

BY MS. CASWELL:

Q I just have one question as a follow-up to Chairman Jacob's point. He talked about balancing the ALEC and the ILEC interests and the financial responsibility for the placement of the POI. Did you have a proposal in your rebuttal testimony

that would do that sort of balancing?

A Well, I mean, I think I would suggest that is what -- the proposal I was trying to make, you know, in two forms -- well, I just gave fundamentally a shorthand version of the proposal. If we provide an average length of transport today to our customers, and we think those are covered by the rates, that is, let's suppose customer A is calling customer B and they are both Verizon customers in the Tampa exchange.

An ALEC comes along, WorldCom, AT&T, whoever it may be, and takes that customer. Well, we were willing to provide that transport before for whatever the flat rate the customer is paying us, it seems to me we ought to be willing to provide it now. It is when you go beyond the local calling scope and the additional causal responsibility goes to the ALEC, I think, rather than the ILEC. And that is essentially the proposal that is being made here calling it virtual interconnection points.

MS. CASWELL: Thank you. That's all I have.

CHAIRMAN JACOBS: Exhibits.

MS. CASWELL: Verizon moves Exhibit -- I think 13 was the Jones' exhibit which is already in, 14 and 15 were Mr. Beauvais' exhibits.

CHAIRMAN JACOBS: Without objection, show Exhibit 14 and 15 are admitted. And if there is nothing else, Doctor Beauvais, you are excused.

THE WITNESS: Thank you, sir.

(Exhibit 14 and 15 admitted into the record.)

CHAIRMAN JACOBS: That will conclude today. Okay. We'll start at 9:00 a.m. tomorrow morning. And thank you all. We are adjourned until then. In recess.

(The hearing recessed at 6:20 p.m.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter Services, FPSC Division of Commission Clerk and Administrative Services, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 19TH DAY OF JULY, 2001.

JANE FAUROT, RPR
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FPSC Division of Commission Clerk and
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