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March 25, 2002

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

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

Dear Ms. Bayo:

Please find enclosed an original and 15 copies of the Rebuttal Testimony of Dennis B.
Trimble on behalf of Verizon Florida Inc. for filing in the above matter. Service has
been made as indicated on the Certificate of Service. If there are any questions
regarding this matter, please contact me at 813-483-2617.

Sincerely,

Kimberly Caswell

KC:tas
Enclosures

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the Rebuttal Testimony of Dennis B. Trimble on behalf of Verizon Florida Inc. in Docket No. 000075-TP were sent via U.S. mail on March 25, 2002 to the parties on the attached list.



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into appropriate)
methods to compensate carriers)
for exchange of traffic subject to)
Section 251 of the Telecommunications)
Act of 1996.)

DOCKET NO. 000075 - TP

REBUTTAL TESTIMONY OF

DENNIS B. TRIMBLE

ON BEHALF OF

VERIZON FLORIDA INC.

March 25, 2002

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REBUTTAL TESTIMONY OF DENNIS B. TRIMBLE

I. INTRODUCTION

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

A. My name is Dennis B. Trimble. My business address is 600 Hidden Ridge, Irving, Texas, 75038. I am employed by Verizon Services Group Inc. as Executive Director - Regulatory and am representing Verizon Florida Inc. ("Verizon") in this proceeding.

Q. ARE YOU THE SAME DENNIS B. TRIMBLE WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I respond to the comments and policy recommendations of the other witnesses who filed Direct Testimony in this proceeding. I will first address the other parties' proposals for definition of local calling area for reciprocal compensation purposes, then turn to their recommendations for the default reciprocal compensation mechanism.

**II. DEFAULT CALLING AREAS FOR RECIPROCAL
COMPENSATION PURPOSES**

Q. IS THERE GENERAL AGREEMENT THAT NEGOTIATIONS SHOULD CONTINUE TO BE THE PRIMARY MEANS OF DEFINING THE LOCAL CALLING AREA FOR RECIPROCAL COMPENSATION PURPOSES?

1 A. Yes. The parties generally concur that negotiations should continue to
2 guide the development of intercompany reciprocal compensation
3 agreements. The AT&T Companies' witness Cain sums up the
4 consensus that "the Commission should continue to encourage
5 negotiation" (Cain Direct Testimony (DT), p. 4), with any default approach
6 governing only if negotiations fail.

7
8 Only Sprint Corporation (Sprint) seems to believe that the Commission
9 should not leave the local calling area definition to negotiations in the first
10 instance. (Hunsucker Re-filed Rebuttal Testimony (RT), p. 2).

11

12 **Q. DID ANY PARTY OPPOSE USING THE ILEC'S LOCAL CALLING**
13 **AREA AS THE DEFAULT FOR RECIPROCAL COMPENSATION**
14 **PURPOSES?**

15 A. Three parties filed new testimony in support of something other than the
16 ILECs' current local calling areas as the default for reciprocal
17 compensation purposes--the AT&T Companies (AT&T Communications
18 of the Southern States, LLC, AT&T Broadband Phone of Florida, LLC
19 and TCG South Florida, Inc.), MCI WorldCom, Inc. (WorldCom), and
20 Florida Digital Network (FDN).

21

22 Witness Barta, testifying on behalf of the Florida Cable
23 Telecommunications Association (FCTA), took no position on the default
24 local calling area. The remaining parties would support using the ILECs'
25 local calling areas to define reciprocal compensation obligations. These

1 include ALLTEL (“The local calling area should be defined as the retail
2 local calling area of the ILEC for the purposes of reciprocal
3 compensation” (Busbee DT, p. 4)); Sprint (“The ILEC’s local calling
4 scope, as defined by tariff and including mandatory EAS, should define
5 the appropriate local calling scope for reciprocal compensation purposes
6 of wireline carriers” (Ward DT, p. 2)); and BellSouth. While BellSouth
7 continues to believe that it would be feasible to use the originating party’s
8 local calling area to define reciprocal compensation obligations (Shiroishi
9 DT at 5-6), Ms. Shiroishi concludes her testimony by requesting that the
10 Commission set “the ILEC’s geographic calling scope (as defined by the
11 ILEC’s tariff)” as the default for assessing reciprocal compensation.
12 (Shiroishi DT at 14.)

13
14 **Q. PLEASE DESCRIBE THE AT&T COMPANIES’ PROPOSAL.**

15 A. Unlike AT&T’s earlier testimony in this phase of the docket, the AT&T
16 Companies now strongly support the use of a LATA-wide local calling
17 area for intercarrier compensation--not only for calls jointly handled by
18 ILECs and ALECs, but seemingly for all intraLATA calls:

19 Any call that originated and terminated in the same LATA
20 would be considered a local call, and the terminating provider
21 would receive reciprocal compensation for terminating it.
22 Terminating providers would continue to receive access
23 charges for *interLATA* calls, as they do today (Cain DT, pp.
24 6-7, emphasis added)

25

1 A LATA-wide local calling area results in the elimination of
2 intraLATA toll charges for various paths that a call takes and
3 eliminates the need to input different rates for those calls.
4 Instead, a call is rated the same no matter what dialing
5 pattern is used.... (Cain DT, pp. 8-9)

6

7 In other words, AT&T recommends a wholesale restructuring of the
8 existing access regime--apparently, not only for LECs handling
9 intraLATA traffic, but also for third party interexchange carriers
10 (IXCs) providing no local exchange service on either end of the call.
11 Under Mr. Cain's proposal, no company would pay intrastate access
12 charges on any call originating and terminating in the LATA. In fact,
13 as I discuss later, Mr. Cain would eliminate access charges even for
14 *interLATA* calls if they are virtual NXX calls (*i.e.*, calls made using a
15 local telephone number). Thus, even though reciprocal
16 compensation is a concept specific to exchange of traffic between
17 local carriers, AT&T would extend its LATA-wide reciprocal
18 compensation scheme to IXCs, as well.

19

20 Mr. Cain's testimony proves that what I warned against in my Direct
21 Testimony will surely come to pass—that is, if a LATA-wide calling area is
22 approved for reciprocal compensation purposes, gaming will occur
23 between or among ALECs and IXCs to convert all toll usage to local
24 usage (Trimble DT, p. 29). Many of the large IXCs (including AT&T) have
25 ALEC operations. It is no secret that the IXCs' key policy mandate is to

1 reduce or eliminate access charges. AT&T's proposed LATA-wide calling
2 area for reciprocal compensation purposes would give the IXCs just the
3 platform they need to achieve this objective for all intraLATA calls,
4 whether they're carried by the ALEC or IXC operation of a particular
5 company.

6

7 **Q. ARE YOU SAYING THAT ORDERING A LATA-WIDE CALLING AREA**
8 **FOR RECIPROCAL COMPENSATION PURPOSES WILL ALTER THE**
9 **EXISTING ACCESS REGIME?**

10 A. Yes. The Commission should make no mistake about this fact. If it
11 approves LATA-wide reciprocal compensation—whether it is AT&T's
12 proposal covering all intraLATA calls or whether it extends only to calls
13 exchanged by ILECs and ALECs—access charges will no longer apply to
14 calls that are subject to them today.

15

16 I am not sure the Commission can lawfully take such action. As I stated
17 in my Direct Testimony, Section 364.16(3)(a) of the Florida Statutes
18 would seem to prohibit the circumvention of access charges for
19 terminating toll calls (Trimble DT, p. 24). ALLTEL witness Busbee also
20 makes a good point that changes in the Florida access charge regime are
21 within the authority of the Florida legislature and not this Commission
22 (Busbee DT, p. 5). I am not a lawyer, so I can only raise these issues for
23 the Commission's consideration; these legal issues will be fully
24 addressed in Verizon's posthearing brief.

25

1 **Q HOW DO THE AT&T COMPANIES PROPOSE TO DETERMINE**
2 **WHETHER OR NOT A CALL IS LOCAL FOR INTERCARRIER**
3 **COMPENSATION PURPOSES?**

4 A. Mr. Cain proposes that: “In a LATA-wide local calling area, the NPA-NXX
5 of the calling and called parties would be used to determine the points of
6 origination and termination.” (Cain DT, p. 7.) In other words, reciprocal
7 compensation, rather than access charges, would be paid on all calls—
8 even those carried beyond LATA boundaries--that appear to be local
9 calls because of their NPA-NXX. This is exactly the approach the
10 Commission already rejected when it ruled on the virtual NXX issue
11 (Issue 15) on December 5, 2001. Specifically, the Commission approved
12 Staff’s conclusion that “virtual NXX calls that terminate outside of the
13 local calling area associated with the rate center to which the NPA/NXX is
14 homed are not local calls.” (Staff Recommendation (Staff Rec.) in this
15 docket, p. 96 (Nov. 21, 2001).) The Commission’s decision on Issue 15
16 thus precludes it from approving Mr. Cain’s proposal, which would require
17 the directly opposite conclusion--that virtual NXX are local calls, such that
18 reciprocal compensation must be paid on them.

19
20 In fact, as I pointed out in my Direct Testimony, the only local calling area
21 default that can be squared with the Commission’s vote on Issue 15 is
22 the ILEC’s local calling area. As the Staff Recommendation concludes,
23 “the classification of traffic as either local or toll has historically been, and
24 should continue to be, determined based upon the end points of a
25 particular call.” (Staff Rec., p. 93). “[I]t seems reasonable to apply access

1 charges to virtual NXX/FX traffic that originates and terminates in
2 different local calling areas.” (*Id.*, p. 95.) Because the ILEC’s local calling
3 area is the foundation of the Commission’s decision on Issue 15, there is
4 no way, in practical terms, to use a different local calling area default for
5 purposes of Issue 17.

6

7 **Q. WHY IS MR. CAIN’S PROPOSAL SO DISTURBING?**

8 A. Because it shows that AT&T wants not only to eliminate intraLATA
9 access charges, but to create loopholes (through the use of virtual NXXs)
10 that will facilitate the destruction of the interLATA access charge regime.
11 The AT&T Companies are plainly using this proceeding to advance their
12 agenda of eliminating access charges. The extreme position Mr. Cain
13 takes in this proceeding should be fair warning to the Commission that
14 there is no way to fashion a reasonable LATA-wide reciprocal
15 compensation approach. If the Commission orders LATA-wide reciprocal
16 compensation, it must be prepared for the arbitrage and other gaming
17 that will occur as carriers seek to avoid access charges.

18

19 While Verizon does not necessarily disagree that access charges should
20 be reduced, it vigorously opposes any back-door effort to do so in the
21 context of a reciprocal compensation proceeding. If the Commission
22 believes it can modify the access charge scheme in the way AT&T
23 suggests, then it needs to undertake a comprehensive effort to address
24 all the consequences of doing so (including the effects on universal
25 service) in a proceeding that includes all interested parties. It is not in the

1 public interest to effectively eliminate the implicit subsidy flow from
2 access charges without also rationalizing the local rates that receive this
3 contribution.

4

5 **Q. PLEASE DESCRIBE FDN'S PROPOSAL.**

6 A. FDN witness McCluskey recommends a LATA-wide local calling area
7 similar to the AT&T Companies' proposal, but with one minor exception
8 concerning the application of access charges. FDN would allow access
9 charges to be assessed on intraLATA calls only when "the originating
10 carrier does not deliver the call at least as far as the ILEC tandem serving
11 the terminating end user's geographic location." (McCluskey DT, p. 4.)
12 This would mean that "calls currently deemed intraLATA toll and subject
13 to intrastate access will remain as such unless the originating carrier
14 delivers calls to the ILEC tandem serving the terminating end user's
15 geographic location." (McCluskey DT, p.5.)

16

17 While, for network efficiency reasons, Verizon agrees that ALECs should
18 deliver the calls "at least" as far as the ILEC tandem serving the
19 terminating end user's geographic location, FDN's LATA-wide reciprocal
20 compensation proposal, like AT&T's, is just an attempt to circumvent the
21 established intraLATA access regime, and is thus unacceptable.

22

23 **Q. PLEASE DESCRIBE WORLDCOM'S PROPOSAL.**

24 A. WorldCom witness Gillan also proposes LATA-wide reciprocal
25 compensation. He claims that the Commission has already established

1 the LATA as the *de facto* local calling area because it purportedly
2 “allowed BellSouth and GTE to largely eliminate intraLATA toll services in
3 Florida through ‘expanded calling services’ (ECS)” (Gillan DT, pp. 3-4).
4 Mr. Gillan asserts that only a “lingering remnant” of an intraLATA toll
5 market exists in Florida.

6

7 **Q. ARE THE FACTUAL PREMISES OF MR. GILLAN’S**
8 **RECOMMENDATION CORRECT?**

9 A. No. The Commission did not eliminate Verizon’s intraLATA toll market in
10 Florida when it established the ECS routes. If ECS routes (which began
11 to be implemented in 1992) supplanted Verizon’s intraLATA toll market,
12 then Mr. Gillan should ask his client why it and other IXCs pushed so
13 hard to open up the intraLATA toll market in 1996. The reason was and
14 still is that there are a significant number of toll routes within Verizon’s
15 LATA that are not ECS routes. So it is not true, as Mr. Gillan claims, that
16 the Commission has already established the LATA as the local calling
17 area, for either retail or wholesale purposes.

18

19 **Q. WAS IMPLEMENTATION OF ECS AN ANTICOMPETITIVE TACTIC ON**
20 **THE ILECS’ PART?**

21 A. No. Mr. Gillan states that “[t]he Commission encouraged ILECs to
22 implement expanded calling areas at the *expense* of competition in the
23 past.” (Gillan DT, p. 6 (emphasis in original).) Although the motivation for
24 implementing ECS is not really relevant to any issue in this docket, since
25 Mr. Gillan has implied that ECS was anticompetitive, I feel compelled to

1 respond.

2

3 ECS was a response to pressure from various communities for extended
4 local calling scopes. Some of these communities could not qualify for the
5 Commission's mandatory extended area service (EAS). Therefore, ECS
6 was developed and approved in an attempt to satisfy customer desires.
7 ECS offered a per-call or per-minute price lower than the historic toll rate
8 for the same call route. It was a pro-consumer solution, not an effort by
9 either the Commission or the companies to eliminate toll competition.

10

11 **Q. MR. GILLAN CITES CHANGES IN VERIZON'S AND BELLSOUTH'S**
12 **PER-LINE INTRALATA TOLL REVENUES TO SUPPORT HIS CASE**
13 **FOR A LATA-WIDE LOCAL CALLING AREA FOR RECIPROCAL**
14 **COMPENSATION PURPOSES. DOES THIS INFORMATION SUPPORT**
15 **MR. GILLAN'S THEORY THAT THERE IS NO INTRALATA TOLL**
16 **MARKET IN FLORIDA?**

17 **A.** No. Mr. Gillan claims that Verizon's average per-line intraLATA toll
18 revenues declined from \$5.51 in 1991 to \$0.69 in 2000. (Gillan DT, p. 5.)
19 He provides no citation to the source of these data and they do not
20 appear to be correct. In any event, even if they were accurate, these
21 figures don't prove that toll customers have migrated to ECS, such that
22 no toll market remains. Mr. Gillan seems to have ignored the fact that
23 any decline in Verizon's average per-line intraLATA toll revenues (from
24 1991 to 2000) is due in large part to the substantial competitive losses
25 Verizon has experienced (from other landline toll providers and wireless

1 carriers), as well as associated competitive toll price reductions.

2

3 **Q. HOW SHOULD THE COMMISSION CLASSIFY ECS TRAFFIC FOR**
4 **RECIPROCAL COMPENSATION PURPOSES?**

5 A. Companies should have the opportunity to negotiate ECS compensation
6 that best fits their specific circumstances. What the Commission must not
7 do, in any event, is to accept the incorrect assumption that ECS traffic
8 accounts for all traffic within the LATA. The default local calling area for
9 reciprocal compensation purposes should only include the ILEC's basic
10 exchange calling area plus any mandatory EAS areas, plus, if the
11 Commission deems it to be appropriate, ECS routes.

12

13 **Q. AT&T COALITION WITNESS CAIN STATES THAT "LATAS HAVE**
14 **LOST THEIR SIGNIFICANCE AS LEGAL BOUNDARIES AND**
15 **THEREFORE SHOULD NOT CONTROL WHAT CALLS ARE TREATED**
16 **AS LOCAL." (CAIN, DT, P. 5) PLEASE COMMENT ON THIS**
17 **ASSERTION.**

18 A. First, LATA boundaries do not control what calls are treated as local, as
19 Mr. Cain states (otherwise, there would be no intraLATA toll). The ILECs'
20 tariffs define local calls today for reciprocal compensation purposes, as
21 well as for the ILECs' retail purposes. The ALECs, of course, are free to
22 determine their retail calling areas as they wish.

23

24 In any event, regardless of what the local calling area is for reciprocal
25 compensation purposes, all carriers will remain free to establish retail

1 local calling areas as they choose. The ILECs' tariffed local calling areas
2 do not and will not control what calls are treated as local by the ALECs.
3
4 Moreover, although the ILECs' local calling areas do not determine the
5 ALECs' local calling areas, they remain the reference point for a number
6 of purposes, including 1+ intraLATA presubscription and section 271
7 restrictions on BellSouth and other Bell operating companies. And as I
8 pointed out earlier, the Commission just determined that they are the
9 appropriate basis for determining whether a virtual NXX call is local or
10 not. More important, the ILEC local calling areas are the basis for the
11 access charge regime this Commission established in 1984. These
12 FPSC-sanctioned geographic areas have been the mainstay for
13 determining pricing policies which incorporate distinctions between
14 services in terms of which should receive universal service support (*i.e.*,
15 basic residential service) and which are earmarked for providing universal
16 service support (*e.g.*, toll calling and access services).

17
18 **Q. SIMILARLY, FDN WITNESS MCCLUSKEY STATES THAT “LOCAL**
19 **SERVING AREAS ARE ARTIFICIAL RETAIL PRICING BOUNDARIES**
20 **AND SHOULD NOT DICTATE WHETHER A CALL IS ACCESS FOR**
21 **INTERCARRIER PURPOSES.” (MCCLUSKEY DT, P. 3) PLEASE**
22 **COMMENT ON THIS ASSERTION.**

23 A. Mr. McCluskey's assertion is absolutely incorrect. Over at least the past
24 50 years, local calling areas have played a key role in the development of
25 pricing structures. Likewise, since the intraLATA toll market was opened

1 to competition, the ILECs' local calling areas have been the basis upon
2 which state commissions and legislatures have dictated whether a call is
3 billed access for intercarrier purposes.

4
5 Any local calling area—whether an ILEC's or an ALEC's—establishes an
6 artificial geographical boundary. But just because a boundary may be
7 “artificial” in a conceptual sense doesn't mean that its practical
8 significance can be ignored. The ILECs' Commission-sanctioned local
9 calling areas remain the basis for existing pricing structures which are
10 designed to balance the ability of efficient carriers to recover their costs
11 with the attainment of the social goal of advancing and preserving
12 universal service. The Commission cannot, as AT&T, FDN, and
13 MCI/WorldCom suggest, simply disregard the historical link between the
14 ILECs' local calling areas and its established policies.

15

16 **Q. WHAT REASONS DO AT&T AND FDN GIVE IN SUPPORT OF THEIR**
17 **LATA-WIDE PROPOSALS?**

18 A. Both Mr. Cain and Mr. McCluskey assert that their LATA-wide proposals
19 will enhance competition. Mr. McCluskey states that FDN's LATA-wide
20 reciprocal compensation proposal would “promot[e] facilities based
21 competition and intraLATA retail price competition.” (McCluskey DT, p. 4.)

22 Mr. Cain, likewise, claims that his proposal would allow “ALECs to offer
23 more flexible retail calling plans” (Cain, DT, pp. 4-5, 6) “that may vary
24 from those offered by the ILEC.” (*Id.*, p. 7) Mr. Cain claims that
25 “administrative ease” is the second “primary benefit” of a LATA-wide local

1 calling area for reciprocal compensation purposes. (Cain DT, p. 7)

2

3 **Q. WILL LATA-WIDE RECIPROCAL COMPENSATION PRODUCE THE**
4 **BENEFITS FDN AND AT&T CLAIM?**

5 A. No.

6

7 **Q. WHY WON'T A LATA-WIDE APPROACH ENHANCE THE**
8 **COMPETITIVE ENVIRONMENT?**

9 A. The answer is simple. The LATA-wide proposals do nothing to change
10 the relative underlying cost characteristics of each of the competitive
11 providers. Thus, one would not expect to see any change in the relative
12 level of price competition within the marketplace. It is true that by
13 circumventing the payment of access charges (and the implicit universal
14 service support amounts contained in those rates), various parties will be
15 in a position to lower their retail rates. But the general reduction of
16 certain companies' cost structures does not mean that the competitive
17 environment will be improved. What AT&T, WorldCom, and FDN really
18 want is to avoid paying any of the implicit contributions in access
19 charges, regardless of the explicit social goals served by those
20 contributions. This objective is plainly apparent in Mr. McCluskey's and
21 Mr. Gillan's testimonies:

22 The cost for intrastate access in Florida is prohibitively high,
23 so the cost to the originating carrier for terminating access
24 calls precludes the originating carrier from lowering retail
25 prices for all intraLATA calls. (McCluskey DT, p. 3)

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[A] first step towards adopting a unified compensation scheme is establishing the cost-based rate and applying that rate to as much traffic as the law allows. Today, that would mean adopting a cost based rate and applying it to all calls within the LATA. (Gillan DT, p. 10)

What FDN, WorldCom, and AT&T seek with their “reciprocal compensation” proposals is really access reform.

Again, Verizon agrees that access reform is a laudable goal—but it is not a matter properly addressed in this narrow proceeding or in the absence of concurrent rationalization of retail rates. For the participants in this proceeding, the current access regime should be considered the best, most competitively neutral (albeit implicitly funded) mechanism for supporting various social policy objectives. Ill-considered modifications to the access charge regime will only encourage the development of inefficient competition--which is *not* a laudable objective.

Q. DOES THE CURRENT ACCESS CHARGE REGIME FORCE ALECS TO MIRROR THE ALECS’ LOCAL CALLING AREAS?

A. No; the ALECs can offer whatever plans they like, including a local plan that includes LATA-wide toll free calling. Such a plan would likely require that the ALEC raise its price for basic service to cover the cost of providing free intraLATA toll. But that is a marketing and pricing decision

1 that should be governed by the ALEC's estimation of the costs it will incur
2 to offer such plans (and those costs should incorporate continued
3 contributions to universal service objectives). This is, in essence, the
4 same issue that will concern the ILECs and the Commission, if and when
5 access reform occurs--how to balance basic service adjustments with
6 reductions in access and toll rates. It is not appropriate or in the public
7 interest to do piecemeal access reform in this docket—that is, to
8 eliminate some costs for ALECs so that they can secure a competitive
9 advantage over other competitors (that is, the IXCs and the ILECs) which
10 must continue to support universal service objectives through the access
11 charges they pay (in the ILEC's case, through the imputation
12 requirement). Until deliberate, comprehensive access reform can occur,
13 it is critical to maintain as much competitive neutrality as possible in terms
14 of universal service contributions.

15
16 **Q. WOULD A LATA-WIDE LOCAL CALLING AREA FOR RECIPROCAL**
17 **COMPENSATION ENHANCE ADMINISTRATIVE EASE IN THE**
18 **CALCULATION OF RECIPROCAL COMPENSATION OBLIGATIONS?**

19 A. I do not believe so. Mr. Cain argues that “[a] LATA-wide calling area
20 would simplify retail call rating as well as intercarrier billing of reciprocal
21 compensation.” (Cain DT, p. 7.) The premise of this argument seems to
22 be that all market participants will provide toll-free LATA-wide retail
23 offerings if the Commission orders a LATA-wide area for reciprocal
24 compensation purposes. This is not a reasonable assumption. In fact,
25 ALECs excused from paying access charges could well pocket the

1 money they save and continue to assess toll charges to their end users.
2 Likewise, unless all reciprocal compensation is under a strict bill-and-
3 keep mechanism (which no party has advocated in this proceeding),
4 traffic volumes will still need to be counted, evaluated and potentially
5 billed.

6
7 Jurisdictionalizing traffic for access and reciprocal compensation
8 purposes has been done for years by the ILECs, IXCs, and ALECs, and
9 there is no administrative drawback in simply retaining the existing
10 system. As FCTA witness Barta pointed out, most ALECs have already
11 invested in sophisticated billing systems to track and bill for actual
12 minutes of use. (Barta, DT, p 10.)

13
14 In addition, system changes are usually accompanied by new costs and
15 administrative problems, and a shift to a LATA-wide local calling area for
16 billing reciprocal compensation would be no different. In terms of
17 administrative ease, then, retaining the norm (that is, the ILECs' local
18 calling areas) as the default for assessing reciprocal compensation
19 makes the most sense.

20

21 **III. BILL AND KEEP AS A DEFAULT RECIPROCAL**
22 **COMPENSATION MECHANISM**

23

24 **Q. PLEASE SUMMARIZE THE POSTIONS OF THE VARIOUS PARTIES**
25 **THAT FILED NEW TESTIMONY IN THIS PHASE CONCERNING**

1 (Barta DT, p. 16.)
2 WorldCom Reciprocal compensation based on unified
3 cost-based rates.
4 (Gillan DT, p. 10.)
5 Sprint Follow FCC's rules.
6 (Hunsucker Additional DT, pp. 6-8, 9-13.)
7 FDN B&K if traffic roughly in balance (within + or –
8 10%); otherwise symmetrical rates;
9 prescribes a minimum traffic threshold to
10 implement symmetrical rates.
11 (McCluskey DT, p. 6.)
12

13 **Q. WHAT ARE AT&T'S AND FCTA'S ASSERTED CONCERNS ABOUT A**
14 **DEFAULT B&K MECHANISM?**

- 15 A. AT&T Coalition witness Cain asserts that B&K would:
- 16 1. discourage good-faith negotiations (Cain DT, p. 11);
 - 17 2. create opportunities for regulatory arbitrage and
18 monopoly abuse (Cain DT, p. 11-12);
 - 19 3. force retail rates to change to reflect end-user customer's
20 calling patterns (Cain DT, p.12-13); and
 - 21 4. cause ALECs to lose a source of income necessary to
22 cover their costs of transporting and terminating calls
23 originating on the ILEC network (Cain DT, p. 13).

24
25 FCTA's witness Barta, likewise, contends that a default B&K mechanism

1 will:

- 2 1. cause the ILECs and ALECs to incur new administrative
3 and marketing costs (Barta DT, p. 4);
- 4 2. spawn new incentives to engage in regulatory
5 gamesmanship in the form of inefficient network design
6 (Barta DT, pp. 4 and 12);
- 7 3. allow the ILECs to exercise their superior bargaining
8 power (Barta DT, p. 5); and
- 9 4. fail to recognize the ALEC's costs to transport and
10 terminate calls (Barta DT, p. 8).

11

12 While I believe that a few of Mr. Cain's and Mr. Barta's assertions may
13 have some degree of validity in a pure B&K environment (e.g., with no
14 consideration of out of balance traffic), no party has proposed such a
15 mechanism. Even Mr. Cain and Mr. Barta recognize that B&K may be
16 an acceptable compensation mechanism when traffic flows are balanced.
17 (Barta DT, p. 8; Cain RT, pp. 13-14.)

18

19 Mr. Gillan, likewise, allows that B&K may be used when traffic is roughly
20 in balance. (Gillan DT, p. 3.) However, he tells the Commission it cannot
21 adopt a presumption that traffic is in balance in view of the facts that he
22 claims exist. (Gillan DT, p. 7.)

23

24 As I discussed in my Direct Testimony, a standard for defining relative
25 balance of traffic is an important part of establishing a B&K mechanism

1 (along with the efficient network architecture guidelines Verizon has
2 proposed here and at the FCC). But, again, no party will be forced to
3 accept the default B&K mechanism if it proves to the Commission that
4 non-convergent traffic is out of balance.

5

6 **Q. IS MR. GILLAN CORRECT THAT THE COMMISSION CANNOT ADOPT**
7 **A PRESUMPTION THAT TRAFFIC IS IN BALANCE FOR PURPOSES**
8 **OF A DEFAULT B&K SCHEME. (GILLAN DT, 7.)**

9 A. This is a legal question, and I don't think Mr. Gillan or I are qualified to
10 give a definitive answer to it. However, as I pointed out in my Direct
11 Testimony, the FCC rules plainly state that nothing precludes a
12 Commission from presuming that traffic is balanced and is expected to
13 remain so, "unless a party rebuts such a presumption." (FCC Rule
14 51.713(c), quoted in my Direct Testimony at 28.) The Commission does
15 not have to establish that traffic between every ALEC and ILEC in the
16 state is balanced before it adopts a presumption of balance. Obviously,
17 that would be impossible.

18

19 **Q. HAS MR. GILLAN PROVEN THAT TRAFFIC IS NOT ROUGHLY IN**
20 **BALANCE?**

21 A. No. As I said, traffic balance inquiries are necessarily specific to pairs of
22 carriers; traffic flows between different carrier pairs will have different
23 characteristics. Mr. Gillan, however, attempts to do a traffic balance
24 analysis based on traffic exchanged by BellSouth with all ALECs as a
25 group. I don't believe that analyzing aggregate traffic flows is a useful or

1 necessary exercise, given that the propriety of a B&K mechanism for
2 particular carriers pairs will depend on the traffic only they exchange.

3

4 In addition, it is difficult to tell what Mr. Gillan's chart shows. First, I can't
5 verify the numbers because they're specific to BellSouth. Second, Mr.
6 Gillan's Exhibit JPG-1 is dated "2000." It is not possible to determine
7 from this chart whether or not the traffic volumes depicted include only
8 local traffic that is subject to the reciprocal compensation or whether it
9 includes Internet-bound traffic, as well. The Commission in this
10 proceeding, of course, is concerned only with non-Internet-bound traffic.
11 So Mr. Gillan should have adjusted any traffic data to eliminate Internet-
12 bound traffic before making any assertions about traffic balance, even at
13 the aggregate level.

14

15 Once again, Mr. Gillan's chart includes only purported BellSouth
16 information and nothing on Verizon or any other ILEC in Florida. So it
17 would not be appropriate, in any event, to make decisions for all carriers
18 based only on one carrier's information, even if it is accurate.

19

20 **Q. WOULD A DEFAULT B&K MECHANISM DISCOURAGE GOOD FAITH**
21 **NEGOTIATIONS AND/OR ALLOW THE ILECS TO EXERCISE**
22 **"SUPERIOR BARGAINING POWER" (BARTA DT, p. 5)?**

23 **A.** No. There is no evidence supporting Mr. Barta's statement that adoption
24 of a B&K mechanism will give the ILECs a bargaining advantage. He
25 appears to assume that ILECs will always favor B&K, ALECs will always

1 favor per-minute compensation, and ILECs can force B&K on CLECs. In
2 Verizon's experience negotiating interconnection agreements, that is not
3 true.

4
5 In any event, since the FCC has clarified that Internet-bound traffic is not
6 subject to reciprocal compensation, B&K is less likely to be a principal
7 negotiating objective of the ILEC. Because the ILEC no longer needs to
8 defend against the ALEC's gaming relative to Internet-bound traffic, the
9 ILEC will have full latitude to consider the merits of each reciprocal
10 compensation alternative in each negotiation. B&K will not necessarily
11 be the most financially appropriate outcome for the ILEC in all instances.

12

13 **Q. WOULD A B&K MECHANISM SPAWN INCENTIVES FOR**
14 **“REGULATORY ARBITRAGE AND MONOPOLY ABUSE” (CAIN DT, P.**
15 **11-12) ON THE PART OF ILECS?**

16 **A.** No, not if it is properly designed. Mr. Cain offers no factual explanation
17 as to what form of monopoly abuse that could possibly result from an
18 appropriately designed B&K mechanism, including an out-of-balance
19 criterion and the efficient architecture guidelines I outlined in my Direct
20 Testimony.

21

22 Next, in terms of regulatory arbitrage, experience shows that that is the
23 domain of the ALECs. If there are arbitrage opportunities to be had,
24 ALECs will exploit them to the utmost. That is one advantage of a
25 carefully designed B&K approach—it would likely end ALECs' ability to

1 continue to arbitrage rate structures, especially now that ISP traffic has
2 been taken out of the reciprocal compensation mix. Again, such careful
3 design would include a rational geographic limit on the obligation to
4 deliver traffic and would reasonably assign the cost of transport between
5 interconnecting carriers in a symmetrical manner that does not penalize
6 any carrier. (Trimble DT, pp. 30-32.)

7
8 Finally, I would emphasize that B&K compensation mechanisms are
9 already quite common in interconnection contracts here and around the
10 country, and they have not spawned “regulatory arbitrage and monopoly
11 abuse.”

12

13 **Q. MR. BARTA STATES THAT VERIZON “OVERWHELMINGLY”**
14 **SUPPORTS THE CHANGE FROM RECIPROCAL COMPENSATION TO**
15 **A B&K ARRANGEMENT FOR THE EXCHANGE OF LOCAL TRAFFIC.**
16 **(BARTA DT, PP. 5 & 17) IS THIS A CORRECT ASSERTION?**

17 **A.** No. Verizon has never unconditionally supported B&K, as should be
18 apparent from the various testimonies Verizon has submitted in this
19 proceeding. Rather, Verizon only supports B&K mechanisms that have
20 been designed to allow each carrier to recover its costs to originate and
21 terminate traffic it exchanges with other carriers. Likewise, as I pointed
22 out in my Direct Testimony, any B&K mechanism must be carefully
23 fashioned to incent the efficient deployment of combined network
24 resources. Among other things, the B&K mechanism must continue to
25 require efficient direct trunking. Otherwise, originating carriers may

1 impose network inefficiencies, costs, and significant switch augmentation
2 requirements on terminating carriers because there is no longer a price
3 incentive to deliver traffic to the point of switching nearest the terminating
4 end user. (Trimble DT, pp. 31-32.)

5

6 **Q. HAS ANY OF THE TESTIMONY CHANGED YOUR VIEW THAT THIS**
7 **COMMISSION SHOULD DEFER A VOTE ON THE COMPENSATION**
8 **MECHANISM UNTIL THE FCC HAS RULED ON THIS SAME ISSUE?**

9 A. No. If anything, my recommendation to defer this issue makes even
10 more sense in view of the testimony that has been filed. I believe the
11 Commission views simplicity as a principal advantage of B&K. But it is
12 apparent from the testimony of Verizon and other parties that designing
13 an appropriate B&K mechanism will likely be more complicated than
14 perhaps the Commission anticipated. Even among the parties that could
15 conditionally support B&K, I don't think there's any real consensus about
16 how the ideal mechanism should be structured.

17

18 The FCC, of course, has already heard from all parties on the merits of
19 various compensation approaches, including all of the fine details of
20 proposed B&K mechanisms. Verizon believes it is unnecessary and
21 inefficient for the Commission to duplicate this review, especially since
22 the ultimate FCC decision could differ from this Commission's and thus
23 require revisions to this Commission's mechanism.

24

25 Again, Verizon would propose maintaining the status quo until the FCC

1 rules. Because the status quo is a per-minute system of reciprocal
2 compensation—which is what the ALECs in this proceeding want as a
3 default mechanism—Verizon’s deferral proposal should be acceptable to
4 the ALECs.

5

6 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

7 A. The only rational way to define local calling area for reciprocal
8 compensation purposes is by reference to the ILEC’s tariffed local calling
9 areas. This is also the only choice consistent with the Commission’s
10 ruling that virtual NXX calls are not local calls subject to reciprocal
11 compensation.

12

13 In no event should the Commission adopt the LATA-wide local calling
14 definition proposed by AT&T, MCI/WorldCom and FDN. That proposal
15 should be seen for what it is—a backdoor (albeit blatant) approach to
16 achieve intrastate access reform, but without the comprehensive study
17 such reform demands.

18

19 With regard to a default compensation mechanism, Verizon urges the
20 Commission to defer its ruling until the FCC can act. If the Commission
21 does move forward, Verizon recommends B&K as a default policy
22 preference, provided that this mechanism is properly structured to
23 ensure recovery of each carrier’s costs and safeguard against new forms
24 of arbitrage.

25

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes.

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