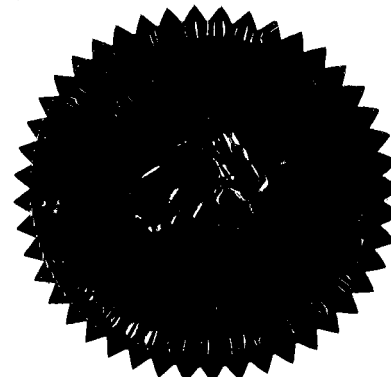


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 000075-TP (Phase IIA)

In the Matter of

INVESTIGATION INTO APPROPRIATE
METHODS TO COMPENSATE CARRIERS
FOR EXCHANGE OF TRAFFIC SUBJECT
TO SECTION 251 OF THE
TELECOMMUNICATIONS ACT OF 1996.



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VOLUME 1

Pages 1 through 164

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN LILA A. JABER
COMMISSIONER J. TERRY DEASON
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER MICHAEL A. PALECKI

DATE: Wednesday, May 8, 2002

TIME: Commenced at 9:30 a.m.
Concluded at 11:45 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

DOCUMENT NUMBER - DATE

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COMMISSION CLERK

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22

23

24

25

1 APPEARANCES CONTINUED:

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23 of the Commission Staff.

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P R O C E E D I N G S

1
2 CHAIRMAN JABER: Good morning. Let's go ahead and
3 convene the hearing.

4 Staff counsel, do you have a notice to be read.

5 MS. BANKS: Yes, Madam Chair. Pursuant to notice
6 issued April 8th, 2002, this time and place have been set for a
7 hearing in Docket Number 000075-TP for Phase IIA, which is the
8 investigation into appropriate methods to compensate carriers
9 for exchange of traffic subject to Section 251 of the
10 Telecommunications Act of 1996.

11 CHAIRMAN JABER: Thank you. Let's take appearances.

12 MR. EDENFIELD: For BellSouth, Kip Edenfield.

13 MR. MEZA: Jim Meza on behalf of BellSouth.

14 MS. CASWELL: Kim Caswell for Verizon Florida.

15 MS. MASTERTON: Susan Masterton for Sprint.

16 MR. WAHLEN: Jeff Wahlen of the Ausley and McMullen
17 law firm for ALLTEL Florida, Inc.

18 MR. GROSS: Michael Gross, FCTA.

19 MR. McDONNELL: Marty McDonnell. I'm here with
20 Marsha Rule on behalf of AT&T and its affiliate TCG, as well as
21 US LEC and Level 3.

22 MR. MOYLE: John Moyle, Jr., with the Moyle, Flanigan
23 law firm. And with me today is Jim Scheltema, who is Global
24 NAPS' regulatory counsel, and we are here on behalf of Global
25 NAPS.

1 MR. FEIL: Matt Feil for Florida Digital Network.

2 MS. BANKS: And Felicia Banks, Beth Keating, and
3 Linda Dodson on behalf of the Commission.

4 CHAIRMAN JABER: Thank you.

5 Ms. Banks, are there preliminary matters we should
6 take up first?

7 MS. BANKS: Yes, Madam Chair, there are a number of
8 pending preliminary matters. The first is the notice of
9 substitution of witness. On April 26, 2002, FDN filed a notice
10 of substitution of witness. In this notice FDN states that
11 Sharon Warren will be adopting the direct and rebuttal
12 testimony of FDN Witness John McCluskey.

13 CHAIRMAN JABER: Okay. That notice is acknowledged
14 and at the appropriate time when we move the testimony into the
15 record we will clarify that it is being adopted.

16 MS. BANKS: The next, Madam Chair, is notice of
17 withdrawal. On May 6th, 2002, MCI WorldCom filed a notice of
18 withdrawal from Phase IIA of this proceeding. In its
19 withdrawal, MCI WorldCom states that it is withdrawing from
20 Phase IIA and also withdrawing the direct and rebuttal
21 testimony of Witness Gillan.

22 CHAIRMAN JABER: Is there anything more than
23 acknowledging that that we need to do?

24 MS. BANKS: I think that is sufficient, Madam Chair.

25 CHAIRMAN JABER: Let the record reflect that we

1 acknowledge the notice of withdrawal by MCI WorldCom.

2 MS. BANKS: The next thing is a stipulation agreement
3 between parties and staff. Parties and staff have agreed to
4 stipulate to the testimony of all the witnesses with the
5 exception of Witnesses Shiroishi and Trimble. In addition,
6 parties and staff have agreed that opening summaries of these
7 witnesses will be waived as well as opening statements.

8 CHAIRMAN JABER: Great.

9 MR. McDONNELL: Madam Chairman, if I may. AT&T would
10 also like to move in the testimony of Joe Gillan. I know that
11 it has been formally withdrawn as a party's testimony in the
12 docket; however, prior to it being withdrawn all parties
13 stipulated to its admissibility and it was going to be
14 stipulated in as read. Mr. Gillan's testimony is generic in
15 nature, it is not company-specific. And it is our position it
16 would assist the Commission in rendering the decisions that it
17 has to render in this matter, and it is relevant and all
18 parties have stipulated as you well -- we can stipulate in a
19 lot of things, not just necessarily a party's testimony, and I
20 would ask that the Commission hold that stipulation and
21 introduce the testimony as read.

22 CHAIRMAN JABER: Do you have a renewed stipulation by
23 the parties with respect to Mr. Gillan's testimony?

24 MR. McDONNELL: No, I do not.

25 CHAIRMAN JABER: So there really isn't a stipulation.

1 We haven't voted on the stipulation.

2 MR. McDONNELL: That is correct. The parties agreed
3 to stipulate prior to it being withdrawn.

4 CHAIRMAN JABER: The parties are shaking their heads.
5 Let me give them an opportunity to react.

6 Mr. Edenfield.

7 MR. EDENFIELD: Well, my reaction to this is
8 BellSouth would object to that. Mr. Gillan was sponsored by
9 MCI and MCI alone. MCI has now withdrawn that testimony from
10 this proceeding and it would be improper at this point for some
11 other party to try and sponsor that testimony. So BellSouth
12 would object to any attempt to put Mr. Gillan's testimony into
13 the record.

14 CHAIRMAN JABER: Ms. Caswell.

15 MS. CASWELL: I agree with Mr. Edenfield.

16 CHAIRMAN JABER: Ms. Masterton.

17 MS. MASTERTON: Sprint also agrees with Mr.
18 Edenfield.

19 MR. WAHLEN: ALLTEL also agrees.

20 MR. GROSS: FCTA would have no objection to including
21 Mr. Gillan's testimony into the record.

22 CHAIRMAN JABER: Mr. Moyle.

23 MR. MOYLE: Just by way of observation, we had an
24 extensive meeting the other day talking about preparing this
25 case and the easiest manner in which we could present the case

1 to you. And it was my understanding that at the meeting of
2 counsel everyone agreed that the testimony of all witnesses
3 would go in with two exceptions. And I think that is what is
4 being referred to, that counsel had a meeting, there was back
5 and forth. An agreement was reached by all counsel present at
6 that meeting, which included WorldCom, that this testimony
7 would go in with two exceptions. And I think that is, you
8 know, at least from a counsel's perspective that was an
9 agreement that was reached by counsel.

10 CHAIRMAN JABER: Mr. Feil.

11 MR. FEIL: Continuing the vote along party lines, I
12 would say that FDN would not have an objection to including the
13 testimony.

14 CHAIRMAN JABER: Okay. Mr. McDonnell, you don't have
15 a stipulation, so I don't think there is anything more to
16 discuss.

17 MR. McDONNELL: No, I'm not trying to mislead you,
18 Madam Chairman.

19 CHAIRMAN JABER: No, I appreciate that. But for the
20 purposes of the record, I need to acknowledge that there no
21 longer is a stipulation. So I don't think there is anything
22 more to discuss in that regard.

23 MR. McDONNELL: Okay.

24 CHAIRMAN JABER: Ms. Banks.

25 MS. BANKS: Just continuing, Madam Chair. As a part

1 of the agreement between staff and parties for the two
2 Witnesses Trimble and Shiroishi as indicated previously that
3 their opening summaries would be waived and that staff would
4 conduct the initial cross examination of these witnesses, and
5 thereafter parties would have an opportunity to cross-examine
6 these witnesses to the extent or within the scope of the cross
7 examination by staff as well as any questions that the
8 Commissioners may ask.

9 I want to note, also, that it appears that parties
10 are still discussing a possible stipulation on Issue 17. But
11 as I understand it, no resolution has been reached regarding
12 that particular possible stipulation.

13 CHAIRMAN JABER: Okay. Let's confirm that.

14 Mr. Edenfield, Issue 17.

15 MR. EDENFIELD: Madam Chair, my client was not
16 interested in stipulating that issue. And I hate -- well, I
17 don't know if I hate to say it, but certainly I think BellSouth
18 may have been the sticking point here, but my client was not
19 interested in a stipulation. And I'm not aware of any on-going
20 discussions on that issue.

21 CHAIRMAN JABER: Okay. Ms. Banks, there is no
22 stipulation on Issue 17.

23 MS. BANKS: Okay. The next and last preliminary item
24 is the confidential information. Staff would note that there
25 are three pending requests for confidential classification.

1 The first is Sprint. On April 16th, Sprint filed a request for
2 confidential classification for its responses to staff's first
3 request for Production of Documents Number 1. Staff had
4 requested some supplemental information regarding Sprint's
5 confidential request. Staff this morning was in receipt of
6 that supplemental information.

7 Also, Verizon on April 18th filed a request for
8 confidential classification for its responses to staff's
9 request for -- first request for Production of Document Numbers
10 4, 5, 6, and 7, Document Number 04303-02. It is staff's
11 understanding that the requested supplemental information
12 regarding this particular request will be filed with the
13 Clerk's Office by Monday, May 13th, and thereafter the
14 necessary rulings will be made and orders issued. The last
15 request, on May 7th, BellSouth filed a request for confidential
16 classification for its responses to staff's first request for
17 Production of Documents Numbers 1 and 4, Reference Document
18 Number 04251-02.

19 CHAIRMAN JABER: Okay. So for purposes of the record
20 the parties should be aware that all of this information will
21 be treated as confidential for purposes of today's hearing, and
22 subsequent rulings will be issued. Is that correct, Ms. Banks,
23 rulings will be issued post-hearing?

24 MS. BANKS: That is correct, Madam Chair.

25 CHAIRMAN JABER: Okay. Great. With that, can we get

1 started on the testimony?

2 MS. BANKS: Yes, Madam Chair.

3 CHAIRMAN JABER: All right. Let's see. BellSouth,
4 you have the first witness.

5 MR. EDENFIELD: That is my understanding, Madam
6 Chair. It will be Ms. Shiroishi.

7 CHAIRMAN JABER: All right, let's get started.

8 MR. WAHLEN: Excuse me. Do you want to move all of
9 the other testimony into the record first? Is it already in
10 the record?

11 CHAIRMAN JABER: It's not already in the record.

12 MR. WAHLEN: Do you want to just do this in the order
13 of the prehearing order?

14 CHAIRMAN JABER: Yes. Except does it affect your
15 attendance here at all?

16 MR. WAHLEN: No, I plan to be here and say as little
17 as possible.

18 CHAIRMAN JABER: Okay. Well, you know, sometimes you
19 want to be excused, Mr. Wahlen, so I just didn't want to stand
20 in the way.

21 MR. WAHLEN: Thank you very much. I appreciate your
22 thinking of me.

23 CHAIRMAN JABER: Go ahead.

24 MR. EDENFIELD: Madam Chair, do you need to swear the
25 witnesses or would you like to do that?

1 CHAIRMAN JABER: Thank you. Is the second witness in
2 the room? Let's go ahead and stand, we will do this together.

3 (Witnesses sworn.)

4 CHAIRMAN JABER: Thank you. Mr. Wahlen got me off
5 track.

6 MR. EDENFIELD: Madam Chair, at the prehearing
7 conference you had asked me to identify the portions of Ms.
8 Shiroishi's testimony that had been refiled from the last
9 phase. For the record, let me indicate that in her direct
10 testimony that would be Page 2, Line 18, through Page 3,
11 Line 7; and Page 10, Line 6, through Page 10, Line 16. So
12 those should not be admitted as new testimony in this record as
13 it is already in the record from the prehearing hearing.

14 CHAIRMAN JABER: Commissioners, I think staff came
15 around and reminded you about this portion of the proceeding.
16 You may recall some testimony has already been inserted into
17 the record and the new testimony goes to the limited issues we
18 have before us today. So for your convenience I have asked the
19 parties to specify exactly what the new testimony was. Thank
20 you.

21

- - - - -

22

ELIZABETH R.A. SHIROISHI

23

was called as a witness on behalf of BellSouth

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Telecommunications, Inc., and, having been duly sworn,

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testified as follows:

DIRECT EXAMINATION

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BY MR. EDENFIELD:

Q State your name and position for the record, please?

A Elizabeth R.A. Shiroishi, and I am with BellSouth,
Managing Director for Interconnection Services.

Q Did you cause to be filed in this proceeding 14 pages
of direct testimony and two exhibits, and 11 pages of rebuttal
testimony?

A Yes.

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

A No.

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

A Yes, they would.

MR. EDENFIELD: With that, Madam Chair, I would ask
that Ms. Shiroishi's direct and rebuttal testimony be admitted
into the record as if read.

CHAIRMAN JABER: Yes. The prefiled direct and
rebuttal testimony of Beth Shiroishi shall be inserted into the
record as though read.

MR. EDENFIELD: And I would ask that her exhibits be
marked for identification as BellSouth Number 1.

CHAIRMAN JABER: ERAS-1 and ERAS-2 --

MR. EDENFIELD: Yes, ma'am.

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CHAIRMAN JABER: -- shall be identified as Composite
Exhibit 1.
(Composite Exhibit 1 marked for identification.)

1 (Page 17 was inadvertently blank.)

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1 • BELLSOUTH TELECOMMUNICATIONS, INC.
2 DIRECT TESTIMONY OF BETH SHROISHI
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 000075-TP (PHASE II)
5 MARCH 1, 2002
6

7 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH
8 TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR BUSINESS
9 ADDRESS.
10

11 A. My name is Elizabeth R. A. Shiroishi. I am employed by BellSouth as Managing
12 Director for Interconnection Services. My business address is 675 West
13 Peachtree Street, Atlanta, Georgia 30375.
14

15 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND
16 AND EXPERIENCE.
17

18 A. I graduated from Agnes Scott College in Decatur, Georgia, in 1997, with a
19 Bachelor of Arts Degree in Classical Languages and Literatures. I began
20 employment with BellSouth in 1998 in the Interconnection Services Pricing
21 Organization as a pricing analyst. I then moved to a position in product
22 management, and now work as a Managing Director for Interconnection Services.
23 In this position, I am responsible both for negotiating and for overseeing the
24 negotiations of Interconnection Agreements, as well as Local Interconnection,
25 Internet Service Provider ("ISP")/Enhanced Service Provider ("ESP"), and

1 Internet Protocol ("IP") issues.

2

3 Q. HAVE YOU TESTIFIED PREVIOUSLY?

4

5 A. Yes. I have testified before the Florida Public Service Commission in Docket No.
6 991267-TP, Docket No. 000075-TP (Phase I), and Docket No. 001810-TP.
7 Additionally, I filed testimony in Docket No. 992018-TP.

8

9 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

10

11 A. The purpose of my testimony is to present BellSouth's policy positions on issues
12 13 and 17 as contained in the Commission's Second Order On Procedure,
13 Schedule and Issues for Phase 2 (Order No. PSC-02-0139-PCO-TP) dated
14 January 31, 2002. For each issue in this proceeding, BellSouth's originally filed
15 testimony will appear first, with additional testimony following and labeled as
16 such.

17

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

20

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

22

23 A. For purposes of determining the applicability of reciprocal compensation, a
24 "local calling area" can be defined as mutually agreed to by the parties and

1 pursuant to the terms and conditions contained in the parties' negotiated
2 interconnection agreement.

3

4 Q. WHAT DOES BELL SOUTH REQUEST THE COMMISSION DO?

5

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

8

9 **ADDITIONAL TESTIMONY:**

10 Q. WHAT IS THE COMMISSION'S JURISDICTION IN THIS MATTER?

11

12 A. While I am not a lawyer, it is my understanding that Paragraph 1035 of the FCC's
13 Local Competition First Report and Order issued August 8, 1996 ("Local
14 Competition Order") gives state commissions the authority to determine what
15 geographic areas should be local for reciprocal compensation purposes.

16 Specifically, Paragraph 1035 states:

17

18 With the exception of traffic to or from a CMRS network,
19 state commissions have the authority to determine what
20 geographic areas should be considered "local areas" for the
21 purpose of applying reciprocal compensation obligations
22 under section 251 (b)(5), *consistent* with the state
23 commissions' historical practice of defining local service
24 areas for wireline LECs
25 (emphasis added)

26 As stated in this passage, state commissions are given the jurisdiction to make the
27 determination of what the default local calling area should be for reciprocal
28 compensation purposes, but it must do so consistent with its historical practice of

1 defining local services areas for wireline LECs. Additionally, the Florida Public
2 Service Commission must do so within the parameters of Florida law.

3

4 Q. SHOULD THE COMMISSION ESTABLISH A DEFAULT DEFINITION OF
5 LOCAL CALLING AREA FOR THE PURPOSE OF INTERCARRIER
6 COMPENSATION TO APPLY IN THE EVENT PARTIES CANNOT REACH
7 A NEGOTIATED AGREEMENT?

8

9 A. It has not been BellSouth's experience that this issue is one that requires the
10 Commission to establish a default definition. While many other issues
11 surrounding intercarrier compensation (e.g., whether or not reciprocal
12 compensation is owed for ISP-bound traffic, payment for transport when calls are
13 transported outside of the local calling area, how virtual NXX traffic should be
14 compensated, etc.) have been highly contested and arbitrated, this specific issue
15 has not. BellSouth has entered into interconnection agreements that address this
16 issue in a variety of ways. By looking at traffic patterns of each Party (BellSouth
17 and the particular ALEC) and by developing terms and conditions that are
18 interrelated to the definition of local calling area for intercarrier compensation,
19 BellSouth and ALECs have historically been able to reach agreement on this
20 issue. And of course, any other ALEC may opt in to these interrelated provisions
21 under 252(i) of the Telecommunications Act of 1996 (the "Act").

22

23 However, if this Commission does decide to establish a default definition of local
24 calling area for intercarrier compensation purposes, as I stated earlier, such
25 definition must be within the parameters of FCC Rules and Florida laws.

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Q. IF THE COMMISSION WERE TO ESTABLISH A DEFAULT DEFINITION OF LOCAL CALLING AREA FOR THE PURPOSE OF INTERCARRIER COMPENSATION, WHAT SHOULD THAT DEFINITION BE?

A. As stated originally in this proceeding, BellSouth's position is 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, with the originating Party's local calling area determining the intercarrier compensation between the Parties. BellSouth currently has the arrangement described above in many of its interconnection agreements, and is able to implement such arrangement through the use of billing factors. These factors allow the originating carrier to report to the terminating carrier the percent of usage that is interstate, intrastate, and local. Thus, the originating Party, whose calling area determines the intercarrier compensation due for the call, reports the jurisdiction of the call through the use of factors. With developing technology, there are also instances when the terminating Party would have enough information to develop the jurisdiction (and thus the appropriate intercarrier compensation) of the call.

Although BellSouth believes that its plan is administratively manageable, BellSouth does understand the concerns raised as to the implementation of different calling areas. If the Commission ultimately determines that BellSouth's plan is not administratively feasible, BellSouth is in support of setting the default

1 as the local calling scope as determined by the Commission and set forth in the
 2 ILEC's tariff, consistent with the proposals set forth in the testimony filed by
 3 Sprint and Verizon in the last phase of this proceeding. This would further allow
 4 each Party (whether the originating Party or terminating Party) to easily validate
 5 and identify the jurisdiction of traffic sent and received.

6
 7 Q. HAVE OTHER COMMISSION'S ESTABLISHED THE ILEC'S LOCAL
 8 CALLING AREA AS THE DEFAULT DEFINITION OF LOCAL CALLING
 9 AREA FOR THE PURPOSE OF INTERCARRIER COMPENSATION?

10
 11 A. Yes. The Texas Commission issued an Order, in Docket No. 16189, with a
 12 definition of local traffic which bounded it to the ILEC's (Southwestern Bell)
 13 local calling area (see *Petition of MFS Communications Company, Inc. for*
 14 *Arbitration of Pricing of Unbundled Loops Agreement Between MFS*
 15 *Communications Company, Inc. and Southwestern Bell Telephone Company,*
 16 *Docket No. 16189, et al, Award (November 8, 1996). This Order stated that the*
 17 *reciprocal compensation rates adopted applied to "calls that originate and*
 18 *terminate within the mandatory single- or multi-exchange local calling area of*
 19 *SWBT, including the mandatory Extended Area Service (EAS areas served by*
 20 *SWBT)." Subsequently, in Docket Number 21982 (See Revised Arbitration*
 21 *Award, Proceeding To Examine Reciprocal Compensation Pursuant To Section*
 22 *252 of the Federal Telecommunications Act of 1996. Docket No. 21982 (August*
 23 *31, 2000) at 12), the Texas Commission reached the same conclusion, but revised*
 24 *the language to be more specific. Said revised language defines local traffic as:*

25

1 [a call that] (i) originates from and terminates to such end-
2 users in the same SWBT exchange area; or (ii) originates
3 from and terminates to such end-users within different
4 SWBT exchanges, or within a SWBT exchange and an
5 independent ILEC exchange, that share a common
6 mandatory local calling area, e.g., mandatory extended area
7 service (EAS), mandatory extended local calling service
8 (ELCS), or other types of mandatory expanded local calling
9 scopes.

10

11 Q. IF THE FLORIDA COMMISSION ESTABLISHES THE ILEC'S LOCAL
12 CALLING AREA AS THE DEFAULT DEFINITION OF LOCAL CALLING
13 AREA FOR THE PURPOSE OF INTERCARRIER COMPENSATION,
14 WOULD SUCH A DEFINITION BE CONSISTENT WITH PARAGRAPH 1035
15 OF THE LOCAL COMPETITION ORDER AND FLORIDA LAW?

16

17 A. Yes.

18

19 Q. MUST LOCAL CALLING AREAS FOR INTERCARRIER COMPENSATION
20 PURPOSES MIRROR THE LOCAL CALLING AREAS ESTABLISHED FOR
21 RETAIL PURPOSES?

22

23 A. No. Today, all of BellSouth's interconnection agreements with ALECS allow the
24 ALEC to set its own local calling area for retail purposes. The Parties then agree
25 upon, and put in the interconnection agreement, how they will determine what is
26 "local" for intercarrier compensation purposes. As stated earlier in my testimony,
27 this is accomplished through the use of billing factors.

28

1 Q. HOW ARE ACCESS CHARGES ASSESSED WHEN AN INTRALATA TOLL
2 CALL IS HANDED OFF FROM AN ILEC TO AN ALEC OR ALEC TO AN
3 ILEC?
4

5 A. Just as with a switched access interLATA call, there are really three parts to an
6 intraLATA toll call: the originating local exchange carrier's network, the
7 transport that consists of the "toll component," and the terminating local exchange
8 carrier's network. The only difference between an interLATA switched access
9 call and intraLATA toll call is that the call does not cross LATA boundaries, and
10 thus, the ILEC can carry that call if the end user chooses to have the ILEC as its
11 Local Presubscribed Interexchange Carrier (LPIC). However, for compensation
12 purposes, think of the call in this way: whomever receives the retail revenues for
13 the call pays the other participating carriers for the use of their networks. Let's
14 look at three different scenarios. For the first scenario assume that a BellSouth
15 end user is LPICed to BellSouth, and makes an intraLATA toll call to an ALEC
16 end user. In this instance, BellSouth receives the retail revenues associated with
17 the toll service, and pays the originating (in this case, BellSouth, through internal
18 transactions) local exchange carrier and terminating (in this case, the ALEC) local
19 exchange carrier for the use of their networks. This scenario is depicted as
20 Diagram A in Exhibit ERAS-1. For the second scenario, assume that the same
21 BellSouth end user calls the same ALEC end user, but this time the BellSouth end
22 user is LPICed to its Interexchange Carrier. In this instance, the IXC receives the
23 retail revenues associated with the toll service, and pays the originating (in this
24 case, BellSouth) local exchange carrier and terminating (in this case, the ALEC)
25 local exchange carrier for the use of their networks. This scenario is depicted as

1 Diagram B in Exhibit ERAS-1. For the third scenario, assume that the same
2 BellSouth end user calls the same ALEC end user, but this time the BellSouth end
3 user is LPICed to the same ALEC who happens to be the called party's local
4 exchange carrier. In this instance, the ALEC receives the retail revenues
5 associated with the toll service, and pays the originating (in this case, BellSouth)
6 local exchange carrier and terminating (in this case, the ALEC through internal
7 transactions) local exchange carrier for the use of their networks. This scenario is
8 depicted as Diagram C in Exhibit ERAS-1

9

10 Q. WHAT WOULD BE THE FINANCIAL IMPACT IF WHAT ARE
11 CURRENTLY INTRALATA TOLL CALLS BETWEEN ILECS AND ALECS,
12 INSTEAD BECOME SUBJECT TO RECIPROCAL COMPENSATION?

13

14 A. The complexity of this issue comes from the fact that, as you can see from
15 Diagrams A, B, and C, there are different compensation schemes depending on
16 who is the toll provider. If calls that are currently intraLATA tolls were to
17 become subject to reciprocal compensation, then BellSouth would actually owe
18 money, under Diagrams B and C, instead of receiving originating access charges.
19 Obviously this is an inequitable result.

20

21 Q. WHAT DOES BELLSOUTH REQUEST THE COMMISSION DO?

22

23 A. If the Commission decides to set a default local calling area for reciprocal
24 compensation purposes aside from each party defining its own, such default
25 should be the ILEC's local calling area.

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

5

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

7

8 A. As previously stated in response to Issue 10, the Commission is required to ensure
9 that BellSouth has established reciprocal compensation arrangements for the
10 transport and termination of local telecommunications traffic pursuant to the Act
11 and FCC rules. As such, the rates, terms and conditions of any compensation
12 mechanism established by the Commission must also comport with the Act and
13 FCC rules. The resolution of the other issues in this proceeding will result in the
14 establishment of a compensation mechanism. Once the mechanism is determined,
15 the only issue to be resolved is a determination of which party is financially
16 responsible for the facilities used to transport and terminate local traffic.

17

18 **ADDITIONAL TESTIMONY:**

19 Q. WHAT IS THE COMMISSION'S JURISDICTION IN THIS MATTER?

20

21 A. While I am not a lawyer, it is my understanding that Section 252(d)(2) of the Act
22 gives each state commission the jurisdiction to set rates for the transport and
23 termination of traffic subject to Section 251(b)(5). Section 252(d)(2)(B)(i)
24 specifically states that this authority to set rates for the transport and termination
25 of traffic subject to 251(b)(5) "shall not be construed to preclude arrangements

1 that afford the mutual recovery of costs through the offsetting of reciprocal
2 obligations, including arrangements that waive mutual recover
3 (such as bill-and-keep arrangements).” Section 51.713 of the Code of Federal
4 Regulations goes into further detail as to when bill-and-keep arrangements may
5 be established by a state commission.
6

7 Q. DOES THE COMMISSION HAVE THE AUTHORITY TO ESTABLISH A
8 BILL-AND-KEEP INTERCARRIER COMPENSATION MECHANISM IN A
9 GENERIC PROCEEDING?
10

11 A. Yes. The Act and Code of Federal Regulations clearly gives the Commission the
12 authority to establish bill and keep arrangements, without limitation as to the type
13 of proceeding the issue is addressed in. Although the FPSC has Authority to
14 establish bill-and-keep, the FCC has recently issued a Notice of Proposed
15 Rulemaking In the Matter of a Unified Intercarrier Compensation Regime (CC
16 Docket No. 01-92), Released April 27, 2002 looking at this issue in the context of
17 a broader proceeding. . While this Notice by the FCC seeks comments beyond
18 the scope of this issue (i.e., bill-and-keep for local usage elements), the outcome
19 of such proceeding will address this issue.
20

21 Q. CAN THE COMMISSION ESTABLISH A BILL-AND-KEEP
22 ARRANGEMENT FOR INTERCARRIER COMPENSATION PURPOSES
23 UNDER THE PRESUMPTION THAT THE TRAFFIC IS ROUGHLY IN
24 BALANCE?
25

1 A. Absolutely. In fact Section 51.713 (c) seems to anticipate just such a scenario.

2 Section 51.713 (c) states:

3 (c) Nothing in this section precludes a state commission from presuming
4 that the amount of telecommunications traffic from one network to the
5 other is roughly balanced with the amount of telecommunications traffic
6 flowing in the opposite direction and is expected to remain so, unless a
7 party rebuts such a presumption.

8

9 Q. IF THE COMMISSION IMPOSES BILL-AND-KEEP AS A DEFAULT
10 MECHANISM, WILL THE COMMISSION NEED TO DEFINE
11 GENERICALLY “ROUGHLY BALANCED?” IF SO, HOW SHOULD THE
12 COMMISSION DEFINE “ROUGHLY BALANCED?”

13

14 A. Not necessarily. In compliance with Section 51.713 (c), the Commission could
15 presume that traffic is roughly balanced, subject to a carrier rebutting such a
16 presumption. In order to address a rebuttal of such presumption, the Commission
17 would then need to have a definition of roughly balanced. The FCC recently
18 struggled with this same issue in making a determination of how ISP-bound
19 traffic should be defined (which is traffic that is generally out of balance). The
20 FCC made a determination in it’s Order on Remand and Report and Order in CC
21 Docket 99-68 released April 27, 2001 (“ISP Order on Remand”) that traffic above
22 3:1 ratio of originating to terminating traffic would be considered ISP-bound
23 traffic. Following this already established precedent, this Commission should
24 find that traffic below a 3:1 ratio of originating to terminating traffic is “roughly
25 balanced.” If a Party wished to rebut the presumption that their traffic was

1 roughly balanced, such a showing would be made to this Commission, since this
2 Commission has jurisdiction of local traffic.

3

4 Q. DOES BELLSOUTH CURRENTLY HAVE IN PLACE INTERCONNECTION
5 AGREEMENTS WITH ALECS THAT PROVIDE FOR BILL AND KEEP ON
6 LOCAL TRAFFIC?

7

8 A. Yes. BellSouth currently has in place quite a number of bill-and-keep contracts
9 for local traffic. For example, BellSouth has entered into such agreements in
10 Florida with Sprint, COVAD, CRG International dba Network One, Knology,
11 Atlantic.net, Allegiance, and Hart. Such contracts state that per minute-of-use
12 elements for local calls that originate from one Party and terminate to the other
13 Party shall be compensated as bill-and-keep.

14

15 Q. WILL THE ADOPTION OF BILL AND KEEP ARRANGEMENTS AS A
16 DEFAULT MECHANISM MINIMIZE THE NEED FOR REGULATORY
17 INTERVENTION FOR THE IMMEDIATE TERM AND FOR THE FUTURE?

18

19 A. To some extent. One easy item to identify which would become null (and thus
20 not require regulatory intervention) is the highly contentious issue of whether an
21 ALEC is entitled to be compensated at the ILEC's tandem interconnection rate.
22 However, carriers could still have disputes over the jurisdiction of traffic, whether
23 or not traffic is roughly balanced, and other tangential issues.

24

25 Q. WHAT DOES BELLSOUTH REQUEST THE COMMISSION DO?

1

2 A. BellSouth requests that the Florida Public Service Commission make the finding
3 that traffic subject to 251(b)(5) is presumed to be roughly balanced, and,
4 following already established precedent, find that traffic below a 3:1 ratio of
5 originating to terminating traffic is roughly balanced. Based on the presumption
6 that traffic subject to 251(b)(5) is roughly balanced, BellSouth requests that the
7 Commission set as the default mechanism that calls that originate from one Party
8 and terminate to the other Party in the ILEC's geographic calling scope (as
9 defined by the ILEC's tariff) shall be bill-and-keep for usage based elements.
10 Access traffic, which is not subject to 251(b)(5), would fall outside the scope of
11 this bill-and-keep, as would non-usage based elements.

12

13 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

14

15 A. Yes.

1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 REBUTTAL TESTIMONY OF BETH SHIROISHI
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 000075-TP (PHASE II)
5 MARCH 25, 2002
6

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

10
11 A. My name is Elizabeth R. A. Shiroishi. I am employed by BellSouth as Managing
12 Director for Interconnection Services. My business address is 675 West
13 Peachtree Street, Atlanta, Georgia 30375.
14

15 Q. ARE YOU THE SAME ELIZABETH R.A. SHIROISHI WHO FILED DIRECT
16 TESTIMONY IN THIS CASE?

17
18 A. Yes.
19

20 ***Issue 13: How should a "local calling area" be defined, for purposes of determining***
21 ***the applicability of reciprocal compensation?***
22

23 Q. AT&T AND FLORIDA DIGITAL NETWORK ASSERT THAT BELLSOUTH
24 HAS IN PLACE INTERCONNECTION AGREEMENTS WHICH DESIGNATE
25 THE ENTIRE LATA AS LOCAL FOR INTERCARRIER COMPENSATION
26 PURPOSES. PLEASE COMMENT.

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A. BellSouth has entered into agreements that expand what is considered local traffic for reciprocal compensation purposes; however, in those agreements, switched access is specifically exempted from being considered as local traffic. The AT&T/BellSouth Agreement which AT&T references does NOT make all calls which originate and terminate in the LATA local for reciprocal compensation purposes. The agreement clearly excludes switched access from the local traffic definition (See Attachment 3, Section 5.3.1.1 of the Interconnection Agreement). Further, the local traffic definition is interrelated to other terms and conditions, including provisions for which Party designates the Point of Interconnection.

Q. LEVEL 3'S WITNESS, MR. GATES (ON PAGE 13), AND AT&T'S WITNESS, MR. CAIN (ON PAGE 7), REQUEST THAT THE COMMISSION DETERMINE THAT A CALL IS LOCAL BASED ON THE NPA/NXX'S OF THE CALLING AND CALLED PARTIES. HASN'T THE COMMISSION ALREADY ADDRESSED THAT ISSUE?

A. Yes. This issue has been addressed by this Commission in previous interconnection agreement arbitrations and most recently at the December 5, 2001 Agenda Conference regarding the Second Phase of this Docket. At that Agenda Conference, the Commission ruled that compensation for "virtual NXX" calls should be based upon the physical end points of the call, and not upon the calling and called NPA/NXXs of the call. Level 3 and AT&T are merely attempting to raise an issue here that has already been resolved.

1 Q. PLEASE COMMENT ON FLORIDA DIGITAL NETWORK'S PROPOSAL
2 THAT THE COMPENSATION AND JURISDICTION OF A CALL BE
3 DETERMINED BY THE TRANSPORT AND INTERCONNECTION
4 OBLIGATIONS OF THE ORIGINATING PARTY.

5

6 A. This proposal is not only vague, it is not in compliance with current FCC rules.
7 The FCC has long held that the jurisdiction of a call is determined by the end
8 points of such call. This was upheld, once again, in Paragraph 57 of the ISP
9 Order on Remand adopted April 18, 2001. Even if Florida Digital Network's
10 proposal was in compliance with FCC rules, I doubt that any company's billing
11 system could jurisdictionalize traffic (and thus bill the appropriate rates: access or
12 reciprocal compensation) based on where the call is handed off. Accordingly,
13 FDN's proposal does not only violate FCC rules but also is infeasible.

14

15 Q. MR. GILLAN HAS CITED A NUMBER OF FLORIDA PUBLIC SERVICE
16 COMMISSION RULINGS ON EXPANDED CALLING AREAS TO ASSERT,
17 ON PAGES 3 – 6 OF HIS TESTIMONY, THAT THE COMMISSION HAS
18 ALREADY ESTABLISHED THE LATA AS THE DE FACTO LOCAL
19 CALLING AREA FOR INTERCARRIER COMPENSATION. DO YOU
20 AGREE?

21

22 A. No. Mr. Gillan's reliance on these decisions is misguided. Mr. Gillan seems to
23 be advocating that any call that could potentially be considered under an
24 expanded local retail offering be compensated as local for intercarrier
25 compensation purposes, regardless of the calling plan actually in effect. I will

1 address the decisions discussed by Mr. Gillan in just a moment, but would like to
2 first point out that the Parties advocating the ILEC's local calling scope as the
3 default local calling area for reciprocal compensation purposes have made clear
4 that they are referencing the local calling scope and mandatory EAS.

5
6 The Order referenced by Mr. Gillan on page 4 of his testimony was the last round
7 of rate reductions required by an earlier settlement. The previous reduction
8 required by the settlement implemented numerous ECS routes throughout Florida
9 (Order No. PSC-95-1391-FOF-TL). It is clear that, not only did the 1995 order
10 implement various ECS routes, it also allowed IXCs the ability to continue to
11 compete on these routes. In fact, at the time the Order was issued, the
12 Commission stated the following:

13
14 Some of the intervenors express concerns that approval of the ECS
15 plan will re-monopolize the provision of toll service throughout a
16 significant portion of Southern Bell's operating territory.
17 However, as discussed subsequently in this Order, interexchange
18 companies (IXCs) may continue to carry the same types of traffic
19 on these ECS routes that they are now authorized to carry.
20 Additionally, under the revised telecommunications statutes,
21 specifically Section 364.337, Florida Statutes, providing for
22 alternative local exchange telecommunications companies
23 (ALECs) on January 1, 1996, there could be additional competition
24 for this traffic, as well as other local services.
25

26 The Commission believed that allowing IXCs to continue to compete combined
27 with the introduction of ALECs in Florida would provide companies the ability to
28 compete for traffic on ECS routes. Thus, the Commission clearly did not view
29 this as setting the LATA as the de facto local calling area.

30

1 Q. DID THE COMMISSION ALSO IMPLEMENT OTHER MEASURES TO
2 PROVIDE IXCS THE ABILITY TO COMPETE ON THESE ECS ROUTES?

3

4 A. Yes. In the February 13, 1995 Order No. PSC-95-0203-FOF-TP, the Commission
5 required BellSouth to implement intraLATA presubscription. In addition, in
6 April of 1996, the Commission implemented 1+10 digit dialing on most of the
7 ECS routes the Commission implemented pursuant to the 1995 order. Clearly,
8 these provisions afforded IXCs, and even ALECs, the ability to compete with
9 BellSouth's ECS services.

10

11 Q. ON PAGES 2 AND 3 OF MR. GILLAN'S DIRECT TESTIMONY, MR.
12 GILLAN TRIES TO INDICATE THAT THERE ARE NO TOLL ROUTES IN
13 THE SOUTHEAST LATA. DO YOU AGREE WITH MR. GILLAN'S
14 ASSESSMENT?

15

16 A. Absolutely not. As pointed out above, the Commission allows IXCs and ALECs
17 to compete on all routes in the Southeast LATA including all ECS routes. As a
18 matter of fact, there are currently 489 possible routes in the Southeast LATA. Of
19 the 489, 128 are competitive ECS routes and 361 are toll routes. It is hard for me
20 to understand Mr. Gillan's assertion that the Southeast LATA is essentially a de
21 facto local calling area.

22

23 Q. ON PAGE 5 OF MR. GILLAN'S DIRECT TESTIMONY, HE STATES THAT
24 IN 1991 BELLSOUTH COLLECTED \$4.38 IN INTRALATA TOLL REVENUE
25 PER LINE AND THAT DECLINED TO \$.42 BY 2000. DID MR. GILLAN

1 GIVE EXPLANATION OF THESE NUMBERS OR ANY REASONS FOR THE
2 DECLINE IN REVENUE FOR INTRALATA TOLL?

3

4 A. No, not at all. BellSouth would like to understand the origin of these numbers in
5 order to ensure they have been presented correctly. Further, the introduction of
6 local competition, as well as the implementation of intraLATA presubscription
7 clearly would have a severe impact on BellSouth's intraLATA toll revenue.

8

9 Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION ALREADY ISSUED
10 AN ORDER GIVING DIRECTION ON HOW AN ALEC AND ILEC SHOULD
11 HANDLE INTERCARRIER COMPENSATION WHEN THE ALEC'S LOCAL
12 CALLING AREA IS DIFFERENT FROM THE ILEC'S LOCAL CALLING
13 AREA?

14

15 A. Yes. Order No. PSC-97-0462-FOF-TP in Docket No. 961346-TP states:

16

17 We agree that an ALEC has full statewide authority when it
18 receives certification from this Commission, and that it has
19 the authority to designate its local calling area in whatever
20 way it chooses. Section 364.16 (3)(a), Florida Statutes,
21 nonetheless, does not allow an ALEC to knowingly deliver
22 traffic where terminating access charges would otherwise
23 apply. Therefore, while an ALEC may have a different
24 local calling area than an incumbent LEC, it is required by
25 statute to pay the applicable access charges.

26

27 Although the Florida Public Service Commission has recognized that an ALEC may
28 have a retail local calling area that differs from the ILEC, the Commission has
29 determined that, pursuant to Section 364.16 (3)(a), Florida Statutes, the ALEC is
30 required to pay access charges based on the ILEC's local calling area.

1

2 Q. ON PAGE 13 OF VERIZON'S TESTIMONY OF MR. TRIMBLE, HE
3 DISCUSSES HOW LATA-WIDE LOCAL WOULD FAVOR ONE CLASS OF
4 CARRIERS OVER ANOTHER. WHAT OTHER PROBLEMS WOULD
5 LATAWIDE LOCAL BRING ABOUT WITH REGARDS TO DIFFERENT
6 CLASSES OF CARRIERS?

7

8 A. On page 46 of Staff's Recommendation on Issue 13, Staff states that this
9 LATA-wide local plan will only apply between local carriers, and not to
10 IXC's. The problem with this assumption is that many carriers are both
11 ALECs and IXC's. The rules then become vague, which could allow some
12 carriers to manipulate the rules to gain an unfair competitive advantage.
13 Simply put, an IXC now has an incentive to masquerade as a local carrier,
14 thereby furthering arbitrage opportunities.

15

16 Q. THROUGHOUT MR. TRIMBLE'S TESTIMONY, HE ADDRESSES THE
17 UNINTENDED CONSEQUENCES OF LATA-WIDE LOCAL, INCLUDING
18 UNIVERSAL SERVICE ISSUES, ARBITRAGE OPPORTUNITIES, AND
19 COMPETITIVE NEUTRALITY ISSUES. PLEASE COMMENT.

20

21 A. Mr. Trimble does an excellent job pointing out all of the issues associated with a
22 default local calling area being the entire LATA. Rather than restate the same
23 issues here in rebuttal to the testimony of AT&T, Level 3 and FDN, BellSouth
24 supports and adopts as its own Mr. Trimble's testimony on the rebuttal of a
25 LATA-wide local proposal.

1

2 Q. SPRINT'S WITNESS, MS. WARD (ON PAGE 4) AND VERIZON'S
3 WITNESS, MR. TRIMBLE (ON PAGE 22) STATE THAT THE FLORIDA
4 PUBLIC SERVICE COMMISSION DOES NOT HAVE THE AUTHORITY TO
5 FIND THAT CALLS SUBJECT TO ACCESS WILL NOW BE
6 COMPENSATED WITH RECIPROCAL COMPENSATION. DO YOU
7 AGREE?

8

9 A. Yes. While I am also not a lawyer, it is my understanding that the Florida
10 Public Service Commission must act within the bounds of the Florida Statutes.
11 Section 364.16(3)(a), which, as I stated earlier, this Commission relied on in
12 Docket 961346-TP addressing a similar issue, limits the Commission's ability
13 to influence access rates.

14

15 While the issues raised in connection with an appropriate default definition of
16 local calling area have been an interesting exercise in theory, the crux of this
17 issue boils down to the first question posed by the Commission: What is the
18 Commission's jurisdiction in this matter? Simply put, the Commission has
19 jurisdiction under Paragraph 1035 of the FCC's Local Competition Order "to
20 determine what geographic areas should be considered 'local areas' for the
21 purpose of applying reciprocal compensation obligations under section
22 251(b)(5), consistent with the state commission's historical practice of
23 definition local service areas for wireline LECs." However, in Florida,
24 Section 364.16(3)(a) of the Florida Statute limits this authority by not
25 allowing an ALEC to knowingly deliver traffic where terminating access

1 charges would otherwise apply. Section 364.16(3)(a) does not allow the
2 Florida Public Service Commission to determine that all calls within the
3 LATA are local, and thus afford ALEC's the opportunity to knowingly deliver
4 traffic where terminating access charges would otherwise apply and not pay
5 access charges.

6
7 ***Issue 17: Should the Commission establish compensation mechanisms governing the***
8 ***transport and delivery of traffic subject to Section 251 of the Act to be used in the***
9 ***absence of the parties reaching an agreement for negotiating a compensation***
10 ***mechanism? Is so, what should be the mechanism?***

11
12 Q. PLEASE ADDRESS MR. GILLAN'S ALLEGATION, ON PAGE 7 OF HIS
13 TESTIMONY AND THE CORRESPONDING EXHIBIT JPG-1, THAT
14 TRAFFIC IS NOT "ROUGHLY IN BALANCE."

15
16 A. FCC Rule 51.713 states that the Commission has the authority to establish bill and
17 keep for local traffic when the traffic is determined to be roughly balanced or
18 presumed to be roughly balanced. The data that Mr. Gillan relies on for his
19 statement that traffic is not roughly balanced and his corresponding chart are not
20 numbers reflective of only local traffic. These numbers are in response to the
21 request to "Provide by year, for each of the last five years, the number of minutes
22 interchanged between BellSouth and ALECs networks." As such, these numbers
23 would include ISP-bound traffic between BellSouth and ALECs networks.

24

1 Q. PLEASE ADDRESS MR. GILLAN’S TESTIMONY, ON PAGE 8 AND THE
2 CORRESPONDING EXHIBIT JPG-2, THAT BELLSOUTH “CHARGES
3 OTHER CARRIERS FAR MORE FOR TERMINATING THEIR TRAFFIC
4 THAN ITS COST.”
5

6 A. Mr. Gillan’s Exhibit JPG-2 mixes apples with oranges. In this exhibit, he
7 compares what BellSouth pays ALECs for terminating local traffic with what
8 BellSouth charges IXCs for terminating long distance. This exercise does not in
9 any way illustrate an inequity – it merely shows the difference between local rates
10 and access charges. An apples to apples comparison of the rates that BellSouth
11 pays to ALECs versus the rates that ALECs pay to BellSouth for terminating local
12 traffic would show that they are exactly the same since BellSouth has in place
13 symmetrical rates for reciprocal compensation for local traffic. Further, an apples
14 to apples comparison of rates that BellSouth pays to ALECs versus the rates that
15 ALECs pay to BellSouth for access traffic would show that the ALECs’ rates
16 either mirror BellSouth’s rates, or in some cases are even higher.
17

18 Q. PLEASE ADDRESS MR. HUNSUCKER’S TESTIMONY (ON PAGE 9)
19 ABOUT THE EFFECT OF AN ILEC’S CHOICE TO OPT INTO THE FCC’S
20 INTERIM COMPENSATION MECHANISM PUT FORTH IN THE ISP
21 ORDER ON TRAFFIC SUBJECT TO 251(B)(5).
22

23 A. Mr. Hunsucker discusses the fact that if an ILEC chooses to opt-in to the FCC’s
24 interim compensation regime for ISP-bound traffic, then the ILEC must also agree
25 to offer the exchange of all 251(b)(5) traffic at the same rates. However, an

1 interconnecting carrier can refuse this offer, and instead choose for the Parties to
2 exchange 251(b)(5) traffic at the state commission Ordered rates. As such, this
3 Commission must have in place rates, or a mechanism such as bill-and-keep, for
4 traffic subject to 251(b)(5).

5

6 Q. ON PAGE 13 OF MR. HUNSUCKER'S TESTIMONY, HE STATES "THERE
7 IS LITTLE EVIDENCE THAT TRAFFIC FLOWS BETWEEN SPRINT AND
8 ALECS IN FLORIDA IS 'ROUGHLY BALANCED,'" AND REFERS TO
9 EXHIBIT MRH-1. IS THIS THE APPROPRIATE CHART TO LOOK AT TO
10 DETERMINE WHETHER OR NOT LOCAL TRAFFIC IS "ROUGHLY
11 BALANCED"?

12

13 A. While I am certainly not as familiar with Mr. Hunsucker's testimony as he is, it
14 would seem to me that Exhibit MRH-1 is not the appropriate chart to reference in
15 determining whether LOCAL traffic is roughly balanced, because Exhibit MRH-1
16 includes ISP-bound minutes. Exhibit MRH-2, on the other hand, shows the
17 balance of traffic once ISP-bound minutes are excluded (using the FCC's 3:1 ratio
18 to determine what is ISP-bound). This exhibit would seem to have the ratio the
19 Commission would want to examine in order to determine whether or not local
20 traffic is roughly balanced. As Mr. Hunsucker stated, this ratio appears to be
21 1.94:1.

22

23 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

24

25 A. Yes.

1 MR. EDENFIELD: And since we have waived summary, I
2 will tender Ms. Shiroishi for cross examination.

3 CHAIRMAN JABER: Thank you. Who wants to start with
4 the cross examination? Staff.

5 CROSS EXAMINATION

6 BY MS. BANKS:

7 Q Good morning, Ms. Shiroishi.

8 A Good morning.

9 Q I'm Felicia Banks, and I will be asking you some
10 questions on behalf of the Commission. You indicated that you
11 had filed direct and rebuttal in this proceeding, correct?

12 A Correct.

13 Q Do you have copies of that with you?

14 A Yes, I do.

15 Q The questions that I have mainly center around Issue
16 13 in this proceeding which addresses the definition of a local
17 calling area for intercompensation purposes. Are you aware
18 that it is Verizon's position that the local calling area
19 should be defined by the parties in their interconnection
20 agreement?

21 A Yes.

22 Q And are you aware that it was Verizon's view that if
23 the parties can't reach an agreement on a definition of a local
24 calling area, then the local calling area should be defined as
25 the ILEC's tariffed local calling areas?

1 A Yes.

2 Q You have indicated in your testimony that to define
3 the local calling area as anything other than the ILEC's or the
4 originating party's calling area would create arbitrage
5 opportunities. Verizon Witness Trimble also outlines these
6 arbitrage opportunities that may arise. Do you agree with his
7 testimony regarding these arbitrage possibilities?

8 A Yes.

9 Q And do you generally agree with Witness Trimble's
10 rebuttal testimony in opposition of a LATA-wide proposal?

11 A Yes, I do.

12 Q Okay. I would direct you to your rebuttal testimony,
13 and I will be referencing Page 7. Are you there?

14 A Yes.

15 Q Okay. If you could read for me beginning at Line 8
16 through Line 14?

17 A "On Page 46 of staff's recommendation on Issue 13,
18 staff states that this LATA-wide local plan will only apply
19 between local carriers and not to IXC's. The problem with this
20 assumption is that many carriers are both ALECs and IXC's. The
21 rules then become vague, which could allow for some carriers to
22 manipulate the rules to gain an unfair competitive advantage.
23 Simply put, an IXC now has an incentive to masquerade as a
24 local carrier thereby furthering arbitrage opportunities."

25 Q Okay. So you also indicate that a LATA-wide calling

1 area would create arbitrage opportunities for IXC's and ALEC's as
2 you just referenced, correct?

3 A Correct.

4 Q Could you just elaborate on those arbitrage
5 opportunities that you would envision?

6 A Sure. Today there is switched access, there is
7 intraLATA toll, and there is local traffic which calls for
8 reciprocal compensation. Because of the historical billing
9 systems, the ordering and billing forum early on decided to use
10 factors to bill between the different types of traffic. There
11 is a definite distinction between local traffic and switched
12 access traffic, toll traffic.

13 Now that we are in a more competitive environment
14 where many ALEC's are IXC's and vice versa, many IXC's are also
15 ALEC's, if we go to a LATA-wide local definition which has no
16 delineation, you have an opportunity for IXC's to try to
17 masquerade that true interexchange traffic as local through the
18 use of, in some instances, even perhaps stripping off ANI or
19 CPN and terminating that to the ILEC or any other LEC as though
20 it were local.

21 Q Okay. With that in mind, do you believe that the
22 adoption of a LATA-wide local calling area for purposes of
23 reciprocal compensation would have an adverse effect on
24 universal service in Florida?

25 A It is my understanding in Florida that universal

1 service is still held through implicit subsidies, so there is
2 not an explicit type surcharge that goes to the end user. As
3 such, I believe it was the '95 order that this Commission put
4 forth to say that for the present LECs should continue to fund
5 universal service obligations the way they currently do through
6 markups on the various services they offer. Obviously I can
7 speak for BellSouth, one of the services that we offer that is
8 priced higher than local service is toll.

9 And so the markup, some of the markup in that service
10 does go towards our universal service and helping to fund the
11 other services that are less costly. And that is from an
12 internal perspective as the Commission has ordered us to do.
13 So, yes, that would have an impact on universal service in that
14 some of those marked-up services that we under the December
15 27th, 1995 order currently offer would now perhaps go to local
16 compensation and the markup would no long be there.

17 Q Well, then do you believe that these impacts you
18 describe would result in local service no longer being
19 ubiquitously available in Florida?

20 A I'm sorry, can you ask that again?

21 Q Well, then do you believe that these impacts that you
22 just outlined would, that you describe would result in basic
23 local service no longer being ubiquitously available in
24 Florida?

25 A I don't know that it would mean that local service is

1 no longer ubiquitous. I think what then happens is your local
2 rates in Florida today perhaps would have to -- the rates
3 themselves would have to be raised. I don't know that it would
4 make the service go away or not have the same coverage.

5 Q Okay. Well, then do you believe that this would in
6 some way -- these impacts would increase the rates in Florida?

7 A Perhaps it would, yes.

8 Q And do you believe that these impacts you described
9 in basic local service would no longer make services affordable
10 for consumers?

11 A Affordable obviously is a definition that is hard for
12 one person to define. I mean, each person has their own
13 definition of that. I think it would certainly put an emphasis
14 or a pressure on local rates so that the ILECs would need to
15 raise those local rates.

16 Q Okay. Based on your adoption of Witness Trimble's
17 testimony of a proposal against a LATA-wide calling area, then
18 isn't it your assertion that a local calling area defined as a
19 LATA-wide calling area would limit revenues to the universal
20 service fund?

21 A It limits the amount of universal or the amount of
22 revenues that we received that would go through that implicit
23 fund, yes.

24 Q Okay. And can you just reiterate or kind of
25 summarize how it would impact or limit the revenues?

1 A Sure. Today all LECs are mandated by the Commission
2 to recover anything that they feel they need for universal
3 service through other services. So to the extent that
4 BellSouth or any other LEC recovers some of the revenues that
5 we then use to pass along through things that are potentially
6 underpriced, local service or anything like that, I guess the
7 revenue stream that currently comes in, to the extent that is
8 stopped would obviously have an impact on our ability to pass
9 that through to the services that would require it. So does
10 that answer your question?

11 Q Yes, I believe it does. One thing that I guess I
12 wanted to just kind of clarify, and I believe you touched on
13 this earlier, which we know is at issue in this proceeding is
14 whether or not and how we would determine whether local calling
15 area is defined as, if this Commission were to decide to define
16 a local calling area as a LATA-wide calling area, how would
17 this decision impact the universal service fund?

18 A If this Commission were to decide that all calls
19 within the LATA are local, obviously then any current switched
20 access that a LEC receives from intraLATA calls would go away.
21 All of that revenue would then become basically null and void
22 for that type of transaction. That in and of itself is a
23 revenue stream that potentially today, and I can't speak for
24 other LECs, but for BellSouth is used to fund things through
25 the USF implicit service to keep local rates and other services

1 like local rates at an affordable level. If that revenue
2 stream goes away, then BellSouth obviously has to look at other
3 ways in which to recover those costs. One of those ways may be
4 through the raising of local rates. Also it is my
5 understanding that the Commission has a process in place that
6 if a LEC feels USF is not being handled through implicit
7 subsidies, we can petition the Commission. So obviously one of
8 those two things would have to happen if a revenue source that
9 is currently used to keep local rates affordable goes away.

10 MS. BANKS: Thank you, Ms. Shiroishi. That is going
11 to conclude staff's cross.

12 CHAIRMAN JABER: Commissioners, I would note that the
13 stipulation reached by the parties allows parties to
14 cross-examine, but limited to the cross-examination conducted
15 by staff and any questions the Commissioners may have. So if
16 you have any questions, let's take those up now.

17 COMMISSIONER DEASON: I have hopefully just two
18 questions. The arbitrage opportunity which you referenced in
19 your testimony and in response to questions from staff, I want
20 to further understand that. Is the arbitrage opportunity when
21 you define the local calling area as a LATA-wide area, is that
22 the reason -- is that the result of the IXC/ALEC
23 misrepresenting the nature of a call such that it reduces your
24 switched access, or is it the arbitrage from them actually
25 providing an extended local calling area to their local

1 customers?

2 THE WITNESS: The example I was referencing in my
3 testimony would be the first example you gave. It then becomes
4 a blurred line between what is local versus what is switched
5 access. It might be helpful to look at some of the diagrams in
6 my direct testimony as I talk through this. I would offer to
7 get up and draw, but I don't see anything to draw on here. If
8 you look at Diagram A, you have an example where -- and I
9 always try to think about even a toll call where you have two
10 carriers as actually having three different types of the call
11 just to make it more analogous to an interLATA call, which I
12 think we are all pretty familiar with.

13 In the first example, Diagram A, you have BellSouth's
14 local exchange network, you have BellSouth's toll network,
15 which is the raised portion in the simplified diagram, and the
16 ALEC's local exchange network as the bottom portion. In the
17 first example where BellSouth is the toll provider, the first
18 two parts of that call are carried by BellSouth and terminated
19 to an ALEC. If you look at Diagram B, which is the same call
20 scenario except now let's say that that end user of BellSouth's
21 for local exchange has decided to use their IXC as their local
22 presubscribed carrier, now that same type call, the IXC is
23 going to get the retail revenue and pay BellSouth the
24 originating access and pay the ALEC the terminating access.

25 If that IXC is also an ALEC, they now have the

1 opportunity, if all calls in the LATA were to be considered
2 local, to avoid paying anything to the originating or
3 terminating carrier. So now what you actually have is that
4 they are receiving some cents per minute, let's say that it is
5 a ten cents a minute plan to a retail end user. If I'm just a
6 regular BellSouth end user and I subscribe to an IXC and I pay
7 them ten cents a minute for all intrastate calls, that IXC is
8 getting that ten cents a minute, but yet they are not paying
9 for the use of the originating party's network, and then on the
10 terminating end as well it would not be considered access, but
11 local.

12 So that is an opportunity whereby access charges as
13 they are structured today would then -- the whole compensation
14 scheme would change. If that IXC is also an ALEC, that is
15 where the opportunity comes in for potential arbitrage in that
16 they could, even though they are using their IXC network or
17 their IXC arm, still avoid the access on that.

18 COMMISSIONER DEASON: Well, I guess I'm trying to
19 understand from the customer's perspective. What do they
20 understand to be a local call and what do they understand to be
21 a toll call?

22 THE WITNESS: From an end user retail perspective, I
23 would think it is safe to say that most customers are typically
24 used to the -- for an ILEC end user, the ILEC's local calling
25 area and tariff as what is local versus what is not. For an

1 ALEC end user, obviously they may have different local calling
2 plans. But for the retail end user what they think of as local
3 is going to be how they are marketed, how the retail plan has
4 marketed local to them.

5 COMMISSIONER DEASON: But now wouldn't it also be
6 true that if the ALEC/IXC defines a larger local calling area,
7 if one of your customers originates a call to that local
8 calling area that you are not obligated then to pay terminating
9 access?

10 THE WITNESS: Will you ask me that again?

11 COMMISSIONER DEASON: Yes. A BellSouth customer
12 wants to call an ALEC customer within the LATA. Since you
13 define that as a toll call, you are obligated to pay
14 terminating access, or what is your obligation to pay to the
15 ALEC which has the -- which terminates that call from your
16 originating customer?

17 THE WITNESS: So you are asking me today how does
18 that work?

19 COMMISSIONER DEASON: Yes.

20 THE WITNESS: On a wholesale -- let me actually talk
21 about retail and wholesale. Let's start with the retail
22 because that is easier. For my end user who is making that
23 call, they are probably largely unaware that they are calling
24 an ALEC end user. To them they are just making a call that
25 they know is local or toll, depending on what it is. So from a

1 retail perspective they are going to be thinking of it in terms
2 of the originating party, BellSouth in this case, and what
3 their plan with BellSouth is. From a wholesale standpoint, an
4 intercarrier compensation standpoint, how we compensate for
5 that today would be handled through whatever interconnection
6 agreement provision we have with that ALEC today.

7 BellSouth has a variety of different things that we
8 do today, and that is why BellSouth in the first direct
9 testimony of this proceeding said that to BellSouth's
10 experience this actual issue has not been a highly contested
11 one. Other things surrounding local calling areas have been
12 contested such as should ISP-bound traffic be considered local.
13 From the standpoint of virtual NXX, if a number is assigned to
14 a rate center but actually physically located outside that
15 local calling area, should that be considered local.

16 And then I believe also this Commission has addressed
17 IP Telephony and whether that should be local or access. But
18 the actual compensation and how compensation should work when
19 two different carriers have different local calling areas has
20 not been an issue that to my knowledge BellSouth has had to
21 arbitrate. We have been able to reach agreement with all
22 carriers on that with different provisions, depending on that
23 carrier's desires when we are negotiating the agreement and
24 other provisions that are linked to it, such as compensation
25 and transport obligations.

1 But BellSouth has not seen that this is an issue that
2 is highly -- one that we can't reach resolution with a carrier
3 on. So, for the answer to your question in today's environment
4 it depends on the interconnection agreement that we have with
5 that CLEC or ALEC. In some instances we do say that the ILEC's
6 local calling area will govern. I believe that is the
7 provision in several of our agreements today, including MCI. I
8 can't remember any others off the top of my head.

9 We also have some provisions that state that the
10 originating local calling area or the local calling area of the
11 originating party will govern. We have that with several
12 carriers, as well. And then we do have some other provisions
13 depending on what each party wanted, but that today is handled
14 on an interconnection agreement by interconnection agreement
15 basis.

16 COMMISSIONER DEASON: Let me ask you another
17 question. If an ALEC truly believes that there is a market to
18 provide to local customers a larger local calling area and they
19 want to meet that demand and it is part of their true business
20 plan, not an arbitrage opportunity, can they do that now or are
21 their impediments to them doing that with what you are
22 recommending?

23 THE WITNESS: No, they could do that today. I think
24 a good example to look at for that is the wireless market.
25 Wireless carriers today, I think we are all familiar with the

1 advertising of basically nationwide flat-rated plans, and they
2 do that today while still paying on any call that that end user
3 may make off their cellular phone to a land line long distance
4 call, they still pay the rates to that terminating carrier. I
5 think again that the wireless market is --

6 COMMISSIONER DEASON: Let me interrupt for just a
7 second. How do they report that and do you have confidence in
8 what they are reporting?

9 THE WITNESS: Wireless carriers?

10 COMMISSIONER DEASON: Yes.

11 THE WITNESS: Today we use -- I can't speak to other
12 carriers. BellSouth uses a method by which we work with the
13 carrier to determine what is in the wireless world, interMTA
14 versus intraMTA. There are difficulties with cellular just
15 because of the fact that the phone is not a fixed station. So
16 even though I may have a cellular phone that has a 404 Georgia
17 area code, when I'm in Florida I actually -- I still have the
18 same number, but I'm in a different location. BellSouth has
19 ways that we work with carriers today to identify that using
20 METSO (phonetic) where the call actually goes to to be
21 originated.

22 But, we don't feel -- there is some, obviously,
23 opportunity for arbitrage there, but for the most part
24 BellSouth has had a very good relationship with the cellular
25 carriers to figure out what percent of those calls terminate

1 locally for cellular which would be intraMTA, or long distance
2 which would be interMTA. But, again, I just used that example
3 to say that the wireless market has certainly priced their
4 retail plans however they want regardless of the intercarrier
5 compensation obligations, and they have done so by developing
6 packages that work for them. So, yes, I believe that an ALEC
7 who wanted to serve a larger local calling area could still do
8 so with a nonLATA-wide local plan.

9 COMMISSIONER DEASON: And you just went into the area
10 of wireless which is the second area that I wanted to ask a
11 question about. And it pertains to your assertion that a
12 reduction in your access revenue could have negative impacts
13 upon your ability to continue to provide local service at rates
14 that you charge now. In fact, that there could be some
15 universal service concerns. Am I interpreting your testimony
16 correctly?

17 THE WITNESS: Yes.

18 COMMISSIONER DEASON: My question is -- and you just
19 referenced it in answer to the previous question, that there
20 are numerous wireless plans which are being offered to
21 customers which provide an expanded local calling area or
22 eliminating toll calls entirely. Do you see that having an
23 impact upon your ability as a local provider to continue the
24 revenue stream associated with intraLATA switched access?

25 THE WITNESS: Definitely BellSouth has seen the

1 impact of the wireless subscription. That obviously from our
2 standpoint affects us with interLATA access that we receive as
3 well as intraLATA. I think more quickly than any of us at
4 BellSouth suspected, the wireless market has definitely picked
5 up, and we are seeing every month the minutes that we get on
6 our land line as well as actual lines decreasing at a much more
7 rapid rate than we had anticipated. I guess that speaks well
8 to the evolution of the wireless market.

9 For BellSouth, yes, that has put us at a position
10 that we have to evaluate how we -- you know, our traditional
11 sources of revenue are changing. That is one reason, or one of
12 the reasons I believe that the FCC has opened up its proceeding
13 to look at intercarrier compensation for all type services,
14 wireless included, wireless to land line compensation because
15 of the fact that the traditional technologies and ways of not
16 just revenue sources, but all communications are changing
17 rapidly, and I think the FCC did an excellent job in its notice
18 of proposed rulemaking of realizing that the rules that they
19 set in the beginning in '83 with access charges and then on in
20 '96 with the Telecommunications Act, those rules might have
21 worked for the technologies and the types of communications and
22 intercarrier transactions that were going on at that time, but
23 they don't necessarily hold to be a good model for the future.

24 Again, the FCC asked many questions in the NPRN that
25 all carriers commented on and looked at, and I think that they

1 are definitely understanding that they have got to do something
2 on a grand scheme going forward to figure out how we are going
3 to reconcile the new technologies. And as part of that,
4 BellSouth has had to look at and make comment on what we would
5 recommend for the future with the question you asked in mind,
6 which is how are we going to continue to operate in a new
7 technology world.

8 CHAIRMAN JABER: Commissioners, any other questions?

9 COMMISSIONER BAEZ: I have a couple.

10 Ms. Shiroishi, you have been asked a lot of questions
11 on the arbitrage scenario, and I'm not going to be any
12 different because I want to try and understand it. As I hear
13 you describe it, at least one component of these scenarios
14 involves an ALEC/IXC charging retail toll rates and getting
15 retail toll revenue and not paying, presumably, the
16 corresponding network access charges, is that basically --

17 THE WITNESS: That is one type, yes.

18 COMMISSIONER BAEZ: In that particular scenario, is
19 that opportunity the same -- would that opportunity exist for
20 BellSouth where BellSouth is the intrainterexchange?

21 THE WITNESS: Certainly if this Commission finds that
22 that is the appropriate compensation it would work both ways.
23 The difference then becomes when the IXC also has an, let's say
24 an interLATA arm which today BellSouth's does not have
25 interLATA relief in Florida, then obviously it isn't something

1 that is open to BellSouth.

2 COMMISSIONER BAEZ: So when we speak about arbitrage
3 setting aside the effect on universal service and whatever
4 effect on revenues coming in certainly to the ILEC, it is
5 generally a situation that arbitrage is on the customer more
6 than anything.

7 THE WITNESS: I mean, I think that all depends on how
8 you define it. I don't know that there is anything -- I mean,
9 if a carrier wants to market its plan to its end user and that
10 end user subscribes to that plan, I don't know that I would
11 consider that arbitrage. I think the maybe asymmetrical aspect
12 of is today very rarely would BellSouth be the LPIC for a
13 carrier who is subscribed on the local exchange to another
14 ALEC. So from that standpoint most ALECs today market their
15 service that if you are going be their intraLATA provider you
16 would also be their local -- I'm sorry, not provider,
17 subscriber.

18 So from that standpoint I think you would rarely have
19 a situation where BellSouth would be the LPIC for an ALEC local
20 end user. On the other extreme, there are many times today
21 when BellSouth end users choose to subscribe for intraLATA and
22 interLATA presubscription to a separate carrier and IXC.

23 COMMISSIONER BAEZ: But I guess my point in my
24 questions is that I'm trying to understand exactly who is --
25 you know, arbitrage has sort of a negative connotation to it,

1 and I'm trying to understand what the focus of it is. And I
2 will go back to a question that Commissioner Deason or at least
3 something that I heard in Commissioner Deason's questions was
4 the situation that this Commission might create in terms of
5 defining local calling areas, all it does it seems to me is
6 create an opportunity for an ALEC -- as you have described an
7 ALEC/IXC to reap benefits from charging toll, from gaining toll
8 revenues without having to pay access, without having to pay
9 access charges. But in terms of a situation between the
10 carriers, that is simply a function of whatever the rules are,
11 whatever the applicable policy is. So that in itself is an
12 arbitrage.

13 THE WITNESS: Correct. Except that that carrier
14 could then also, depending on this Commission's rules, I know
15 in the staff recommendation the staff made one sentence about
16 obviously IXCs would not be able to avail -- I can't remember
17 the exact words, but basically avail themselves of this. And
18 in that instance I think is where a potential comes in for
19 arbitrage in that if that IXC then also is an ALEC, how do you
20 differentiate between the functions of when it is being an IXC
21 and when it is being an ALEC. And that is an opportunity that
22 from a carrier-to-carrier standpoint could lead to
23 disagreement.

24 COMMISSIONER BAEZ: Well, but -- and, again, just
25 trying to get my hands around it, the differentiation as to

1 whether when is an ALEC not an ALEC, when is it behaving as an
2 IXC, it really seems to only pertain as to what the
3 relationship is between that ALEC or IXC at the time and its
4 end customer and not necessarily, you know, the relationship
5 between carriers, whether it is an IXC or an ALEC really only
6 depends on what relationship is established whether it is by a
7 negotiated agreement or whether it is established by some
8 default local calling area or what have you, whatever the
9 genesis of that definition of local calling area is, you know,
10 really the whole issue of masking an ALEC or IXC's behavior
11 seems to me to be a relationship between the customer and the
12 company and their provider and not necessarily between the
13 carriers. Am I wrong in seeing it that way?

14 THE WITNESS: Well, a large portion of what you said
15 I think would hold. There is also -- and, again, I'm speaking
16 from BellSouth's perspective, a difference in the services that
17 we provide, being that for traditional switched access we offer
18 access trunk groups, access facilities. Not to get into the
19 technical world, and whether or not the traffic is traversed
20 over a local interconnection arrangement being the actual
21 facilities and trunk group or switched access arrangement.

22 COMMISSIONER BAEZ: So then depending on how an
23 ALEC/IXC wants to consider its relationship intercarrier-wise,
24 they are going to have different services available to them
25 based on that?

1 THE WITNESS: Yes.

2 COMMISSIONER BAEZ: So that is something that they
3 would have to consider when they establish this relationship?

4 THE WITNESS: Right, with BellSouth.

5 COMMISSIONER BAEZ: Thank you.

6 CHAIRMAN JABER: Commissioners, any other questions?
7 Okay. I am assuming you all do not have questions, so we are
8 going to start with Mr. McDonnell.

9 Mr. Gross, go ahead.

10 CROSS EXAMINATION

11 BY MR. GROSS:

12 Q Ms. Shiroishi, you testified in response to staff
13 questions that a restructuring or expansion of the local
14 calling area to a LATA-wide territory would potentially have an
15 impact on BellSouth's ability to provide universal service, is
16 that true?

17 A Well, to keep rates the way they are today on local
18 rates.

19 Q And I believe you testified that you are aware that
20 there is a mechanism already in place if BellSouth can
21 demonstrate a bona fide need for universal service relief, is
22 that correct?

23 A That is correct.

24 Q And that remedy is within the jurisdiction of the
25 Commission, isn't that true?

1 A I believe so, yes.

2 Q And another alternative to remedy that kind of
3 potential adverse impact on universal service is to seek an
4 increase in local rates, is that correct?

5 A Or whatever rate, yes. It was not above cost at that
6 point.

7 Q So there are at least two alternative remedies
8 available?

9 A Yes.

10 Q Now, you were talking about potential impacts, but
11 isn't it speculation at this point as to what the impact would
12 be if the local calling area were restructured?

13 A Obviously everything is speculation until it happens.
14 And BellSouth can make assumptions about what the marketplace
15 would do. Obviously a large part of that depends on what ALECs
16 decide to market which plans.

17 Q Wouldn't BellSouth presumably be closely monitoring
18 its earnings and be in a position to file a petition for relief
19 if they perceive a need for universal service relief?

20 A Yes. I think the question from BellSouth's
21 standpoint is would the Commission want to do something knowing
22 that that would potentially be an outcome, when the parties in
23 the proceeding first and foremost know, and I think except for
24 one party has even indicated that this is an issue that there
25 needs to be a default on. If there is a default, obviously it

1 would only apply when the carriers couldn't agree. And then
2 also from the standpoint of what jurisdiction is there to do
3 this, and the Florida Statutes and obviously both sides of the
4 parties have issued their testimony on that, talks about
5 interconnection versus submitting access traffic over local
6 interconnection agreements where access would otherwise apply.

7 Q One would expect the Commission to react promptly if
8 the ILECs or BellSouth in this case demonstrated a need for
9 universal service relief, isn't that true?

10 A Yes, I believe that there would be an expedited
11 process.

12 Q So, timely action by the Commission to remedy a
13 demonstrated revenue shortfall should address BellSouth's
14 concerns that BellSouth's ability to continue to provide
15 service would not be impaired by inadequate recovery of its
16 costs?

17 A Yes. Again, I think my answer would be, you know,
18 would we want to go down the path knowing that we were going to
19 open up another issue such as that.

20 Q Therefore, restructuring local calling zones can be
21 addressed separately in this proceeding for intercarrier
22 compensation purposes and any universal service issues can be
23 addressed in a separate proceeding, isn't that correct?

24 A Yes.

25 Q Assuming that --

1 CHAIRMAN JABER: Mr. Gross, let me ask a question so
2 you all have an opportunity to follow up if you need to.

3 MR. GROSS: Okay.

4 CHAIRMAN JABER: Something you just said triggered a
5 thought. Assume for a moment that BellSouth's 271 application
6 is approved at some point in the future. What affect does
7 BellSouth entering into the long distance market have on
8 everyone defining local calling areas? And specifically in
9 terms of revenue, that's all I'm asking about is in terms of
10 revenue, price, your concern about the universal service fund.

11 THE WITNESS: I haven't thought of that one. Let me
12 think for a moment. I mean, I don't know that it changes
13 anything that we're talking about here today. At least I
14 believe for the first two or three years, BellSouth long
15 distance still acts as a separate entity. So from that
16 standpoint, you still have the internal transactions just with
17 BellSouth long distance as we would have with the ALECs and
18 IXC's today, so I don't know that it changes anything.

19 Obviously it puts one more player in the market who
20 is an IXC, but at the same time that IXC would not, I don't
21 think, be allowed to operate as an ALEC in that same entity.
22 And I'm not sure about that because I'm not -- I don't work in
23 the part of the business that deals with the BellSouth long
24 distance and how that operates.

25 CHAIRMAN JABER: Let me try it again, because I'm not

1 sure there is a relationship either. But something you said
2 triggered the thought. In terms of remedies and recourses you
3 have here at the Commission in filing for a petition for a
4 local rate increase because of associated losses of revenues on
5 the access sides. If everyone will be competing in the local
6 and the long distance market, then really is it an issue of
7 timing? I mean, to some degree is your concern minimized if
8 you get your long distance application approved?

9 THE WITNESS: I think only at the point where
10 BellSouth long distance can operate with BellSouth
11 Telecommunications. I think until that point in time because
12 of the separate nature and how they can compete, then it isn't
13 equivalent to an ALEC who is also an IXC.

14 But I guess the other question, too, is do we want to
15 go down -- do we want to set up a compensation scheme which is
16 then going to turn around and open up a universal service issue
17 given that in the original phase of this docket no party
18 advocated LATA-wide. I know that now AT&T, and FDN, and Level
19 3 have, but is that something -- or do we need a default local
20 calling area or have the parties historically been able to
21 handle that. And so there is no need at this point to have a
22 bona fide, quote, default.

23 CHAIRMAN JABER: Okay. Mr. Gross.

24 BY MR. GROSS:

25 Q I have one more question, assuming that BellSouth is

1 able to quantify any net impact on revenues due to loss of
2 billed access charges, that loss would not necessarily
3 translate into a dollar-for-dollar need for universal service
4 relief, would it?

5 A No, that would not.

6 MR. GROSS: Thank you.

7 MR. McDONNELL: Thank you, Madam Chairman.

8 CROSS EXAMINATION

9 BY MR. McDONNELL:

10 Q Good morning, Ms. Shiroishi.

11 A Good morning.

12 Q You alluded earlier to a Commission order, I believe,
13 that talks about what a LEC can do if its ability to perform
14 its universal service functions is diminished?

15 A Yes.

16 Q I'm going to read from an order and just ask you if
17 this is the order you are referring to, okay? It is Order
18 Number 95-1592-FOF-TP issued December 27th, 1995, in Docket
19 Number 950696-TP, Page 42. "Ordered that if the local exchange
20 company can demonstrate its ability to sustain universal
21 service as a carrier of last resort has been eroded, and that
22 such erosion is specifically due to competitive pressures, it
23 may file a petition for universal service relief as set forth
24 in the body of this order."

25 A I don't have the entire order with me, but that is

1 the same order number.

2 Q Okay. Has BellSouth ever filed a petition stating
3 that its ability to sustain universal service has been eroded?

4 A Not my knowledge.

5 Q And that is despite the fact that as Commissioner
6 Deason said, I think he responded that BellSouth has felt
7 significant erosion in its intraLATA toll revenue as a result
8 of the wireless carriers?

9 A Actually I'm speaking combined to interLATA and
10 intraLATA.

11 Q Oh, okay. Now, you didn't file with your testimony
12 any financial documentation to support an assertion that your
13 ability to sustain universal service would be eroded if local
14 calling area is defined by the Commission as all calls that
15 originate or terminate in a LATA, did you?

16 A No.

17 Q Just so we are clear, when intraLATA access charge
18 revenues of BellSouth are reduced, isn't the flip side of that
19 that the end users are paying less for intraLATA calls?

20 A That actually depends on how the carriers who retail
21 market intraLATA toll flow that through. To the extent that
22 BellSouth reduces its tariffed rates, our end users, yes, feel
23 that. To the extent that the access that we are talking about,
24 which is actually what we are talking about in this proceeding,
25 the intercarrier compensation, that would be dependent on the

1 carrier marketing to them, AT&T, MCI, Sprint, and how they flow
2 that through to their end users.

3 Q Okay. If this Commission were to rule that the local
4 calling area as a default mechanism would be all calls that
5 originate and terminate in the same LATA, would you expect the
6 end users to pay less money to make intraLATA phone calls?

7 A I really can't say. Again, that would depend on how
8 the marketing on the retail side of the products flowed. To
9 the extent that a carrier marketed its plan that way, it could.
10 It could also keep prices exactly the way they are today and
11 use that expanded I guess you would call it profit for
12 something else.

13 Q But as an economic issue, if the companies can
14 perform the function cheaper, isn't it generally a savings
15 passed onto the end user?

16 A I'm not an economist, so I don't want to speak from
17 that standpoint. I think from a market forces standpoint, that
18 always hasn't been the case. If the market has a price that it
19 will bear, there is oftentimes not an incentive to lower that
20 price.

21 Q Okay. You testified earlier that it has been your
22 experience the local calling area issue has not been a
23 contentious issue relatively between BellSouth and ALECs,
24 correct?

25 A Correct.

1 Q And I think you testified earlier that you currently
2 have intercarrier agreements wherein I think you said with MCI
3 that the ILEC's local calling area controls for your reciprocal
4 compensation purposes?

5 A Correct.

6 Q And you also have one or more than one intercarrier
7 agreement where the originating party's local calling area
8 defines reciprocal compensation obligations?

9 A Correct.

10 Q And besides those, isn't it a fact that BellSouth has
11 many intercarrier agreements that call for LATA-wide local
12 calling areas for reciprocal compensation?

13 A We have agreements that -- and, again, I don't want
14 to use the term LATA-wide local. We have agreements which
15 exclude switched access but do basically take extended local
16 calling areas and make that local. They are not the majority
17 of our agreements. The majority of our agreements are in the
18 other two, but there are some agreements that we have that
19 state that calls that would typically be extended local calling
20 areas will be considered local. However, all of our agreements
21 still exclude switched access.

22 Q And didn't BellSouth file in this docket a discovery
23 response to Commission staff, I think it was dated March 27th,
24 2002, authored by you, and it is staff's first set of
25 interrogatories, Item Number 1, Page 1 of 1, where you attached

1 Exhibit E, which is a number of intercarrier agreements that
2 apply a, quote, LATA-wide, close quote, local concept?

3 A Right. They all still exclude switched access, be it
4 inter or intraLATA.

5 Q Okay. And as part of your Exhibit E you told the
6 Commission that this was not an exhaustive list, but
7 nonetheless it is a list of 14 intercarrier agreements where
8 you have LATA-wide local calling for reciprocal compensation
9 purposes?

10 A Correct. And I believe region-wide we have around
11 280 interconnection agreements, so this would be 14 of those
12 280.

13 Q But didn't you tell the Commission that this is not
14 an exhaustive list?

15 A Yes.

16 Q But the list does include AT&T, Level 3
17 Communications, ALLTEL, US LEC of Florida, and Time Warner
18 Telecom, all parties to this docket?

19 A Yes.

20 Q Now, is it your testimony that in your intercarrier
21 agreements that no 1+ calls are subject to reciprocal
22 compensation today?

23 A No, I have never -- we haven't ever -- I don't think
24 we have any agreements that do it around whether it is 1+
25 dialed or 9. We have agreements that exclude switched access

1 as defined in our tariffs.

2 Q Okay. So if an ALEC hands a call off to you on an
3 intraLATA call, it doesn't go -- hit a third-party IXC, you
4 would consider that a local call for reciprocal compensation
5 purposes under these 14 agreements?

6 A Not necessarily. It would depend on if that was
7 routed over a switched access arrangement that we have with
8 that carrier or a local interconnection arrangement.

9 Q Okay. Would it be fair to state that whether it
10 includes all calls within the LATA is currently a point of
11 dispute between BellSouth and at least one ALEC?

12 A Yes, that would be accurate. Which I think also
13 leads to the discussion of is LATA-wide local, however it is
14 defined, really a simplification method. And I think our
15 experience with that one ALEC has proven that it is not. It
16 has been a point of disagreement.

17 Q Do you know in addition to these 14 how many
18 agreements BellSouth has with ALECs that call for local wide --
19 excuse me, LATA-wide local calling for reciprocal compensation
20 purposes?

21 A I do not know the exact number. We have many
22 agreements that are not -- between us and carriers who do not
23 operate who have negotiated an agreement or not, and from a
24 standpoint of operationally, we did not have ready access to
25 those agreements. From an operational standpoint, I feel that

1 it is probably safe to say that all of these are the ones that
2 have that type definition that still exclude switched access.

3 Q On Page 8 and 9 of your rebuttal testimony filed
4 March 26th of this year, you testify -- and I am reading
5 beginning at Line 23 of Page 8. Do you have that in front of
6 you?

7 A Yes.

8 Q "However, in Florida, Section 364.16(3)(a) of the
9 Florida Statute limits this authority by not allowing an ALEC
10 to knowingly deliver traffic where terminating access charges
11 would otherwise apply. Section 364.16(3)(a) does not allow the
12 Florida Public Service Commission to determine that all calls
13 within the LATA are local." Correct?

14 A Yes.

15 Q You are not an attorney, are you?

16 A No.

17 Q And isn't it exactly what your agreements do with
18 these 14 ALECs is to have intraLATA calls as local calls?

19 A No. As I have previously testified, all of those
20 agreements exclude switched access as it comes over switched
21 access arrangements. That is specifically what I understand
22 Section 364.16(3)(a) to talk about, which would be any call
23 that is terminated over a switched access arrangement for which
24 local interconnection -- I'm sorry, for which switched access
25 would otherwise apply.

1 Q Okay. So if this Commission were to decide switched
2 access does not apply in intraLATA local, that section would no
3 longer be implicated?

4 A I don't know that I can say -- and, again, we can
5 handle this on briefs, since it is a legal issue -- but from
6 our standpoint I don't know that that is really the intent of
7 the section. This Commission very much looked at that section
8 of the statute in determining the Florida Telenet order which I
9 have described in my testimony, and found that in that order
10 basically an ALEC can have a different local calling area than
11 the ILEC, but is still bound to pay access charges on the
12 ILEC's local calling area because of Section 364.16 Subpart
13 (3)(a).

14 Q Okay. But like you say, you are not an attorney and
15 perhaps that is best left for post-hearing briefs?

16 A Correct.

17 MR. McDONNELL: Okay. Thank you, Ms. Shiroishi, I
18 have no further questions.

19 CHAIRMAN JABER: Mr. Moyle.

20 CROSS EXAMINATION

21 BY MR. MOYLE:

22 Q Just a couple of questions. Getting back on this
23 point, I think, that you were making about universal access
24 could be jeopardized based on a LATA-wide calling area. Was
25 that your testimony that you provided previously, that this

1 revenue stream could be affected and have a negative impact on
2 universal service?

3 A Correct.

4 Q I think you also indicated that your traditional
5 sources of revenue are changing within the company, isn't that
6 correct?

7 A Correct.

8 Q The revenue stream you identified as potentially
9 having this negative impact, is that the only revenue stream
10 that is used to subsidize local service?

11 A No. Again, because in Florida our USF obligations
12 are implicit, they are in other services, as well. And to go
13 on the record, I don't know -- and, again, I'm not the USF
14 expert -- but I don't know that BellSouth apportions X percent
15 to certain services. The thought process as I understand it
16 behind the '95 order was to ensure that the company as a whole
17 manages that.

18 Q But from the standpoint of the percentage of revenues
19 that are used with respect to this universal service, you don't
20 know any of those numbers or anything as you sit here today, do
21 you?

22 A No. Again, typically it would fall to reason that
23 your higher priced services are going to help supply the
24 revenue stream for your lower priced services.

25 Q We have talked a lot about a LATA-wide local calling

1 area. Would it be fair to say that consumers could realize
2 some benefits to having an extended local calling area?

3 A I don't think that LATA-wide local or not doing
4 LATA-wide local is going to drive that behavior. If an ALEC
5 chose to market a plan or an ILEC, for that instance, which
6 made everything in the LATA local for some flat rate or per
7 minute of use or whatever, then obviously that relationship
8 with the retail end user, the retail end user may realize a
9 benefit if that plan is of value to them. But I don't think
10 that you can say that having a LATA-wide local definition in an
11 agreement is going to drive that behavior or not drive that
12 behavior.

13 Q But you do recognize, and I think you would admit
14 that to the extent that an ALEC decides to head in that
15 direction with a business plan or a marketing plan that that
16 potentially could be attractive to the consumers, correct?

17 A Today I believe pretty much all carriers have some
18 type of plan. BellSouth has extended local calling plan
19 offerings in its tariffs that are obviously a toll substitute
20 or flat rate type process, and ALECs do the same.

21 MR. MOYLE: Nothing further.

22 CHAIRMAN JABER: Mr. Feil.

23 CROSS EXAMINATION

24 BY MR. FEIL:

25 Q The masquerading of traffic that you were referring

1 to earlier, I want to make sure I understand what you meant by
2 that. Were you referring to a situation where an IXC sends
3 interLATA traffic over a local interconnection arrangement, is
4 that what you are referring to when you were referring to
5 masquerading traffic?

6 A Not particularly in that instance. We do have that
7 happen today, and BellSouth has claims against IXCs and/or
8 ALECs in several states that actually deal with that. What I
9 was specifically talking about in this testimony was if you
10 were to have a scenario where all calls in the LATA are local,
11 depending on how that were to shake out, in staff's
12 recommendation, again, there was a sentence that said it would
13 exclude IXCs, that potentially that exclusion of IXCs and the
14 definition therein would obviously open itself up to
15 discrepancy.

16 As I think we have already seen, I think Doctor
17 Trimble pointed out in his testimony that even in this docket
18 you have seen different interpretations of that exact thing.
19 AT&T, I believe if you read their testimony is basically saying
20 all calls in the LATA are local versus other carriers who are
21 saying, well, it would still only be, you know, an ALEC-to-ILEC
22 type interchange and not include IXCs.

23 Q So you are not referring to masquerading of the
24 traffic, but rather a masquerading of the carrier?

25 A Well, it would still be the traffic. Masquerading

1 the traffic from intraLATA switched access to local. Again, by
2 virtue of the fact of is it going from an ALEC or an ILEC,
3 different potential possibilities.

4 Q Would the masquerading include only instances where
5 the carrier strips the ANI off or are there other instances
6 that you are referring to?

7 A There could be other instances. As Mr. McDonnell
8 alluded to, we have a disagreement with a carrier today over
9 what falls as local under their agreement versus not. Because
10 of this -- and that is not due to the stripping of ANI or
11 information, but rather how do we classify what is local and
12 not.

13 Q Does that stem from the wording of the
14 interconnection agreement?

15 A I would say probably both parties would say that,
16 yes.

17 Q Okay. Thank you. In an instance where an ALEC seeks
18 to take advantage of any Commission ruling that provides for
19 LATA-wide local, are you aware of anything that would prohibit
20 the Commission from conditioning the ALEC's invoking or taking
21 advantage of such a rule on the ALEC's not charging its
22 customers toll or long distance rates in order for the ALEC to
23 take advantage of LATA-wide local?

24 A I think that would be dependent on how the Commission
25 order is worded.

1 Q But you are not aware of anything that would prohibit
2 the Commission from placing such a condition?

3 A Not my knowledge.

4 MR. FEIL: That's all.

5 CHAIRMAN JABER: Redirect. Commissioner Palecki.

6 COMMISSIONER PALECKI: I just have a question, a
7 followup. Would placing such a condition by this Commission in
8 its order resolve some of your concerns?

9 THE WITNESS: Not BellSouth's concerns. From a
10 retail standpoint, I think that is an entirely different issue.
11 From an intercarrier compensation standpoint, you would still
12 have the issue of whether that call is local or access.

13 COMMISSIONER PALECKI: Thank you.

14 CHAIRMAN JABER: Redirect.

15 MR. EDENFIELD: None from BellSouth.

16 CHAIRMAN JABER: Thank you, Ms. Shiroishi.

17 Exhibits. Mr. Edenfield, you have got Exhibit 1.

18 MR. EDENFIELD: Yes, Madam Chair, and BellSouth would
19 move that into the record.

20 CHAIRMAN JABER: Without objection, Composite Exhibit
21 1 is admitted into the record.

22 (Composite Exhibit 1 admitted into the record.)

23 CHAIRMAN JABER: Staff, I haven't forgotten about
24 your exhibits. We will do that at the end. Okay.

25 MR. EDENFIELD: That concludes BellSouth's --

1 CHAIRMAN JABER: Okay. Thank you.

2 Ms. Caswell.

3 MS. CASWELL: Verizon calls Dennis Trimble.

4 CHAIRMAN JABER: We will give you enough time to set
5 up, so we will take a five-minute break.

6 (Recess.)

7 CHAIRMAN JABER: Let's go ahead and reconvene.

8 DENNIS TRIMBLE

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

11 DIRECT EXAMINATION

12 BY MS. CASWELL:

13 Q Please state your name and business address?

14 A My name is Dennis Trimble. My business address is
15 600 Hidden Ridge, Irving, Texas.

16 Q And by whom are you employed and in what capacity?

17 A I am employed by Verizon Services Group as Executive
18 Director, Regulatory.

19 Q Did you file direct and rebuttal testimony in this
20 case?

21 A Yes, I did.

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

24 A I have four minor changes to the rebuttal testimony,
25 most of which were an inadvertent error in terms of formatting

1 from the direct testimony, I picked up the wrong pages, so I
2 will go through those very, very quickly. On Page 4, Line 24,
3 there is a parenthetical statement, Trimble DT, Page 29, that
4 should be Page 26.

5 On Page 5, Line 19, a similar parenthetical that says
6 Trimble DT, Page 24. That should be Page 22.

7 On Page 15, we actually have a substantial error,
8 errata. On Line 21 it says mirror the ILEC's local calling
9 areas, it should say mirror the -- excuse me, it says mirror
10 the ALEC's, it should say mirror the ILEC's local calling area.

11 And on Page 18, Line 17, in the parenthetical it says
12 Trimble DR, Pages 34 through 35, 37, and 39. That should be
13 Trimble DT, Pages 29 through 31 and 34.

14 And then also on Line 21, it says Shiroishi DR, and
15 that should be Shiroishi DT for direct testimony.

16 Q And with those changes, if I were to ask you the same
17 questions again, would your answers remain the same?

18 A Yes, they would.

19 MS. CASWELL: Madam Chair, I would ask that Mr.
20 Trimble's direct and rebuttal testimonies be inserted into the
21 record as though read.

22 CHAIRMAN JABER: The prefiled direct and rebuttal
23 testimony of Dennis Trimble shall be inserted into the record
24 as though read.

25 MS. CASWELL: Thank you.

1 BY MS. CASWELL:

2 Q And did your direct testimony, Mr. Trimble, include
3 one exhibit labelled DBT-2?

4 A Yes, it did.

5 MS. CASWELL: And, Madam Chair, may I have that
6 exhibit marked for identification.

7 CHAIRMAN JABER: Sure. DBT-2 shall be identified as
8 Exhibit 2.

9 (Exhibit 2 marked for identification.)

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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. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received an undergraduate degree in business and an MBA from Washington State University in the early 1970s. I then served as an Assistant Professor at the University of Idaho, where I taught undergraduate courses in statistics, operations research, and decision theory. From 1973-76, I completed course work towards a Ph.D. degree in business at the University of Washington, majoring in quantitative methods with minors in computer science, research methods, and economics.

I joined GTE Corporation in 1976 as an Administrator of Pricing Research for General Telephone Company of the Northwest. From 1976 until 1985, I held various positions within GTE Northwest and GTE Service Corporation in the areas of demand analysis, market research, and strategic planning. In 1985, I was named Director of Market Planning for GTE Florida Incorporated, and in 1987, I became GTE Florida

1 Incorporated's Director of Network Services Management. In 1988, I
2 became Acting Vice President – Marketing for GTE Florida. From 1989
3 to 1994, I was the Director of Demand Analysis and Forecasting for GTE
4 Telephone Operations. In October 1994, I became Director of Pricing
5 and Tariffs for GTE Telephone Operations, and in 1996, I was named
6 Assistant Vice President of Marketing Services. In February 1998, I
7 assumed the position of Assistant Vice President - Pricing Strategy for
8 GTE Corporation. I assumed my current position in September 2000. I
9 am currently responsible for assisting Verizon Communications Inc. in its
10 development of pricing policies and for supporting those policies in the
11 various regulatory arenas in which it operates.

12

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE REGULATORY**
14 **COMMISSIONS?**

15 A. Yes, I have presented testimony on pricing and customer demand related
16 issues on behalf of various Verizon telephone companies before state
17 commissions in Alabama, California, Florida, Hawaii, Indiana, Missouri,
18 Oregon, Pennsylvania, South Carolina, Texas, Virginia, and Washington.
19 The testimony that I gave in those commission appearances generally
20 concerned analysis of customer demand characteristics and/or policies
21 relating to the pricing of retail and wholesale services.

22

23 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

24 A. My testimony addresses the two issues deferred from the December 5,
25 2001, agenda conference where the Commission voted on the other

1 issues in this docket. These are: How should local calling area be
2 defined for reciprocal compensation purposes? (Issue 13); and Should
3 the Commission establish a default reciprocal compensation mechanism
4 when the parties can't agree on one; if so, what should it be? (Issue 17).
5 With regard to the default mechanism, the Commission has asked the
6 parties to focus, in particular, on a bill-and-keep approach.

7
8 As the Commission requested, Verizon is also resubmitting portions of its
9 earlier testimony on Issues 13 and 17. That testimony (Dr. Beauvais'
10 Direct and Rebuttal Testimonies and Mr. Haynes' Direct and Rebuttal
11 Testimonies) is attached as Exhibit DBT-1.

12
13 **Q. DO YOU HAVE A SINGLE RECOMMENDATION ON THE TWO ISSUES**
14 **TO BE RESOLVED?**

15 A. Yes. The preferred way to define the intercarrier compensation method
16 and the local calling area to be used in applying that method is through
17 negotiation between the contracting parties. I believe the Staff, the
18 Commission, and most, if not all, parties agree with this view. However, I
19 understand the Commission also wishes to establish default options in
20 the event parties' negotiations are unsuccessful. I agree that adoption of
21 default approaches relative to Issues 13 and 17 can be beneficial, as
22 long as these approaches do not favor one class of carrier over any
23 other.

24
25

1 **Q. IF THE COMMISSION WISHES TO ADOPT A DEFAULT APPROACH**
2 **TO ISSUE 13, WHAT SHOULD IT BE?**

3 A. The Commission should maintain the status quo—that is, approve the
4 incumbent local exchange carriers' (ILECs') local calling areas for
5 purposes of applying intercarrier compensation. This is the most
6 administratively simple and competitively neutral approach.

7
8 **Q. HOW SHOULD THE COMMISSION RULE WITH RESPECT TO A**
9 **DEFAULT RECIPROCAL COMPENSATION MECHANISM (ISSUE 17)?**

10 A. I would advise the Commission to defer ruling on a default intercarrier
11 compensation mechanism until the FCC concludes its ongoing
12 rulemaking to examine establishment of a unified intercarrier
13 compensation scheme. As Mr. Beauvais testified earlier, the FCC has
14 already undertaken a thorough analysis of the feasibility of a bill-and-
15 keep approach for all traffic, including the local traffic at issue in this
16 docket. (*Developing a Unified Intercarrier Compensation Regime*, Notice
17 of Proposed Rulemaking, 16 FCC Rcd 9610 (2001).) Comments and
18 replies have been submitted in that case and further FCC action is
19 pending. Because the FCC is evaluating the same intercarrier
20 compensation issue slated for resolution in this docket, the most efficient
21 approach is to await the FCC's ruling. Although I understand the
22 Commission's desire to resolve the intercarrier compensation issue on a
23 state policy level, I am not aware of the carriers themselves having
24 expressed any particular urgency in this regard. If the Commission
25 adopts a state scheme that is inconsistent with the FCC's, then it will

1 likely have to abandon that scheme. In that case, both the Commission
2 and the carriers will have wasted considerable time and effort.

3

4 If the Commission nevertheless decides to adopt a default compensation
5 scheme for transport and termination of traffic subject to section 251 of
6 the Telecommunications Act of 1996 (Act), a carefully crafted bill-and-
7 keep approach that appropriately addresses critical and inextricably
8 related interconnection trunking arrangements may provide benefits.

9

10 **ISSUE 13: DEFINITION OF LOCAL CALLING AREA FOR**
11 **INTERCARRIER COMPENSATION PURPOSES**

12

13 **Q. WHAT IS THE COMMISSION'S JURISDICTION TO ESTABLISH A**
14 **DEFAULT LOCAL CALLING AREA FOR INTERCARRIER**
15 **COMPENSATION PURPOSES?**

16 **A.** I am not a lawyer, but I know that the FCC has affirmed that "state
17 commissions have the authority to determine what geographic areas
18 should be considered 'local areas' for the purpose of applying reciprocal
19 compensation obligations under section 251(b)(5), consistent with the
20 state commissions' historical practice of defining local service areas for
21 wireline LECs." (*See Implementation of the Local Competition Provisions*
22 *in the Telecomm. Act of 1996*, First Report and Order, 11 FCC Rcd
23 15499 at para. 1035 (1996).) This authority, of course, must be
24 exercised consistently with State and federal laws and regulations. While
25 I call the Commission's attention to portions of the Act and the Florida

1 Statutes that may bear on resolution of Issue 13, any legal issues relative
2 to defining local calling areas for applying intercarrier compensation will
3 be thoroughly addressed in Verizon's post-hearing brief.

4

5 **Q. PLEASE IDENTIFY THE MAJOR POLICY ISSUES ASSOCIATED WITH**
6 **DEFINING THE LOCAL CALLING AREA FOR INTERCARRIER**
7 **COMPENSATION PURPOSES.**

8 A. In my opinion, the Commission must remain aware of a number of policy
9 concerns in deciding this issue. The default definition of the local calling
10 area for intercarrier compensation purposes must: (1) be competitively
11 neutral, (2) avoid undermining the advancement and preservation of
12 universal service, (3) be administratively easy to implement, and (4) focus
13 on the end user. Continued use of the ILECs' Commission-approved
14 local calling areas to define intercarrier compensation obligations serves
15 these objectives. In contrast, none of these objectives will be met if the
16 Commission adopts either of the proposals that were presented earlier in
17 this case—(1) defining the entire LATA as the local calling area for
18 applying intercarrier compensation; or (2) allowing the originating carrier
19 to define the local calling area for intercarrier compensation purposes.

20

21 **Q. DID ANY PARTY IN THIS CASE RECOMMEND A LATA-WIDE**
22 **CALLING AREA FOR RECIPROCAL COMPENSATION PURPOSES?**

23 A. I was not involved in the earlier stage of this proceeding, but my
24 understanding from reading the Staff's November 21, 2001
25 Recommendation and the transcript is that no party proposed a LATA-

1 wide local calling area for reciprocal compensation purposes. (See, e.g.,
2 Dec. 5, 2002 Agenda Conf. Tr. at 39.) This extreme approach would
3 have unintended negative consequences.

4
5 While Staff nominally acknowledged Verizon's concerns about summarily
6 doing away with the local/toll distinction and access subsidy flows, it
7 dismissed these concerns as relatively insignificant, stating: "The only
8 difference is that Verizon will pay reciprocal compensation to whatever
9 local carrier terminates that call within the LATA." (Staff
10 Recommendation, Nov. 21, 2001, at 46.)

11
12 I respectfully disagree with Staff's view of the significance of the policy
13 consequences of imposing a LATA-wide local calling area for assessing
14 reciprocal compensation. LATA-wide reciprocal compensation will
15 obliterate the local/toll distinction that this Commission has maintained for
16 decades. This distinction is not accidental; rather, it is the product of
17 deliberate policy choices by this Commission. While the Commission is
18 free to change longstanding policies, it must have a thorough
19 understanding of the consequences and a well-reasoned basis for the
20 change.

21
22 The Texas Public Utility Commission understood this point. It rejected
23 the LATA-wide reciprocal compensation approach (proposed there by
24 AT&T), holding that the ILEC's mandatory local calling areas were the
25 appropriate basis for determining reciprocal compensation obligations.

1 The Commission correctly observed that the LATA-wide proposal
2 implicated ILEC access revenue streams and had “ramifications on rates
3 for other types of calls, such as intraLATA toll calls,” that were beyond the
4 scope of a proceeding to address intercarrier compensation for local
5 traffic. (*Proceeding to Examine Reciprocal Compensation Pursuant to*
6 *Section 252 of the Federal Telecomm. Act of 1996*, Arbitration Award,
7 Tex. P.U.C. Docket No. 21982, 2000 Tex. PUC Lexis 95; 203 P.U.R. 4th
8 419 (2000).)

9
10 **Q. HOW IS PROMOTION OF UNIVERSAL SERVICE RELATED TO THE**
11 **EXISTING LOCAL/TOLL REGIME?**

12 A. Verizon witness Haynes discussed the nature and purpose of the
13 local/toll distinction at length earlier in the proceeding, and his testimony
14 (in my Exhibit DBT-1) is worth rereading. Briefly, the historical purpose of
15 local calling area designations is to distinguish local calls from toll calls, to
16 which access charges apply. This Commission’s access regime was
17 established with the explicit objective of maintaining universal service.
18 *See Intrastate Tel. Access Charges for Toll Use of Local Exchange*
19 *Services*, Order No. 12765, at 7 (1983). As the Commission has
20 acknowledged, basic local residential rates are subsidized by revenues
21 from other services, such as access. (See, e.g., Report on Universal
22 Service and Lifeline Funding Issues, Docket 980696-TP, vol. I, ch. III, p.
23 22 (Feb. 1999).) If the Commission requires payment of intercarrier
24 compensation on a LATA-wide basis, access revenues—and thus the
25 subsidy flows to basic local rates—will diminish.

1

2 The Commission cannot responsibly consider doing away with the
3 local/toll distinction for purposes of applying intercarrier compensation
4 without also considering the negative consumer effects of eliminating
5 these access subsidy flows to basic local rates.

6

7 I believe a comprehensive treatment of that issue is beyond the scope of
8 this docket, which was intended to address intercarrier compensation. If
9 the Commission is inclined to make the fundamental policy shift inherent
10 in approving LATA-wide reciprocal compensation payments, then all
11 potentially interested parties should have fair notice and opportunity to
12 comment on this major change.

13

14 **Q. WOULD A LATA-WIDE LOCAL CALLING AREA FOR RECIPROCAL**
15 **COMPENSATION PURPOSES BE COMPETITIVELY NEUTRAL?**

16 A. No. It would put both IXCs and ILECs at a competitive disadvantage with
17 regard to intraLATA toll calling. Under the LATA-wide approach, all
18 intraLATA calls handled jointly by ALECs and ILECs would be termed
19 "local" and subject to reciprocal compensation. But, an intraLATA call
20 that involves an IXC would still be subject to access compensation rules.

21 The ILECs would, likewise, be subject to access compensation rules
22 when they handle toll calls for their presubscribed customers because
23 Florida law requires them to impute access costs into their intraLATA toll
24 rates. Applying different intercarrier compensation rules to the same
25 type of calls would give the ALECs a significant, artificial competitive

1 advantage in pricing their intraLATA calls (regardless of whether they call
2 them local calls or toll calls) versus pricing based on the cost structures
3 that the IXC and the ILEC (through imputation) face.

4

5 This Commission has a keen interest in promoting fair and efficient
6 competition, but it has no legitimate interest in protecting any particular
7 type of competitor. When regulatory decisions artificially handicap some
8 carriers, but not others, markets cannot develop properly, to the detriment
9 of telecommunications consumers.

10

11 **Q. PLEASE EXPLAIN FURTHER HOW ACCESS CHARGES ARE**
12 **ASSESSED ON INTRALATA CALLS TODAY.**

13 A. Access charges are applied to intraLATA toll calls as between a local
14 carrier and an IXC and as between two local carriers.

15

16 For intraLATA toll calls carried by IXCs, the IXC pays the originating ILEC
17 an originating access charge (the major components of which are an end-
18 office switching charge, a transport charge, a carrier common line charge,
19 an interconnection charge and a tandem switching charge) and the IXC
20 pays the terminating ILEC a similar terminating access charge. In
21 Verizon's territory, the sum of originating and terminating charges
22 averages about \$0.09 per minute, which the IXC recovers through its toll
23 charges to its customer.

24

25 **Q. DO THESE SAME ACCESS CHARGE STRUCTURES APPLY WHEN**

1 **AN ALEC (RATHER THAN AN ILEC) ORIGINATES OR TERMINATES**
2 **AN IXC’S INTRALATA TOLL CALL?**

3 A. Yes, access charges were developed to address compensation between
4 all local exchange carriers and IXCs when those carriers collaborate to
5 complete long distance calls. Verizon will bill the IXC access charges for
6 whichever end of the call Verizon handles (originating or terminating).
7 The ALEC, likewise, can be expected to charge the IXC an access rate
8 for the other end of the call. The following depicts the various end-user
9 charges and intercompany charges for intraLATA toll that occur under
10 today’s set of rules:

11 Table 1

12 Compensation Between (1) ILECs or ALECs and (2) IXCs When They
13 Collaborate to Complete IntraLATA Toll Calls
14 (Current Rules)

| | | | |
|----|--------------------------------|----------------------|--------------------------------|
| 15 | | | |
| 16 | ILEC or ALEC | IXC | LEC or ALEC |
| 17 | <u>Originating Call</u> | | <u>Terminating Call</u> |
| 18 | Charges the IXC for | Charges the end-user | Charges the IXC for |
| 19 | Originating access | for toll service | terminating access |
| 20 | | | |

21 **Q. WHAT HAPPENS TODAY WHEN THERE IS NO IXC INVOLVED, AND**
22 **THE ILEC AND ALEC COLLABORATE TO COMPLETE AN**
23 **INTRALATA TOLL CALL?**

24 A. When an ILEC and an ALEC collaborate to complete an intraLATA toll
25 call (excluding toll free services such as 800/888), the following

1 compensation flows apply:

2

Table 2

3

Compensation Between ILECs and ALECs When They Collaborate to

4

Complete IntraLATA Toll Calls

5

(Current Rules)

6

7

ILEC Originating Call

ALEC Terminating Call

8

Charges the end-user for toll service

Charges the ILEC for terminating

9

access

10

11

ALEC Originating Call

LEC Terminating Call

12

Charges the end-user for toll service

Charges the ALEC for terminating

13

Access

14

15 **Q. IF A VERIZON CUSTOMER THAT IS PRESUBSCRIBED TO VERIZON**
 16 **FOR INTRALATA LONG DISTANCE MAKES A TOLL CALL TO**
 17 **ANOTHER VERIZON CUSTOMER, DOES VERIZON PAY ACCESS**
 18 **CHARGES?**

19 A. Since the total call is handled by Verizon, there is no explicit payment of
 20 access charges. As I mentioned above, however, state law requires
 21 ILECs to “impute” the cost of access charges into their intraLATA toll
 22 rates. (Chapter 364, Section 364.051(6)(c)). This imputation requirement
 23 assures that Verizon’s toll rates reflect a cost structure that is consistent
 24 with that of the IXCs; thus, assessment of access charges is
 25 competitively neutral as between Verizon and the IXCs that depend on

1 Verizon's facilities for provisioning of their toll services.

2

3 **Q. WOULD A LATA-WIDE CALLING AREA FOR RECIPROCAL**
4 **COMPENSATION PURPOSES FAVOR ONE CLASS OF CARRIERS**
5 **OVER ANOTHER?**

6 A. Yes. The FCC requires the reciprocal compensation rate to equal the
7 economic cost of the underlying facilities used to terminate traffic; this
8 rule necessarily precludes inclusion of implicit support for universal
9 service objectives. So under a LATA-wide reciprocal compensation
10 structure, the ALEC's new cost structure for what was access traffic is
11 now: Total Direct Cost of a ALEC Call = The ALEC's Originating Facility
12 and Transport Costs plus the ILEC's Reciprocal Compensation Charge.
13 Thus, whereas the ALEC today pays at least something toward universal
14 service support through the access charge structure, it would pay nothing
15 under the LATA-wide reciprocal compensation proposal—again, because
16 reciprocal compensation, unlike access charges, does not include any
17 implicit support for the advancement and preservation of universal
18 service. Because significant amounts of such support continue to exist in
19 the IXCs' toll cost structure and in the ILECs' imputed toll cost structure,
20 the IXCs and the ILECs are artificially disadvantaged in their provision of
21 toll vis a vis the ALECs.

22

23 **Q. WILL DESIGNATING THE LATA AS THE LOCAL CALLING AREA**
24 **FOR APPLYING INTERCARRIER COMPENSATION CREATE NEW**
25 **ARBITRAGE OPPORTUNITIES?**

1 A. Yes. This approach enhances the ALECs' opportunities to arbitrage the
 2 ILEC's existing rate structures. Notice that when ILECs or ALECs
 3 collaborate with an IXC to complete long-distance calls under the LATA-
 4 wide approach, the inter-company compensation with the IXC would be
 5 the same as it is now:

6 Table 3

7 Compensation Between (1) ILECs or ALECs and (2) IXCs When They
 8 Collaborate to Complete IntraLATA Toll Calls
 9 (LATA-wide Reciprocal Compensation Scenario)

| | | | |
|----|-------------------------|-------------------------------|-------------------------|
| 10 | | | |
| 11 | ILEC or ALEC | | LEC or ALEC |
| 12 | <u>Originating Call</u> | <u>IXC</u> | <u>Terminating Call</u> |
| 13 | Charges the IXC for | Charges the end-user for toll | Charges the IXC for |
| 14 | Originating access | service | terminating access |
| 15 | | | |

16 But under the LATA-wide reciprocal compensation scenario, when
 17 an ILEC and an ALEC collaborate to complete what was previously an
 18 intraLATA toll call (excluding toll free services such as 800/888),
 19 terminating access charges would be replaced with a reciprocal
 20 compensation charge (which is significantly less than access charges):

21 Table 4

22 Compensation Between ILECs and ALECs When They Collaborate to
 23 Complete IntraLATA Toll Calls
 24 (LATA-wide Reciprocal Compensation Scenario)

| | | |
|----|------------------------------|------------------------------|
| 25 | <u>ILEC Originating Call</u> | <u>ALEC Terminating Call</u> |
|----|------------------------------|------------------------------|

| | | |
|---|---------------------------------------|---------------------------------|
| 1 | Charges the end-user for toll service | Charges the ILEC the reciprocal |
| 2 | | Compensation rate |
| 3 | | |
| 4 | <u>ALEC Originating Call</u> | <u>LEC Terminating Call</u> |
| 5 | Charges the end-user for toll service | Charges the ALEC the reciprocal |
| 6 | | Compensation rate |
| 7 | | |

8 The point is that competitive neutrality must be evaluated by
9 looking at all the participants in the marketplace, not just a selected few.
10 The LATA-wide reciprocal compensation approach ignores this simple
11 fact. It would confer an artificial cost advantage upon the ALECs
12 because the ALEC, unlike the IXCs and the ILECs, would pay nothing to
13 support universal service. Nothing about this proposal is competitively
14 neutral.

15
16 **Q. WOULD USING THE ORIGINATING CARRIER'S RETAIL LOCAL**
17 **CALLING AREA TO DEFINE LOCAL CALLING AREA FOR RECIPROCAL**
18 **COMPENSATION PURPOSES FAVOR ONE CLASS OF CARRIERS**
19 **OVER ANOTHER?**

20 A. Yes. Basing intercarrier compensation on the originating carrier's retail local
21 calling area would be even worse than LATA-wide reciprocal compensation.
22 This approach is administratively infeasible and fraught with irrational
23 outcomes. It could enable ALECs to pay lower reciprocal compensation
24 rates for outbound traffic, to receive higher access rates for inbound traffic, or
25 even a combination of the two, exacerbating the problems identified in

1 relation to LATA-wide reciprocal compensation.

2

3 A simple example will prove the unacceptable nature of this proposal.
4 Tampa and Sarasota are not in the same Commission-approved Verizon
5 local calling area. But under the originating carrier scenario, they could
6 be in the same local calling area of an ALEC. In that situation, when a
7 Verizon Tampa subscriber calls an ALEC's Sarasota subscriber, Verizon
8 would be required to pay the ALEC access to terminate the call.
9 However, under this hypothetical situation, when an ALEC customer in
10 Sarasota calls a Verizon customer in Tampa, the ALEC avoids paying
11 Verizon's terminating access charges and instead pays only the lower
12 reciprocal compensation rate. Thus, for identical calls between Tampa
13 and Sarasota, the ALEC would collect a higher rate for calls from Verizon
14 customers, but pay a lower rate for calls originated by its customers. The
15 inequity of basing intercarrier compensation on the originating carrier's
16 local calling areas is obvious. Like the LATA-wide compensation plan,
17 this plan is not competitively neutral and would encourage gaming of the
18 system.

19

20 A very simple example of such gaming would be that in the above
21 situation, an ALEC may set up shop to market outbound calling services.

22 In that case, it may establish a large "local" calling area for its retail
23 customers, and would, under this misguided proposal, pay the lower
24 reciprocal compensation rate for calls that would otherwise be subject to
25 terminating access charges. But the same ALEC may instead choose to

1 market inbound calling services. In that case, it would charge higher
2 terminating access rates for its inbound traffic—for calls between the
3 same local exchange carriers and the same geographic points to which it
4 pays the lower reciprocal compensation rate.

5

6 The direction of the call should play no part in the determining how
7 intercarrier compensation should be assessed. As Mr. Dowds observed
8 when the originating carrier option was raised at the agenda conference:

9 [I]t just strikes me as highly anomalous that the form of
10 compensation will differ based upon the direction of the
11 call, which is really what you're, you're allowing for here. It
12 seems to me that you've encouraged gaming.

13

14 (Agenda Conf. Tr. 64.)

15

16

17 Mr. Dowds is exactly right about the effects of using the originating
18 carrier's local calling area to determine the form of intercarrier
19 compensation. This approach will prompt ALECs to formulate business
20 plans based on avoiding access charges and receiving maximum
21 reciprocal compensation—rather than focussing on the end user. The
22 Commission should not facilitate this kind of behavior, which does
23 nothing to further true competition.

24

25 **Q. PLEASE COMMENT ON THE ADMINISTRATIVE PROBLEMS**

1 **ASSOCIATED WITH USING THE ORIGINATING CARRIER'S RETAIL**
2 **LOCAL CALLING AREA FOR RECIPROCAL COMPENSATION**
3 **PURPOSES?**

4 A. Staff was correct in concluding that allowing the originating carrier to
5 define the local calling area for intercarrier compensation purposes would
6 be administratively infeasible. Each ALEC may have its own originating
7 local calling area, or may have multiple local calling options; given their
8 regulatory freedoms, these ALECS may change their calling areas any
9 time virtually at will. Not only the ILECs—but every ALEC—would have
10 to attempt to track these changes and build and maintain billing tables to
11 implement each local calling area and associated reciprocal
12 compensation application. Administration is even further complicated if
13 one assume that local calling areas may extend within or beyond LATA,
14 or even state boundaries.

15

16 For reasons of equity and practicality, a uniform standard must be used
17 to determine whether a call is subject to the payment of reciprocal
18 compensation or access charges. That standard has been and should
19 continue to be whether the call originates and terminates within an ILEC's
20 local calling area; it brings the highest degree of competitive neutrality
21 among ILECs, IXCs, and ALECs when assessing access or reciprocal
22 compensation.

23

24

25 **Q. ASIDE FROM COMPETITIVE NEUTRALITY PROBLEMS, HOW**

1 **WOULD LATA-WIDE RECIPROCAL COMPENSATION OR**
2 **INTERCARRIER COMPENSATION BASED ON THE ORIGINATING**
3 **CARRIER'S RETAIL LOCAL CALLING AREA AFFECT THE**
4 **COMMISSION'S MISSION TO PROMOTE UNIVERSAL SERVICE?**

5 A. To the extent that ALECs can substitute reciprocal compensation
6 payments for access charge payments, they also avoid supporting
7 universal service. As I've explained, access charges include
8 contributions to basic local rates, while reciprocal compensation
9 payments do not. Thus, the proposals for LATA-wide reciprocal
10 compensation and for using the originating carrier's retail local calling
11 area to define reciprocal compensation obligations directly conflict with
12 the objective of preserving and advancing universal service, which
13 Congress explicitly affirmed:

14 All providers of telecommunications services should make
15 an equitable and nondiscriminatory contribution to the
16 preservation and advancement of universal service. (Act,
17 Section 254(b)(4))

18
19 There is no explicit universal service fund in Florida, so all state
20 support for universal service is generated implicitly within the
21 ILECs' rate structures--whether through switched access, toll, or
22 other rate elements. Paying reciprocal compensation rates for
23 what have always been designated as access traffic allows the
24 ALECs to take implicit universal service support flows out of the
25 system—contrary to Congress' expressed intention for all carriers

1 to equitably contribute to preservation and advancement of
2 universal service.

3

4 **Q. GIVEN THESE ANTICOMPETITIVE AND ANTICONSUMER EFFECTS,**
5 **WHY WOULD THE STAFF HAVE PROPOSED LATA-WIDE**
6 **RECIPROCAL COMPENSATION?**

7 A. I know that Staff intended its recommendation as to the definition of local
8 calling area for reciprocal compensation purposes to be competitively
9 neutral and that it would not knowingly propose a solution that is at odds
10 with universal service objectives. But because no party proposed LATA-
11 wide reciprocal compensation in this proceeding, there was insufficient
12 opportunity to fully inform Staff and the Commission of the consequences
13 of LATA-wide reciprocal compensation for competitive neutrality or other
14 important policy objectives, like maintenance of universal service. Now
15 that I have explained those consequences, there can be no doubt that
16 the LATA-wide approach (or intercarrier compensation based on the
17 originating carrier's retail local calling area) would not be competitively
18 neutral or consistent with universal service objectives.

19

20 Aside from competitive neutrality considerations, Staff appears to have
21 believed that LATA-wide reciprocal compensation was superior to the
22 options proposed by the parties for two reasons: (1) it would be easy to
23 administer; and (2) it would give the ALECs' leverage in interconnection
24 negotiations. (See, e.g., Agenda Conf. Tr. at 43, 48.) This is not sound
25 rationale for adopting LATA-wide reciprocal compensation.

1

2 **Q. WOULD LATA-WIDE RECIPROCAL COMPENSATION BE EASIER TO**
3 **ADMINISTER THAN THE CURRENT SYSTEM OF DEFINING**
4 **INTERCARRIER COMPENSATION OBLIGATIONS WITH REFERENCE**
5 **TO THE ILECS' LOCAL CALLING AREAS?**

6 A. No. LATA-wide reciprocal compensation has no advantage over the
7 existing system of defining intercarrier compensation by using the ILECs'
8 tariffed local calling areas. The current system has the advantage
9 because it has worked well over the years and it is easier to maintain an
10 existing, proven system than to implement and administer a new one.
11 More important, under the current system, all carriers in Florida have an
12 absolute understanding as to what is considered local traffic and what is
13 considered toll traffic for intercarrier compensation purposes. In addition,
14 the current system does not vary between type of carrier (e.g., ILEC, IXC,
15 or ALEC) and all carriers have systems in place that can handle existing
16 rules.

17

18 **Q. CAN YOU COMMENT ON THE APPARENT OBJECTIVE OF GIVING**
19 **THE ALEC NEGOTIATING LEVERAGE OVER THE ILEC?**

20 A. The Commission should never strive to give one party a negotiating
21 advantage over the other by establishing a default that deliberately favors
22 one party. This outcome would defeat the Act's preference for
23 negotiation over regulatory fiat, because the "favored" party would have
24 no incentive to engage in good faith negotiations. The Commission
25 should implement only policies that favor efficient competition, not

1 particular competitors.

2 **Q. ARE THE PROPOSALS TO USE THE ENTIRE LATA OR THE**
3 **ORIGINATING CARRIER'S RETAIL LOCAL CALLING AREA TO**
4 **ASSESS RECIPROCAL COMPENSATION CONSISTENT WITH**
5 **FLORIDA LAW?**

6 A. I am not a lawyer, but the Florida Statutes seem to prohibit circumvention
7 of access charges for terminating calls. Specifically Section 364.16(3)(a)
8 states:

9 No local exchange telecommunications company or
10 alternative local exchange telecommunications company
11 shall knowingly deliver traffic, for which terminating access
12 service charges would otherwise apply, through a local
13 interconnection arrangement without paying the appropriate
14 charges for such terminating access service.

15

16 For at least 15 years since this Commission established its access
17 regime, all providers have known exactly what traffic constituted calls to
18 which terminating access charges would apply. Redefining the ALECs'
19 traffic (and only the ALECs' traffic) through implementation of LATA-wide
20 reciprocal compensation or through intercarrier compensation based on
21 the originating carrier's retail local calling area seems to be exactly the
22 kind of end-run around access charges that the Legislature intended to
23 prevent.

24

25 **Q. WOULD PAYMENT OF RECIPROCAL COMPENSATION ON ALL**

1 **CALLS WITHIN THE LATA BE CONSISTENT WITH THE**
2 **COMMISSION'S DECISION AS TO VIRTUAL NXX CALLS?**

3 A. No. At its December 5, 2001 Agenda Conference, the Commission ruled
4 that carriers should be permitted to assign telephone numbers to users
5 physically located outside the rate center to which those telephone
6 numbers are homed; *and* that intercarrier compensation for these "virtual
7 NXX" calls should be based upon the physical end points of the call. The
8 Commission accepted Staff's conclusion that "calls to virtual NXX
9 customers located outside of the local calling area to which the NPA/NXX
10 is assigned *are not local calls for purposes of reciprocal compensation.*"
11 (Staff Rec. at 94 (emphasis added).) Under this rationale, virtual NXX
12 calls are not local calls for intercarrier compensation purposes, because
13 their end points are not within the same local calling area *of the ILEC.*
14 "Staff believes that the classification of traffic as either local or toll has
15 historically been, and should continue to be, determined based upon the
16 end points of a particular call." (Staff Rec. at 93.) "[I]t seems reasonable
17 to apply access charges to virtual NXX/FX traffic that originates and
18 terminates in different local calling areas." (Id. at 95.)

19

20 The Commission has thus held that intercarrier compensation obligations
21 are determined by reference to the ILECs' established local calling areas.

22 Under the Commission's decision on Issue 15, an ALEC is free to market
23 virtual NXX service, but virtual NXX traffic is *not* local for purposes of
24 applying reciprocal compensation because they traverse ILEC local
25 calling area boundaries. If the Commission adopts LATA-wide reciprocal

1 compensation on Issue 13, however, reciprocal compensation *will* apply
2 to virtual NXX calls within the LATA. Obviously, an Order that makes
3 contradictory rulings cannot be enforced.

4

5 The Commission has already determined that the existing local/toll
6 distinction embodied in the ILECs' tariffs and understood by all carriers
7 should drive intercarrier compensation. Verizon urges the Commission to
8 apply this same logic to Issue 13 and to reject both LATA-wide reciprocal
9 compensation and intercarrier compensation based on the originating
10 carrier's retail local calling area.

11

12 **Q. WHAT EFFECT, IF ANY, WOULD A LATA-WIDE RECIPROCAL**
13 **COMPENSATION PLAN OR AN ORIGINATING CARRIER PLAN HAVE**
14 **ON END USERS AND RETAIL RATES?**

15 A. It is hard to predict with any certainty the immediate end-user effects of
16 LATA-wide reciprocal compensation. If disassociating retail local calling
17 areas from the definition of local calling areas for intercarrier
18 compensation purposes confers preferential treatment on certain
19 competitors (e.g., by lowering their cost structure), then those favored
20 competitors may either pocket the cost savings and/or share some of
21 them with their customers—thereby gaining an artificial, non-economic
22 price advantage in what should be a competitively neutral setting. If the
23 favored competitors are not efficient providers or seek to maximize their
24 own profits, then there is little likelihood that their customers will see any
25 benefits, even in the short term.

1

2

But it is easy to predict the long-term impacts of such a decision. The artificial cost advantage that LATA-wide local calling or intercarrier compensation based on the originating company's retail local calling area would give the favored competitors would come directly from the dollars used today to support universal service objectives. Ultimately, this situation could put upward pressure on local rates, if the ILECs are to continue to be the principal supporter of the Commission's universal service objectives.

3

4

5

6

7

8

9

10

11 **Q. WHAT WOULD BE THE FINANCIAL IMPACT IF TODAY'S INTRALATA**
12 **TOLL CALLS BETWEEN ILECS AND ALECS BECOME SUBJECT TO**
13 **RECIPROCAL COMPENSATION INSTEAD OF ACCESS CHARGES?**

14

A. This is a complicated question, because the answer requires several assumptions about what unintended future consequences will follow from a change in determining how intercarrier compensation is assessed. If one were to look at today's traffic flows between the ILEC and the ALEC, they could simply compute the change in expenditures resulting from the migration to reciprocal compensation rates from access rates. If the traffic volumes were relatively in balance between the two parties and they were using equal rate levels, then the financial impact would likely be minimal. But the ultimate revenue exposure needs to incorporate the shift in the competitive landscape that would result from enhancing the ALEC's competitive cost structure by replacing access charge payments with relatively lower reciprocal compensation payments.

15

16

17

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22

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1

2 As I have previously discussed, this scenario would not be competitively
3 neutral to IXCs or to ILECs (which are required to impute access charges
4 into their intraLATA toll rates). The IXCs and the ILECs would still incur
5 access costs for both terminating and originating facilities, while the
6 ALECs would enjoy the artificial cost advantage gained through paying
7 reciprocal compensation (rather than access charges) when an ILEC
8 terminates a call for them. As ALECs win toll volumes away from IXCs
9 through this artificial advantage, not only are the IXCs affected, but the
10 ILECs' revenue streams are also dramatically affected by the loss of
11 access revenues generated by IXCs. This is not an inescapable outcome
12 of competition; it is, instead uneconomic and unwarranted arbitrage.

13

14 The future financial impact on the ILEC must also incorporate the
15 inevitable gaming that will occur between or among ALECs and IXCs to
16 convert all toll usage to local usage. It is unrealistic to expect that a price
17 difference for transport and termination for identical intraLATA traffic
18 could be sustained based on the "identity" of one of the parties,
19 especially when many Florida ALECs are also IXCs. These companies
20 make no secret of their motivation to avoid paying access charges (see,
21 e.g., Agenda Conf. Tr. at 50), and they can be expected to take full
22 advantage of any regulation allowing them to further this objective. As
23 such, the ILEC's revenues from intraLATA access charges would
24 ultimately decrease by the percent difference between access charge
25 rate levels and reciprocal compensation rate levels.

1

2 **Q. MUST LOCAL CALLING AREAS FOR INTERCARRIER**
3 **COMPENSATION PURPOSES MIRROR THE LOCAL CALLING**
4 **AREAS ESTABLISHED FOR RETAIL PURPOSES?**

5 A. No. Verizon agrees that all carriers should remain free to determine their
6 own retail calling areas. Continuing to use existing local/toll conventions
7 to determine intercarrier compensation obligations will not affect the
8 ALECs' ability to define their own retail local calling areas in any manner
9 they wish. But regulations should not give ALECs the ability to change
10 their overall cost structure—and affect the competitive landscape and
11 universal service by support flows—by redefining the reciprocal
12 compensation and access charge structure.

13

14 **ISSUE 17: DEFAULT RECIPROCAL COMPENSATION MECHANISM**

15

16 **Q. THE COMMISSION HAS ASKED FOR ADDITIONAL INPUT ON THE**
17 **MERITS OF A BILL-AND-KEEP DEFAULT COMPENSATION**
18 **APPROACH. HOW DOES THIS APPROACH WORK?**

19 A. Under a bill-and-keep system, each carrier interconnects its facilities to
20 those of other carriers and traffic flows between and among networks
21 according to the carriers' interconnection agreements. The parties do not
22 bill each other for termination of traffic, but are instead expected to
23 recover their respective costs from their end users.

24

25

1 **Q. DOES THE COMMISSION HAVE THE AUTHORITY TO ESTABLISH A**
2 **BILL-AND-KEEP INTERCARRIER COMPENSATION MECHANISM**
3 **FOR SECTION 251 TRAFFIC?**

4 A. Yes. The FCC has given the States explicit authority to impose bill-and-
5 keep arrangements for termination of local traffic “if the state commission
6 determines that the amount of local telecommunications traffic from one
7 network to the other is roughly balanced with the amount of local
8 telecommunications traffic flowing in the opposite direction, and is
9 expected to remain so.” (FCC Rule 51.713(b).)

10

11 **Q. SO MUST THE COMMISSION FIND THAT TRAFFIC IS IN BALANCE**
12 **BEFORE IT CAN IMPOSE BILL-AND-KEEP FOR ANY PAIR OF**
13 **CARRIERS?**

14 A. No. Subsection (c) of the above-quoted Rule 51.713 states: “Nothing in
15 this section precludes a state commission from presuming that the
16 amount of local telecommunications traffic from one network to the other
17 is roughly balanced with the amount of local telecommunications traffic
18 flowing in the opposite direction and is expected to remain so, unless a
19 party rebuts such a presumption.” So there is no need for the
20 Commission to make any factual findings that traffic is balanced before it
21 concludes that a bill-and-keep policy preference is justified. In fact, it
22 would be impossible for the Commission to do so in this generic docket.
23 Inquiries about balance of traffic are necessarily specific to pairs of
24 carriers; traffic flows between different carrier pairs will have different
25 characteristics. As Commissions elsewhere have recognized, there is no

1 barrier to adopting a policy preference for bill-and-keep with the proviso
2 that it will apply until traffic is out of balance by a specified amount. Of
3 course, the FCC rule allows carriers to rebut the presumption that traffic
4 is in balance, so no carrier will be forced to operate under bill-and-keep
5 where it may not be the most appropriate choice.

6

7 **Q. SHOULD THE COMMISSION ESTABLISH A STANDARD FOR**
8 **“ROUGHLY IN BALANCE” BY WHICH COMPANIES CAN REBUT THE**
9 **PRESUMPTION IN LATER PROCEEDINGS?**

10 A. If the Commission establishes a default compensation mechanism, it
11 should also adopt a standard for “roughly in balance.” Verizon would
12 recommend that the Commission define traffic as roughly in balance if the
13 traffic imbalance is less than 10% in any three-month period. This is the
14 parameter in Verizon’s Interconnection Agreement with AT&T (and other
15 ALECs that have adopted that Agreement).

16

17 **Q. TO WHOM WOULD A CARRIER MAKE A SHOWING THAT TRAFFIC**
18 **IS NOT IN BALANCE IF IT WISHED TO REBUT THE PRESUMPTION?**

19 A. The interconnecting ALEC and ILEC should first attempt to resolve any
20 traffic balance matters themselves, using Commission rules for guidance.

21 If carriers cannot come to agreement on whether traffic is balanced for
22 purpose of applying a bill-and-keep scheme, then the Commission would
23 need to resolve the dispute.

24

25 **Q. EVEN THOUGH THE COMMISSION HAS THE AUTHORITY TO**

1 **ORDER BILL-AND-KEEP IN THIS GENERIC PROCEEDING, SHOULD**
2 **IT ORDER ANY DEFAULT COMPENSATION MECHANISM AT THIS**
3 **TIME?**

4 A. No. As I stated at the outset, the FCC has launched its own proceeding
5 to establish a reciprocal compensation mechanism for all traffic subject to
6 Section 251 of the Act, including the traffic at issue in this case. To avoid
7 potentially conflicting rulings and subsequent revisions to the state
8 scheme, Verizon has recommended that the Commission retain the
9 record in this case, but defer any ruling until the FCC rules.

10

11 If, however, the Commission decides to move forward with a decision at
12 this time, Verizon agrees that it should adopt a default compensation
13 mechanism. Carriers should know what the arrangement will be if they
14 are unable to agree. These default arrangements should be simple and
15 clear. A carefully designed bill-and-keep mechanism may be a good
16 default approach if the mechanism includes provisions that reasonably
17 assign the cost of transport between the interconnecting carriers.

18

19 **Q. IN THAT REGARD, WHAT CRITERIA SHOULD THE COMMISSION**
20 **USE TO DESIGN A BILL-AND-KEEP COMPENSATION MECHANISM?**

21 A. Consistent with Verizon's position at the FCC, an appropriate default
22 mechanism would:

23 (1) produce the correct incentives for the development of an
24 efficient network that minimizes the overall costs involved in
25 interconnection,

- 1 (2) discourage game-playing and arbitrage,
- 2 (3) contain a rational geographic limit on the obligation to
- 3 deliver traffic, and
- 4 (4) reasonably assign the cost of transport between
- 5 interconnecting carriers in a symmetrical manner that does
- 6 not penalize any carrier.

7

8 The default mechanism should not favor one party over the other nor
9 should it hamper either party's ability to recover the costs they incur due
10 to interconnection requirements (or to offset those costs with expense
11 reductions).

12

13 **Q. CAN VERIZON RECOMMEND A DEFAULT MECHANISM THAT**
14 **SATISFIES THOSE CRITERIA?**

15 A. Yes, Verizon has already presented one model that does so in its
16 Comments in the FCC's Unified Intercarrier Compensation Rulemaking.
17 This model (explained in Verizon's FCC Reply Comments, attached as
18 Ex. DBT-2), was devised in direct response to the FCC's specific
19 questions on how bill-and-keep would affect interconnection (point of
20 interconnection (POI) and interconnection point (IP) requirements) and
21 transport costs.

22

23 Any bill-and-keep proposal must, among other components, continue to
24 require efficient direct trunking. Absent specific requirements, originating
25 carriers may impose network inefficiencies, costs, and significant switch

1 augmentation requirements on terminating carriers because there is no
2 longer a price incentive to deliver traffic to the point of switching nearest
3 the terminating end user. For example, absent requirements or
4 incentives, originating ALECs could deliver terminating traffic to the ILEC
5 tandem, quickly exhausting tandem switching and transport facilities with
6 local traffic volumes and causing resulting congestion, blocking, and
7 facilities expense.

8
9 One solution would be to apply bill-and-keep only at the point of switching
10 nearest the terminating end user (for example, the serving end office in a
11 traditional ILEC network). Another solution may be a more
12 comprehensive interconnection architecture standard establishing
13 common interconnection point locations that do not unfairly benefit one
14 class of carriers at the expense of another by requiring the originating
15 carrier to deliver allegedly "local" traffic to distant interconnection points.

16

17 **Q. WOULD VERIZON'S DEFAULT PROPOSAL TO ADDRESS CRITICAL**
18 **INTERCONNECTION ARCHITECTURE OBLIGATIONS REQUIRE THE**
19 **COMMISSION TO RECONSIDER ITS VOTE ON ISSUE 14,**
20 **CONCERNING PLACEMENT OF THE POI?**

21 A. That may well be the case. But this fact should not stop the Commission
22 from giving due consideration to all aspects of Verizon's generic bill-and-
23 keep proposal. If the Commission is inclined to establish a bill-and-keep
24 approach, it is critical to define its particulars in a way that will best further
25 the four objectives I listed above--and which this Commission presumably

1 supports.

2

3 However, even if the Commission orders a less efficient network design
4 than Verizon has described here or in the attached FCC Comments,
5 Verizon still believes a bill-and-keep intercarrier compensation approach
6 can provide benefits over today's method of explicit billing.

7

8 **Q. WILL THE ADOPTION OF BILL AND KEEP ARRANGEMENTS AS A**
9 **DEFAULT MECHANISM MINIMIZE THE NEED FOR REGULATORY**
10 **INTERVENTION FOR THE IMMEDIATE TERM AND FOR THE**
11 **FUTURE?**

12 A. I believe so. I would expect regulatory intervention to occur primarily
13 when parties cannot agree to whether traffic is in balance between them
14 under the Commission-defined standard.

15

16 **Q. WHAT ARE THE QUANTIFIABLE TRANSACTION COSTS**
17 **(MEASURING AND BILLING COSTS) THAT WOULD BE AVOIDED BY**
18 **THE ADOPTION OF BILL AND KEEP ARRANGEMENTS?**

19 A. Verizon would expect to continue to measure the traffic it terminates from
20 ALECs, if for no other purpose than to facilitate the determination of
21 whether the traffic was "roughly balanced" or not. Verizon has not
22 quantified the billing costs which would be avoided through a default
23 standard of bill and keep mechanism, but doing away with bills (and
24 billing disputes) would obviously eliminate significant costs.

25

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

2 A. As to Issue 13, there is only one rational, pro-competitive approach to
3 defining a default local calling area for purposes of intercarrier
4 compensation. The Commission should maintain existing conventions
5 under which the ILECs' mandatory local calling areas determine
6 intercarrier compensation obligations. Retention of the status quo
7 minimizes market distortions, mitigates impacts on universal service
8 support flows, and is consistent with state and federal law and
9 regulations. Continuing to use the ILECs' local calling areas for
10 intercarrier compensation purposes will leave all carriers free to define
11 their own retail local calling areas as they see fit.

12
13 As to Issue 17, the Commission should decline to order a default
14 intercarrier compensation mechanism for section 251 traffic at this time.
15 Because the FCC has undertaken the same effort, it is best to await the
16 FCC's decision rather than expend more time and resources
17 implementing an approach that may well need to be abandoned in the
18 event of an inconsistent FCC ruling. If the Commission decides to order
19 a default mechanism now, it should be bill-and-keep, with the efficient
20 architecture conditions I have outlined in this testimony, and only for
21 traffic between two local exchange carriers within the established ILEC
22 local calling areas.

23

24 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

25 A. Yes.

REBUTTAL TESTIMONY OF DENNIS B. TRIMBLE

1

2

I. INTRODUCTION

3

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

4

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.

5

6

7

8

9

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

10

11

A. Yes, I am.

12

13

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

14

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.

15

16

17

18

19

20

II. DEFAULT CALLING AREAS FOR RECIPROCAL

21

COMPENSATION PURPOSES

22

23

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

24

25

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. ²⁶~~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~~²²). 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. SIMILARILY, 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)

1

2

[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)

3

4

5

6

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8

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

9

10

11

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.

12

13

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Q. DOES THE CURRENT ACCESS CHARGE REGIME FORCE ALECS TO MIRROR THE ^{ILEC'} ALECS' LOCAL CALLING AREAS?

21

22

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

23

24

25

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 **DEFAULT RECIPROCAL COMPENSATION MECHANISMS.**

2 A. Of the seven parties that filed new testimony concerning reciprocal
 3 compensation mechanisms, three proposed or supported some form of
 4 bill and keep (B&K) as the default mechanism. AT&T, WorldCom, and
 5 FCTA proposed a strict reciprocal compensation mechanism based on
 6 mutual payments for traffic terminated. Sprint’s guidance to the
 7 Commission is to assure that it follows the FCC’s existing rules. The
 8 following table summarizes each party’s proposal.

9 TABLE 1

10 Recommended Default Reciprocal Compensation Mechanism

| 11 | <u>Party</u> | <u>Default Mechanism</u> |
|----|----------------|--|
| 12 | Verizon | (1) Await FCC decision regarding B&K (2) Otherwise, B&K for usage elements, with efficient network architecture requirements and traffic roughly in balance (within + or – 10%). (Trimble DT 29, 31-34 DR, pp 34-35, 37 and 39). |
| 18 | BellSouth | B&K for usage elements; traffic roughly in balance (3:1 ratio of originating to terminating traffic). DT (Shroishi DR, p. 14.) |
| 22 | AT&T Coalition | Reciprocal compensation at cost-based rates. (Cain DT, p. 15.) |
| 24 | FCTA | Reciprocal compensation based on symmetrical rates. |

- 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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1 MS. CASWELL: Mr. Trimble is available for cross
2 examination.

3 CHAIRMAN JABER: And just for the record, Ms.
4 Caswell, DBT-1 was already addressed.

5 MS. CASWELL: It is an excised from his testimony. I
6 think we put it in the wrong place. It should have been filed
7 separately. Thank you.

8 CHAIRMAN JABER: Thank you. Staff.

9 CROSS EXAMINATION

10 BY MS. BANKS:

11 Q Good morning, Mr. Trimble.

12 A Good morning.

13 Q I'm Felicia Banks, and I'm going to be asking you a
14 few questions. Issue 13, as you are probably aware, addresses
15 the definition of a local calling area for intercarrier
16 compensation purposes. Is it your view that doing away with
17 intraLATA toll distinctions will reduce the access revenues
18 received by local carriers?

19 A Yes, it is.

20 Q And do you contend that these access revenues
21 subsidize basic local service?

22 A These access revenues are -- I like to use the word
23 support basic local service revenues. They are one of the
24 items that does provide support. We have others in our
25 offerings such as business lines and so on.

1 Q Okay. Will the elimination of the intraLATA toll
2 distinction eliminate these access revenues?

3 A The elimination over time will more than likely
4 eliminate a significant portion of those revenues. I think
5 that is a correct statement. It will take time.

6 Q And what would be the probable quantitative impact
7 due to such an access reduction be?

8 A Pardon me, I didn't hear that.

9 Q What do you think will be probable quantitative
10 impact due to such an access reduction be?

11 A We provided an estimate in one of the data requests
12 to staff, and I believe it was a conservative number that only
13 looked at terminating switched access, but over time you should
14 probably also look at originating switched access, and you also
15 have to look at the overall effect on your toll revenues which
16 will be eroded, also. So the number we had in there I believe
17 was about --

18 MS. CASWELL: Dennis, I'm sorry, that number was
19 provided confidentially.

20 THE WITNESS: Yes, we have a confidential number.

21 CHAIRMAN JABER: Thank you, Ms. Caswell.

22 MS. CASWELL: Sorry.

23 CHAIRMAN JABER: Thank you, though.

24 MS. BANKS: Thank you.

25 BY MS. BANKS:

1 Q With that in mind, as you probably have heard today,
2 Mr. Trimble, of the impact depending on how the local calling
3 service areas will be defined, what impact it may have on
4 universal service, given your statement that you just made
5 regarding the reduction in access revenues, what do you think
6 will be the impact on universal service due to these reductions
7 in access revenues?

8 A I mean, one of the issues is the short-term effect
9 versus the long-term effect. In the short-term effect you will
10 probably see very little impact because the facilities and
11 plant are already in place. The real issue comes into the cash
12 flows to support future deployment into the rural areas and
13 into the high-cost areas. And not only deployment for plain
14 old basic service, but also for enhanced services.

15 It is likely that the elimination of this source of
16 support will cause either upward pressure in residential rates
17 or even a high-cost business rates and/or increased pressure
18 for the establishment of a permanent USF. It has always
19 been -- or it is Verizon's position that we would prefer
20 initially to try to rebalance rates to be more reflective of
21 their underlying costs first.

22 Q Okay.

23 A Also, the second part in terms of the impact, really
24 it's not only the impact on the ILEC, it gets into the
25 competitive landscape for all players in the marketplace. In

1 essence, when you eliminate access charges, you are eliminating
2 the support -- in large degree the support for universal
3 service. Access charges has the biggest component I think of
4 all the service offerings we have. When you have competitive
5 entities that are relieved of actually contributing to that
6 fund, you actually create a skewed competitive market. And the
7 impacts of that as it goes on can only be observed over time as
8 who become the winners and who become the losers. Not because
9 of economic efficiency, but basically because of disoriented
10 requirements for each carrier.

11 Q Okay. Are you familiar with Section 364.051 of the
12 Florida Statutes?

13 A I have reviewed it a couple of times, yes.

14 Q Okay. Do you have a copy of this in front of you? I
15 think staff is passing around copies if you don't have one.

16 A This is in terms of 354.051?

17 Q That is correct. And I am actually referencing
18 Subsection 4 of that section. Mr. Trimble, you have concluded
19 that designating a LATA as the local calling area for purposes
20 of reciprocal compensation will result in reduced access
21 revenues, right?

22 A Yes.

23 Q Could you please read for me Section 364.051,
24 Subsection 4?

25 A This is the one that is notwithstanding the

1 provisions of Subsection 2?

2 Q That is correct.

3 A "Any local exchange telecommunications company that
4 believes circumstances have changed substantially to justify
5 any increase in the rates for basic local telecommunications
6 services may petition the Commission for a rate increase. But
7 the Commission shall grant such petition only after an
8 opportunity for a hearing, and a compelling showing of changed
9 circumstances. The costs and expenses of any government
10 program or project required in Part 2 shall not be recovered
11 under this subsection unless such costs and expenses are
12 incurred in the absence of a bid and subject to carrier of last
13 resort obligations as provided for in Part 2. The Commission
14 shall act upon any such petition within 120 days of this
15 filing."

16 Q So with that in mind, if an ALEC incurred an
17 unforeseen decrease in revenues, wouldn't it be able to
18 petition the Commission for an increase in the rates for basic
19 local service?

20 A Yes, the company does have that option. But to me
21 the bigger issue gets into the competitive neutrality aspects
22 and how these type of actions may square with the Act of '96,
23 which gets into universal service support should be
24 competitively neutral funded by all equally, and sufficient,
25 and predictable. And I think actions that move away from that

1 cause more potential harm than they do solve any immediate
2 problems.

3 Q Okay. I believe that you had indicated that access
4 revenues is one of the components that help support the
5 universal service fund, and I think you indicated also that the
6 revenues, access revenues would be impacted if the Commission
7 were to adopt a LATA-wide calling plan area for purposes of
8 definition of a calling area. Are there any other services
9 whose revenues would subsidize, or as you indicated support
10 basic local service?

11 A Yes, there are.

12 Q Could you just elaborate on identifying those?

13 A One of the issues in terms of actually looking at the
14 services that do provide support, the correct way to look at it
15 is a service priced above what you would find in a competitive
16 marketplace. And the difference between the price and what you
17 would find in a competitive marketplace can be defined as
18 either generating support, or on the opposite side, receiving
19 support.

20 We, in Florida, have PBX trunk rates in downtown
21 Tampa that are approximately \$55 a line. That is way in excess
22 of the competitive market rate and the cost. And I also
23 believe that the staff has generated a report I believe in 1999
24 that looked at various and assorted items in terms of how are
25 they priced in relationship to their underlying costs. And

1 there were many of those items that were, you know, 50 --
2 excuse me, 1,000 percent to 5,000 percent above their
3 underlying costs. And I believe if you looked at those and
4 evaluated them in terms of what would they be in a truly
5 competitive market versus a regulated market, you would find
6 that they are providing support.

7 Q You have indicated that to define a local calling
8 area as LATA-wide would in some way skew the market in
9 competition. Am I correct that you believe that using the
10 ILEC's local calling areas as the basis for determining payment
11 of reciprocal compensation is competitively neutral?

12 A It is the most competitively neutral option I have
13 heard in these proceedings. If you look at the impact as I
14 have presented in my testimony in terms of interexchange
15 carriers, and they would still potentially be paying access
16 charges but competing with people for toll, what historically
17 was toll that are not paying those access charges or those
18 support flows that were in those access charges. I believe one
19 of the parties submitted a portion of the New York order which
20 was done pre-Act in terms of reciprocal compensation, and it
21 was interesting to note in that order the most adamant entity
22 against LATA-wide calling at that point in time was AT&T,
23 because they looked at what it would do to their cost structure
24 comparative to the other participants and what it could do to
25 their ability to market toll.

1 Q With that in mind, then, do you also believe that
2 Florida's basic local service markets are competitive?

3 A There is a degree of competition in each and every
4 one of the markets, I truly believe that. It is easy to note
5 that competitors enter where there is money to be made, whether
6 it is through their cost characteristics in an efficient manner
7 or through what we will call the ability to arbitrage rates.
8 And when I get into talk about arbitrage, I'm really talking
9 about the mechanism by which noneconomic costs are eliminated
10 from rates and rate structures. For example, in switched
11 access there are quote, unquote, noneconomic costs that are in
12 those rates to support social goals. Arbitrage is the
13 elimination of those amounts.

14 Q With that in mind, what you just referenced regarding
15 those arbitrage opportunities, if you will, then is it your
16 opinion that mandating a LATA-wide calling area for purposes of
17 reciprocal compensation would artificially handicap some
18 carriers to the detriment of consumers?

19 A Perhaps you can repeat the last 15 or 20 words. I
20 actually am having a hard time hearing them.

21 CHAIRMAN JABER: Yes. Ms. Banks, speak right into
22 the microphone.

23 BY MS. BANKS:

24 Q You just referenced that within a market if it is
25 defined as LATA-wide would create some arbitrage opportunities.

1 With that in mind, is it your opinion that mandating a
2 LATA-wide calling area for purposes of reciprocal compensation
3 would artificially handicap some carriers to the detriment of
4 consumers?

5 A The answer is yes. It is definite that a LATA-wide
6 local calling area is not competitively neutral.

7 Q And can you just elaborate?

8 A When you get into the detriment of consumers, the
9 issue becomes short-run versus long-run. As carriers avoid, in
10 essence, support for what is currently universal service
11 support flows, as they avoid those amounts, there is the
12 potential that a consumer could see a reduction in their rate.
13 Now, there is no guarantee that that will occur given that the
14 carriers can also have the capability to pocket the money. And
15 historically they have done that quite well in many states that
16 I have been involved in.

17 So, the other issue comes out when you look at the
18 various carriers and you ask them -- ask yourself why is it so
19 important for them to have LATA-wide calling when a reduction
20 in their cost structures should ultimately lead potentially to
21 a reduction in everybody's rates that are getting that and may
22 not change their market shares at all. So the only conclusion
23 I can come up to is in the short-run they are looking for
24 financial gains, which means that the consumer is not likely to
25 see some of those benefits.

1 Q You had just referenced that some of these handicaps
2 may appear in the short-run versus the long-run, could you just
3 elaborate, and the distinction you made with those things that
4 may occur in the short-run that might somehow impact?

5 A Right. If we take -- if we say that the support
6 flows in switched access are there to support universal
7 service, I think, as I stated earlier, the support for
8 universal service really comes into the deployment of plant.
9 And the deployment of plant doesn't happen immediately, it
10 happens as demand occurs and growth occurs. And the real issue
11 comes into is there sufficient flows to convince companies to
12 deploy plant in high-cost areas where there is not sufficient
13 revenue flows coming in to actually from a net present value
14 sense prove in that investment. Will the investment be moved
15 someplace else? Most companies with a fiduciary responsibility
16 to their shareholders would say these are bad investments. I
17 should put the money someplace else. And that is really the
18 big issue.

19 MS. BANKS: Staff has no further questions. Thank
20 you, Mr. Trimble.

21 CHAIRMAN JABER: Commissioners. Okay. Mr. Gross.

22 MR. GROSS: No questions.

23 CHAIRMAN JABER: Mr. McDonnell.

24 MR. McDONNELL: Thank you, Chairman Jaber.

25 CROSS EXAMINATION

1 BY MR. McDONNELL:

2 Q Mr. Trimble -- is it Doctor Trimble?

3 A No, I'm sorry, it's --

4 Q Don't be.

5 A I think it may be luckily that it is not. I'm not
6 certain.

7 Q Mr. Trimble, Verizon has not petitioned the
8 Commission for any assistance in support for its universal
9 service obligations, has it?

10 A Not that I know of. Verizon's first line of
11 addressing the issue, I think, was legislatively, and we know
12 what has happened to that recently.

13 Q And one of the issues that the Commission would want
14 to resolve or perhaps talk about would be Verizon Florida's net
15 income in determining whether it needs assistance in its
16 universal support obligations, would that be fair?

17 A No, I don't think so. I think it is quite fair to go
18 back and look at the competitive marketplace and say how do you
19 develop a level playing field, and that level playing field
20 requires, in essence, that all participants assist in funding
21 the social goals. It really shouldn't depend on one company in
22 saying this is the company that must support everything at the
23 detriment of the rest of the participants. That is totally at
24 odds with a competitively neutral environment.

25 CHAIRMAN JABER: Mr. Trimble, that is the second time

1 I heard you make reference to that. Now, with respect to the
2 allocations, the contributions toward the fund, that is not
3 within this Commission's purview, correct? I want to make sure
4 I understand your testimony.

5 THE WITNESS: I think you are correct on that. In
6 terms of, for example, on access charge rates, my understanding
7 is those are pretty well defined in the legislation. In terms
8 of other implicit support amounts, whether it be in business
9 lines or so on, there are constraints in terms of what can be
10 done in those, also. But I think the real issue is going
11 forward in proceedings like this to ensure that we don't go
12 backwards in terms of the different participants and how they
13 equally contribute to this. Whether it is through an implicit
14 amount which is in our current rates, or ultimately someday
15 through an explicit fund.

16 CHAIRMAN JABER: You want us to keep in the back of
17 our mind in addressing this issue which carriers participate in
18 contributing to the universal service fund and how those funds
19 are collected?

20 THE WITNESS: Correct.

21 CHAIRMAN JABER: But you agree with me that it is
22 really within the FCC's purview, and I suppose to some degree
23 the joint board if the FCC refers these issues to the joint
24 board on universal service to address which carriers should
25 contribute and how?

1 THE WITNESS: I think on the FCC's side of the world,
2 on the interstate side of the world, that is correct. But
3 there are also if you look at the entire universal service
4 requirements, the federal side picks up a portion, there is
5 still the state side which is under the purview of the state to
6 address. And that is -- currently as we know those
7 requirements are handled through implicit support amounts in
8 the ILEC's rates.

9 I think the Act -- at least as I read the act and not
10 being a lawyer -- was relatively clear in terms of a mandate to
11 states to also address their side of the issue in a
12 competitively neutral manner to assure the preservation and
13 advancement of universal service. So there are issues for the
14 states to address, I totally believe that.

15 CHAIRMAN JABER: Mr. McDonnell.

16 MR. McDONNELL: Thank you, Madam Chairman.

17 BY MR. McDONNELL:

18 Q Mr. Trimble, in your direct testimony -- let me get
19 the page. It's Page 9, the question begins at Line 14.

20 A Yes.

21 Q You state that LATA-wide local calling would not be
22 competitively neutral, correct?

23 A Yes, I do.

24 Q Does Verizon currently have any intercarrier
25 agreements with any ALECs that include LATA-wide local calling?

1 A Not that I know of in Florida.

2 Q Okay. So that would be speculative?

3 A That is speculative. I really don't know
4 specifically. I was not told of any.

5 Q Okay. Are you familiar with the fact that BellSouth
6 filed an exhibit with the Commission in this docket advising
7 that they currently have at least 14 intercarrier agreements
8 that call for LATA-wide local calling for reciprocal
9 compensation purposes?

10 A I am aware from what I heard in terms of the
11 testimony this morning.

12 MR. McDONNELL: Nothing further.

13 CHAIRMAN JABER: Mr. Moyle, before you go, I'm stuck
14 on this point. I'm trying to ask these questions before the
15 parties are done so they can follow up. And I recognize you
16 are not an attorney, but help me figure out where in Florida
17 law this agency has the ability to address some of your
18 concerns on universal service is the first question. And the
19 second, if it is not this agency, when you say this state has
20 the responsibility to address some of those concerns, are you
21 referring to the legislature or to this Commission?

22 THE WITNESS: It's part of the two-part question. In
23 terms of the state, as I read the Chapter 364, it pretty well
24 outlines, I believe, the requirement to create an interim fund.
25 And that interim fund, as I understand it, was the

1 determination that support flows would remain implicit in the
2 ILEC's rates. The rest of the chapter I also believe gives
3 some statement in terms of setting up a permanent fund. And
4 I'm not sure where the requirement goes if there is further
5 legislative requirement or not.

6 CHAIRMAN JABER: All right.

7 THE WITNESS: In terms of impacting current universal
8 service support flows and leaving them as sufficient and
9 competitively neutral, I believe the Commission has the great
10 ability to impact that, for example, in this proceeding.
11 Depending on what it orders will have an absolute impact on the
12 support flows and the competitive neutrality of those support
13 flows, and I think that should be a major consideration.

14 CHAIRMAN JABER: Mr. Moyle.

15 CROSS EXAMINATION

16 BY MR. MOYLE:

17 Q Let me follow-up briefly on a couple of questions
18 that staff asked you with respect to the access revenues. And
19 I think you didn't want to use the term subsidize, you said
20 support universal services, correct?

21 A That is correct.

22 Q If I heard your answer correctly, you said that you
23 thought it would eliminate a significant portion of revenues
24 over time. Do you recall that answer?

25 A I believe I was talking about a significant portion

1 of the access revenues.

2 Q Okay. Do you know what that significant portion
3 would be?

4 A Ultimately in terms of a LATA-wide regime, you could
5 potentially see almost all of them disappear depending on how
6 the carriers terminate their traffic and how things are
7 originated.

8 Q Do you as you sit here today have a -- you talked
9 about long-term and short-term, do you have a time frame in
10 which you believe that that would occur?

11 A No, I don't. I can look at -- when you look at the
12 demand characteristics of the world, what you can usually
13 assume and it usually occurs in almost all cases is that
14 competitive markets do work. And if there are support flows
15 that are at risk due to quote, unquote, arbitraging of rates,
16 in essence, eliminating those, that arbitrage will occur one
17 way or another. And we can look at just Verizon's interLATA
18 toll market and you can get a very, very good depiction of how
19 markets work. And it did take a few years, but a significant
20 portion of our toll is totally gone.

21 MR. MOYLE: Nothing further.

22 CROSS EXAMINATION

23 BY MR. FEIL:

24 Q Mr. Trimble, in response to a staff question earlier,
25 I believe you said that one of the -- or the reason that you

1 postulated ALECs were pursuing LATA-wide local was in order to
2 achieve short-term gains. Do you recall that question?

3 A Yes, I do.

4 Q And was the short-term financial gains you were
5 referring to the prospect of ALECs pocketing on the retail side
6 toll revenues, but on the wholesale side paying the ILEC only
7 reciprocal compensation and not access? Were those the
8 short-term financial gains you were referring to?

9 A No, I do not know the specific marketing plan an ALEC
10 would use.

11 Q Do you follow my question?

12 A Yes, I do.

13 Q But you said that you had a concern that the only
14 reason the ALECs were pursuing LATA-wide local was so they
15 could achieve short-term financial gains. And my question is
16 what are those short-term financial gains you are referring to?

17 A I actually believe when I answered that question back
18 then I said the ILEC or the IXCs versus the ALECs.

19 Q Okay. So you are saying the ALECs would not pursue
20 this because of short-term financial gains?

21 A No, no, I just think the largest financial gain is to
22 the interexchange carriers versus the ALECs.

23 Q Okay. And what does that gain stem from?

24 A The avoidance of access charges.

25 Q So it is merely a cost reduction aspect on the part

1 of IXCs, but not on ALECs, is that what you are saying?

2 A No, I actually think it's both, but I think the
3 largest potential gain in the immediate future is for those
4 that are actually paying significant amounts in switched access
5 rates.

6 Q Wouldn't that gain be offset if the IXC or ALEC
7 involved that you are referring to reduced their rates so that
8 the rates would not reflect toll, or the retail rates would not
9 reflect toll or long distance charges?

10 A That could be a potential. I have just never
11 observed that occurring in most markets where we have had
12 access reductions.

13 Q Well, let me pose to you the same question I asked
14 Ms. Shiroishi. Are you aware of anything that would prohibit
15 the Commission from conditioning an ALEC's pursuit of LATA-wide
16 local on the ALEC's not being able to charge its retail end
17 users long distance or toll for calls within the LATA?

18 A I really can't answer that question. I do not know
19 the degree of authority that the Commission has over IXCs'
20 specific rate structures and rate levels.

21 Q In response to a staff question you indicated that
22 access revenue was one form of support for lower retail rates,
23 and one other one that you mentioned was business rates, also,
24 do you recall that?

25 A Yes.

1 Q Every time that an ALEC sells a Verizon business
2 customer and a business customer comes over to the ALEC, isn't
3 it correct to say that Verizon loses that portion of that
4 support that you are referring to?

5 A That is absolutely correct.

6 MR. FEIL: Thank you. I have nothing further.

7 CHAIRMAN JABER: Redirect, Ms. Caswell.

8 MS. CASWELL: I just have a few questions.

9 REDIRECT EXAMINATION

10 BY MS. CASWELL:

11 Q Mr. Trimble, these are clarifying questions on the
12 nature of USF funding. Is there any explicit USF -- is there
13 any explicit state universal service fund here?

14 A No.

15 Q And how did the Commission decide that universal
16 service would be funded from the state side?

17 A I believe that was the '95 order that was discussed
18 earlier, that the implicit support amounts would remain in the
19 ILEC's existing retail rates and wholesale rates.

20 Q Do you recall Mr. McDonnell asking you whether
21 Verizon had any agreements treating intraLATA toll as local for
22 reciprocal compensation purposes?

23 A Yes.

24 Q Do you recall that the staff asked that same question
25 in their interrogatories?

1 A I should recall, but I don't.

2 Q Well, let me refresh your memory. Can you read
3 Question 1C of staff's first set of interrogatories?

4 A It says please identify any Verizon Florida,
5 Incorporated interconnection agreements in which agreement has
6 been reached to treat traffic that has traditionally been
7 treated as intraLATA toll as local traffic for the purposes of
8 reciprocal compensation. Please identify the location within
9 each agreement where such provisions exist.

10 Q And can you read Verizon's response, please?

11 A Verizon's response was Verizon Florida has not agreed
12 to treat intraLATA toll as local traffic for purposes of
13 reciprocal compensation in any of its interconnection
14 agreements.

15 MS. CASWELL: That's all I have, thank you.

16 CHAIRMAN JABER: Thank you, Mr. Trimble.

17 THE WITNESS: Thank you.

18 CHAIRMAN JABER: All right.

19 Ms. Caswell, Exhibit Number 2.

20 MS. CASWELL: Yes, please. I would like Exhibit 2
21 moved into the record.

22 CHAIRMAN JABER: Without objection, Exhibit 2 is
23 admitted into the record.

24 (Exhibit 2 admitted into the record.)

25 (Transcript continues in sequence with Volume 2.)

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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 13th day of May.



JANE FAUROT, RPR
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