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February 20, 2007

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

Re: Docket No. 060767-TP
Petition of MCImetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services for arbitration of disputes arising from negotiation of interconnection agreement with Embarq Florida, Inc.

Dear Ms. Bayo:

Enclosed for filing in the above matter are an original and 15 copies of the Direct Testimony of Don Price on behalf of Verizon Access Transmission Services. Service has been made as indicated on the Certificate of Service. If there are any questions regarding this filing, please contact me at 770-284-5498.

Sincerely,

Dulaney L. O'Roark III

Dulaney L. O'Roark III

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the Direct Testimony of Don Price on behalf of Verizon Access Transmission Services were sent via overnight mail(*) on February 19, 2007 and U. S. mail(**) on February 20, 2007 to:

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Dulaney L. O'Roark III

ORIGINAL

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

| | | |
|---|---|---|
| In re: Petition of MCImetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services for arbitration of disputes arising from negotiation of interconnection agreement with Embarq Florida, Inc. | ) | Docket No. 060767-TP |

# DIRECT TESTIMONY OF DON PRICE
# ON BEHALF OF VERIZON ACCESS TRANSMISSION SERVICES

**FEBRUARY 20, 2007**

## I. INTRODUCTION

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Don Price, and my business address is 701 Brazos, Suite 600, Austin, Texas, 78701.

**Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

A. I am a Director – State Regulatory Policy in the Verizon Business Regulatory and Litigation Department. Verizon Business targets its services primarily to large business and government customers. MCImetro Access Transmission Services LLC, which is part of Verizon Business, is doing business in Florida as Verizon Access Transmission Services ("Verizon Access"). I am testifying here on behalf of Verizon Access.

**Q. WHAT IS YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND?**

A. I have more than 27 years experience in telecommunications, the vast majority of which is in the public policy area. I worked for the former GTE Southwest in the early 1980s, then moved to the Texas Public Utilities Commission in 1984. There, I acted as a Commission witness on rate-setting and policy issues. In 1986, I became Manager of Rates and Tariffs, and was responsible for Staff analyses of rate design and tariff policy issues in all telecommunications proceedings before the Commission. I was hired by MCI in 1986, where I spent 19 years in jobs focused on public policy issues relating to competition in

telecommunications markets, including coordination of positions in interconnection agreement negotiations.

With the close of the Verizon/MCI merger in January 2006, I assumed my current position as Director – State Regulatory Policy for Verizon Business. I work with various corporate departments, including those involved with product development and network engineering, to develop and coordinate policies permitting Verizon Business to offer enterprise and wholesale products to meet customer demands.

During my career, I have testified before state regulators in at least 22 states on a wide range of issues in many types of proceedings, including interconnection agreement arbitrations with local exchange carriers. I earned Master's and Bachelor's degrees in sociology from the University of Texas at Arlington in 1978 and 1977, respectively.

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

A. I will explain Verizon Access's positions on the issues still in dispute between Verizon Access and Embarq Florida Inc. ("Embarq") with respect to their negotiation of a new interconnection agreement ("ICA"). The parties have worked hard to settle most of their disputes, so only five issues remain for Commission resolution. In this testimony, I will use the same issue numbers Verizon Access used in its Petition for Arbitration and issues matrix.

## II. VERIZON'S ACCESS'S POSITIONS ON THE ISSUES

### ISSUE 3: WHAT COMPENSATION SHOULD APPLY TO VIRTUAL NXX TRAFFIC UNDER THE INTERCONNECTION AGREEMENT? (ICA § 55.4)

**Q. WHAT IS THE NATURE OF THE PARTIES' DISPUTE ABOUT COMPENSATION FOR VIRTUAL NXX ("VNXX") TRAFFIC?**

A. The parties' differences revolve around two questions: which entity is entitled to compensation for handling vNXX traffic and what rate should apply?

**Q. WHAT IS VNXX TRAFFIC AND WHY IS IT DIFFERENT FROM OTHER TYPES OF TRAFFIC THAT THE PARTIES EXCHANGE?**

A. To understand this issue, it is helpful to first compare the legacy incumbent local exchange carrier ("ILEC") networks and Verizon Access's competitive local exchange carrier ("CLEC") network.

Because of their long histories in operating telephone networks, the ILECs' network design remains essentially the same as it was in the first half of the 20th century. That basic design consists of a hub-and-spoke architecture with a switch located centrally in each exchange. The switch in each exchange provides dial-tone service to customers within that relatively small geographic area, and customers in the area share the same NPA/NXX – *e.g.*, 305-372 – as the first part of each unique 10-digit telephone number. In short, the phone numbers in that area are

typically assigned from the same NPA/NXX. An ILEC such as Embarq that serves large geographic areas would in this manner have many exchanges (also sometimes known as rate centers), with a switch in each exchange, and with each switch containing only those few NPA/NXXs required for number assignments within that exchange.

CLEC networks do not share this historical heritage, nor do they share the same network design. Most CLEC networks, including Verizon Access's, were designed in the late 1990s, based on then-current design principles and technologies, to efficiently meet the needs of their new (not legacy) customer base. Therefore, in contrast to ILEC networks, CLEC networks typically utilize many fewer switches to serve an area comparable to numerous ILEC exchange areas. Unlike the traditional ILEC network design, there is not a one-for-one correspondence between CLEC switches and a particular exchange, and it is not unusual for a single CLEC switch to contain many more NPA/NXXs than reside in one ILEC switch. A single Verizon Access switch in Orlando, for example, utilizes 40 NXXs in three different NPAs to serve Verizon Access's customers within the LATA.

Telecommunications traffic arrives at the correct destination on the basis of industry-standard, regularly published routing rules -- the Local Exchange Routing Guide ("LERG") -- that must be honored by all carriers: local exchange, wireless, and interexchange. For any carrier to receive traffic from another carrier, at least one NPA/NXX code must

be "activated" in the LERG for a specific geographic area. For purposes of the LERG, the relevant geographic areas are "rate centers," as defined by the ILECs' state-approved tariffs and by reference to the ILECs' service territories.

With this in mind, a CLEC activating an NPA/NXX in the LERG assigns that NPA/NXX to a specific rate center based on internal business decisions as to the area within which it offers service. The CLEC's assignment of that NPA/NXX to a rate center means that other customers within that rate center can reach the CLEC's customers using a local dialing plan—that is, without having to dial "1+."

**Q. CAN YOU PROVIDE A FLORIDA EXAMPLE?**

A. Yes. The LERG contains information for Embarq's Tallahassee Florida service territory that designates the appropriate switch(es) in the Embarq network to which a call should be sent so it can be delivered in Tallahassee. For incoming calls from interexchange carriers, that designation likely would be an access tandem (also known as a toll tandem) somewhere in the LATA. For calls from another local exchange carrier (including a CLEC), the designation would perhaps be a local tandem in the vicinity. In either case, the call would be handed from the Embarq tandem to Embarq's local central office serving the called party in Tallahassee.[1]

[1] This description is somewhat generic, as other interconnection and routing architectures exist. For example, interexchange carriers or CLECs would not utilize a tandem where they have implemented direct trunking arrangements to an Embarq end office, and in those situations would hand off traffic at the Embarq end office.

Similarly, in the case of calls destined for Verizon Access's network, the LERG also identifies the appropriate Verizon Access switch for delivery of a call in the same Tallahassee, Florida rate center. As noted above, the LERG identification is based on assignments by the respective carriers, rather than where the switches are located, especially for non-legacy CLEC networks, like Verizon Access's. As a result, the Verizon Access switch serving Tallahassee may well be located elsewhere (for example, Jacksonville). The location of the CLEC switch in another LATA (or even another state) has no direct bearing on where traffic is delivered to the CLEC. In the example, that point will always be in Tallahassee.

**Q. WITH THIS BACKGROUND INFORMATION, COULD YOU PROVIDE AN ILLUSTRATION TO HELP EXPLAIN THE OPPOSING VIEWS ON COMPENSATION?**

A. Yes. Attached as Exhibits DP-1 and DP-2 are two diagrams representing two call situations. The comparison and contrast between the two scenarios highlights the traditional views of ILECs and CLECs on compensation for VNXX calls. For the sake of simplicity, the diagrams do not attempt to replicate the full scope of the services areas over which the ILEC and CLEC, given the differences in their networks, must haul traffic from their respective customers to reach the point at which the carriers' networks are interconnected.

**Q. HOW ARE THE TWO SCENARIOS SIMILAR?**

A. In both scenarios, the calls from the Embarq customer to the Verizon Access customer are handled by both carriers in the same manner. In both cases, Embarq's switch routes its customer's call to interconnection trunks with Verizon Access, and Embarq hands the call off to Verizon Access at the point of interconnection point ("POI"). And in both scenarios, when Verizon Access recognizes the incoming call from Embarq's customer, it switches that call to the appropriate facility for termination to its customer. Note that the LERG assignment of the 234 NXX by Verizon Access is for Embarq's Exchange "A" rate center.

**Q. HOW ARE THE TWO SCENARIOS DIFFERENT?**

A. The location of the Verizon Access customer is the only difference. In the "Local Call Example" scenario (Exhibit DP-1), both the Embarq and the Verizon Access customers are in Exchange "A." In the "VNXX Call Example" scenario (Exhibit DP-2), however, the Verizon Access customer is no longer in the same exchange as the Embarq customer. In both scenarios, the Point of Interconnection to which each carrier must bring its traffic is the same. The term "virtual NXX" or "VNXX" applies to this second situation in which the Verizon Access customer in Exchange B (as defined by Embarq) has been assigned a telephone number (NXX) associated with a rate center in Exchange A. This difference between the two scenarios is at the root of the industry's policy dispute about VNXX compensation.

**Q. USING YOUR ILLUSTRATIONS, PLEASE SUMMARIZE THE TRADITIONAL OPPOSING VIEWS OF CLECS AND ILECS ON VNXX COMPENSATION.**

A. The traditional CLEC perspective is that VNXX calls are local, so the CLEC should receive reciprocal compensation for terminating them. This view derives from two basic points. First, the CLEC's LERG assignment for the NXX – 234 in the illustrations – was made for the Exchange "A" rate center, and calls to numbers assigned to the same rate center are typically rated as "local" for retail billing to the calling party. Second, because these calls are rated as local by virtue of the number the CLEC has assigned to its customer, CLECs typically take the position that they should receive the compensation applicable to local calls – that is, reciprocal compensation – for the functions they provide in terminating traffic from the ILEC's customer.

The traditional ILEC perspective arises from its historical position as a provider of exchange access services to interexchange carriers. In the exchange access arena, ILECs recover their costs through access charges for the functions they provide to originate jurisdictionally interexchange "toll" calls, so they contend that that access charges should also apply to interexchange VNXX calls. ILECs have also expressed concern that VNXX traffic may increase the amount of traffic for which the ILEC is providing a substantial amount of transport, especially if the CLEC has only a single point of interconnection in the LATA. Embarq's position statement reflects this customary ILEC view

that compensation should be determined by reference to the physical endpoints of a call. (Embarq's Response to Verizon Access's Petition for Arbitration, Att. A, at 1.)

The customary ILEC and CLEC positions are, therefore, diametrically opposed. The ILEC position is that it is providing an originating exchange access function, so it should be compensated according to its switched access tariffs. The CLEC perspective is that it is terminating "local" traffic originated by another LEC, so it should receive reciprocal compensation. The dispute is further complicated by fact that the overwhelming majority of VNXX traffic is not voice, but dial-up Internet traffic (that is, Internet service providers have been assigned most of the VNXX telephone numbers). The ILECs' customers are dialing these virtual NXX numbers with their computer modems for purposes of accessing Internet service providers such as America Online, Microsoft Networks, Earthlink and others.

**Q. HAS THE FCC ATTEMPTED TO ADDRESS INTERCARRIER COMPENSATION FOR VNXX TRAFFIC?**

A. Yes. The FCC has attempted to clarify applicable law regarding intercarrier compensation, but disputes nonetheless frequently have been brought before the states – often, as here, in the form of a request for arbitration. Recognizing this reality, the FCC has expressed its intention to decide the issue of VNXX compensation in its ongoing Intercarrier Compensation Rulemaking. (*See Developing a United*

*Intercarrier Compensation Regime*, Notice of Proposed Rulemaking, CC Docket No. 01-92 (April 27, 2001) and Further Notice of Proposed Rulemaking (March 3, 2005).) Therefore, any solution reached in this arbitration should be interim pending nationwide action by the FCC; the interconnection agreement should require rapid implementation of any new national intercarrier compensation program following its adoption by the FCC.

**Q. HOW SHOULD THE VNXX COMPENSATION ISSUE BE ADDRESSED IN THE MEANTIME?**

A. VNXX compensation should be addressed through market-based solutions, rather than by resort to the usual, polarized win-lose paradigm of regulatory decision-making. This is the industry trend and, in fact, the Commission recently approved the same VNXX compensation arrangement for Verizon Access and BellSouth that Verizon Access is proposing here.

Under this arrangement, if the parties have at least one point of interconnection ("POI") for the exchange of traffic in each ILEC tandem serving area where the CLEC assigns telephone numbers to its customers, the rate for VNXX traffic delivered to Internet service providers is $.0007 per minute of use (which is the FCC's default rate for ISP-bound traffic that an originating carrier hands off to another carrier for delivery to an ISP in that same local calling area.) (Verizon's proposed § 55.4.2.) In LATAs where the parties do not have a POI in

each of the ILEC's tandem serving areas, VNXX traffic (including voice, as well as ISP-bound, although Verizon Access does not expect to have any voice VNXX traffic) is exchanged on a bill-and-keep basis. (Verizon's proposed § 55.4.3.)

This compromise solution is similar to the approaches to which a number of large ILECs and CLECs (including Sprint) have agreed in the absence of regulatory intervention. For instance, Verizon Access (and other CLECs) negotiated and implemented such region-wide agreements with SBC (prior to the January 2005 announcement of SBC's merger with AT&T) and with the Verizon ILECs (before the February 2005 announcement of the Verizon/MCI merger). The Verizon ILECs, likewise, negotiated intercarrier compensation agreements with AT&T (before its merger with SBC) and Level 3, and a number of carriers, including Sprint, have adopted these negotiated agreements. Although these agreements differ in their specifics, each includes a fundamental trade-off under which the CLEC receives compensation for handling VNXX calls originated by the ILEC, in exchange for the CLEC's commitment to accept greater responsibility for transporting the traffic from the ILEC's originating end office. These multi-state agreements avoid the uncertainty of disparate, state-specific outcomes that may result from litigation; they eliminate billing and invoicing problems for multi-state carriers; and they allow parties to appropriately weigh their own business interests.

Although Embarq has not agreed to this approach thus far, Verizon Access remains willing to accept it if the Commission wishes to adopt it as an interim resolution of the VNXX compensation issue until it is settled by the FCC. Verizon Access's compromise position--a significant departure from the typical CLEC litigation position--appropriately balances the parties' respective interests, in keeping with the trend toward market-based resolution of an otherwise thorny regulatory problem by sophisticated adversaries.

**ISSUE 4: WHICH PARTY'S VOICE OVER INTERNET PROTOCOL ("VOIP") LANGUAGE SHOULD THE COMMISSION ADOPT? (ICA § 55.5.)**

**Q. WHAT ARE VOIP SERVICES?**

A. VoIP services allow customers to use the public Internet or dedicated Internet Protocol networks to make and receive voice calls. Verizon Access expects that VoIP traffic will become an ever-larger part of its business as consumer demand increases for these Internet-based calling services and innovative IP-enabled applications.

**Q. HAS THE FCC DETERMINED THE REGULATORY TREATMENT OF VOIP SERVICES?**

A. The FCC has addressed certain aspects of VoIP services. In particular, it has determined that VoIP traffic is jurisdictionally interstate because its characteristics "preclude any practical identification of, and separation into, interstate and intrastate communications for purposes of

effectuating a dual federal/state regulatory scheme."[2] The FCC has also imposed certain specific obligations, such as provision of E911 capability, on providers of interconnected VoIP services. But the FCC has not yet made a definitive determination as to what intercarrier compensation mechanism applies to VoIP traffic.[3]

**Q. WHAT IS THE PARTIES' DISPUTE ABOUT VOIP TRAFFIC?**

A. Their dispute concerns compensation for terminating VoIP traffic. Verizon and Embarq both acknowledge that the FCC has not yet established a compensation mechanism for VoIP traffic, and have been able to negotiate a partial solution while the FCC decision is pending. Specifically, the parties have agreed to apply reciprocal compensation to VoIP calls that originate and terminate in the same Embarq local calling area, but disagreement remains on the compensation to be applied to "non-local" *(i.e.*, interexchange) VoIP calls.

**Q. HOW DOES VERIZON ACCESS PROPOSE TO ADDRESS NON-LOCAL VOIP TRAFFIC?**

A. Verizon Access's proposed section 55.5 explicitly recognizes that VoIP calls are "subject to interstate jurisdiction" and that, until the FCC rules on the appropriate compensation for non-local (*i.e.*, intrastate and

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[2] *See Vonage Holdings Corp. Petition for Declaratory Ruling Concerning an Order of the Minn. Pub. Util. Comm'n*, Memorandum Opinion and Order, WC Dkt. No. 03-211, FCC 04-267, ¶14 (Nov. 12, 2004).

[3] *See IP-Enabled Services*, Notice of Proposed Rulemaking, WC Dkt. No. 04-36, FCC 04-28, 19 FCC Rcd 4863 ("*IP-Enabled Services NRPM*"), ¶¶ 61-62 (March 10, 2004). In addition, any unified intercarrier compensation approach the FCC ultimately adopts in its Intercarrier Compensation Rulemaking may address VoIP compensation. *See Developing a Unified Intercarrier Compensation Regime*, Further Notice of Proposed Rulemaking, CC Dkt. No. 01-92, FCC 05-33 (March 3, 2005).

interstate interexchange) VoIP calls, such calls will be billed at Embarq's interstate access rate. Verizon Access's language makes this compensation arrangement "[s]ubject to the change of law provisions" in the ICA, thus recognizing that the FCC may establish a different VoIP compensation method. If the FCC does, in fact, prescribe a compensation approach different from the one in the ICA, Verizon Access's proposal requires a true-up that would apply that approach back to the date the ICA was executed. The true-up requirement would apply regardless of whether the compensation the FCC orders is higher or lower than the interstate access rate used for non-local VoIP traffic in the Agreement. Therefore, if the FCC requires application of a rate above Embarq's interstate access rate, Embarq would be entitled to a true-up for the difference between that interstate rate and the FCC's higher rate.

**Q. HOW DOES EMBARQ PROPOSE TO ADDRESS THE COMPENSATION ISSUE?**

A. Unlike Verizon Access's language, Embarq's proposed section 55.5 fails to explicitly recognize that VoIP traffic is jurisdictionally interstate or that any VoIP compensation approach in the ICA is necessarily interim, pending the FCC's decision on the compensation method. Embarq's language states only that VoIP traffic will be "compensated in the same manner as voice traffic (*e.g.*, reciprocal compensation, interstate access and intrastate access)."

**Q. WHY IS VERIZON ACCESS'S PROPOSAL BETTER?**

A. Verizon Access's proposal unambiguously recognizes the FCC's exercise of jurisdiction over VoIP traffic and it is fair and easy to administer. The true-up requirement accommodates the existing uncertainty about the law on VoIP compensation in a neutral way. It recognizes that only the FCC can decide the VoIP compensation issue and accordingly applies the FCC's approach—whatever it may turn out to be—from the inception of the contract. Verizon's language, therefore, guarantees that neither party will receive a windfall while the compensation question remains open, and also will eliminate potential disputes about application of the ICA's change-of-law provision once the FCC decides the VoIP compensation issue. In the meantime, applying Embarq's interstate access rate is a fair and non-arbitrary compromise measure that balances both parties' interests.

Embarq's proposal, on the other hand, does not try to address the uncertainty about the law on VoIP compensation, but instead locks in payment of access charges without any true-up requirement. Verizon Access should not have to pay Embarq's intrastate access charges, which are several times higher than its interstate access charges, when the FCC has not yet determined what compensation to apply to VoIP traffic. The Commission should reject Embarq's language and approve Verizon Access's interim solution for section 55.5 of the ICA.

**ISSUE 5: HOW SHOULD THE PARTIES COMPENSATE ONE ANOTHER FOR TERMINATING TRAFFIC WHEN MORE THAN 10% OF THE TRAFFIC FORWARDED FOR TERMINATION DOES NOT CONTAIN CALLING PARTY NUMBER ("CPN")?**

**Q. WHAT IS CPN?**

A. CPN is the calling party's telephone number contained in the calling party number field of the call set-up message associated with a call on an SS7 (Signaling System 7) network. CPN gives the terminating carrier information that in many instances is used to determine the jurisdiction of the call, and thus, the appropriate intercarrier compensation.

**Q. IS IT TECHNICALLY FEASIBLE FOR VERIZON ACCESS TO TRANSMIT CPN ON EVERY CALL?**

A. No. When Verizon Access's network receives CPN on a call to be transmitted to Embarq or another interconnecting carrier, Verizon Access always transmits that CPN just as Verizon Access receives it, without any alteration; but sometimes the CPN field in the call set-up stream is empty, so Verizon Access cannot transmit CPN in those instances.

There are a number of reasons why Verizon Access's network may not receive any CPN on a call. For example, CPN might not be present when the customer makes a VoIP call from his computer using "click-to-call" software. In addition, special access circuits leased from an ILEC

to connect a business customer's private branch exchange ("PBX") with a long distance carrier's point-of-presence may have been established without the signaling capability to transmit CPN. Or customers may be using PBX systems that were not designed to transmit CPN.

**Q. DOES EMBARQ AGREE THAT TRANSMISSION OF CPN MAY NOT BE TECHNICALLY FEASIBLE ON ALL CALLS?**

A. Yes. The parties have agreed to language for section 55.7.1 of the ICA stating that: "To the extent technically feasible, each party will transmit calling party number (CPN) for each call being terminated on the other's network. If the percentage of calls transmitted with CPN is greater than 90%, all calls exchanged without CPN will be billed as local or intrastate in proportion to the MOUs of calls exchanged with CPN."

**Q. THEN WHAT IS THE PARTIES' DISPUTE RELATING TO CPN?**

A. The parties disagree on how to compensate each other for calls they exchange when more than 10% of the calls transmitted in a month do not contain CPN. Verizon Access's proposed language in section 55.7.1 specifies that: "If the percentage of calls transmitted with CPN is less than 90%, all calls transmitted without CPN ***for which transmission of CPN was technically feasible*** will be billed at intrastate access rates." Embarq proposes the same language, but without the italicized, bolded language about technical feasibility.

Under Verizon Access's formulation, the intercarrier billing for calls

without CPN would depend on whether transmission of CPN was technically feasible on those calls. For example, if 89% of calls in a month contained CPN and 11% did not, intrastate access rates would apply to those 11% of calls *only if* transmission of CPN was technically feasible on those calls. If, however, it was not technically feasible to pass CPN on those 11% of calls, then they would be billed as local or intrastate in the same proportion as the other 89% of calls, those with CPN.

Embarq's language, in contrast, would not recognize Verizon Access's inability because of technical feasibility constraints to transmit CPN on the 11% of calls in the example. Embarq would simply require Verizon Access to pay intrastate access rates, which are much higher than local interconnection rates, on all 11% of the calls without CPN.

**Q. IS EMBARQ'S REJECTION OF VERIZON ACCESS'S LANGUAGE UNREASONABLE?**

A. Yes. The above-quoted, italicized, bolded language Verizon Access proposed should not be controversial because it is consistent with the language Embarq already agreed to earlier in section 55.7.1 that excuses a party from transmitting CPN on a call when it is not technically feasible to do so. Because the ICA explicitly exempts a party from transmitting CPN when it cannot do so for technical feasibility reasons, it is not fair to then charge that party the higher compensation rates (*i.e.*, intrastate access) to all calls without CPN regardless of

whether it was technically feasible to transmit CPN on those calls. Where CPN cannot be passed, Verizon Access's language assumes that the calls without CPN are intrastate or local in the same proportion as the calls with CPN. The Commission should thus adopt Verizon Access's language for section 55.7.1, in keeping with the Parties' agreement that a Party need not transmit CPN when it is technically infeasible to do so.

**ISSUE 6: WHEN THE PARTIES EXCHANGE TRAFFIC VIA INDIRECT CONNECTION, IF VERIZON ACCESS HAS NOT ESTABLISHED DIRECT END OFFICE TRUNKING SIXTY DAYS AFTER REACHING A DS1 LEVEL, SHOULD VERIZON BE REQUIRED TO REIMBURSE EMBARQ FOR ANY TRANSIT CHARGES BILLED BY AN INTERMEDIARY CARRIER FOR LOCAL TRAFFIC OR ISP-BOUND TRAFFIC ORIGINATED BY EMBARQ?**

**Q. WOULD YOU EXPLAIN THE DIFFERENCE BETWEEN INDIRECT CONNECTION AND DIRECT CONNECTION?**

A. Yes. Two carriers may agree to directly interconnect their networks, so that traffic from one carrier's network is passed directly to the other carrier's network for termination to its customer, and vice versa. Such direct interconnections are efficient from a traffic engineering perspective when a large volume of traffic is exchanged between the two networks. When the traffic volumes are low, however, direct interconnections may not be efficient. In such instances, the carriers typically exchange traffic via a third party network with which both

carriers are directly connected. For example, some Embarq exchanges in Florida may be connected with a BellSouth (now AT&T) tandem that also connects various BellSouth exchanges. In that example, because both Verizon Access and Embarq are already connected to that BellSouth tandem, they can exchange traffic over the "indirect connection" between their networks via the Bellsouth tandem. The BellSouth tandem in this example is providing what is called a "transit" function, because no BellSouth customer is involved on either the originating or terminating end of the call.

In contrast to indirect interconnection through a transiting carrier (BellSouth in the example), direct connection would occur if Verizon Access established a trunk group connecting directly with Embarq's exchange(s), so that traffic would no longer be exchanged via the transiting carrier's tandem.

**Q. WHAT IS THE PARTIES' DISPUTE WITH RESPECT TO ISSUE 4?**

A. Under the industry-standard arrangement, the transiting carrier typically bills the originating carrier (*e.g.*, Verizon Access) for transiting the originating carrier's traffic to another carrier (*e.g.*, Embarq). The agreed-upon language for section 61.2.4 of the ICA explicitly recognizes this arrangement ("each originating Party is responsible for the payment of transit charges assessed on the originating Party by the transiting party.") Embarq, however, would change this customary arrangement if a direct connection is not established within sixty days after indirect

traffic reaches a DS-1 level. In that case, Embarq would require Verizon Access to pay all transiting charges, even those the transiting carrier charges Embarq for **handling *Embarq's own originating traffic***. If Embarq's proposal is accepted, Verizon Access will, therefore, end up paying transit in ***both*** directions (to the third party for Verizon Access's originating traffic and to Embarq for Verizon Access's terminating traffic). The Commission should reject this extreme and patently unfair proposal.

**Q. WHAT IS WRONG WITH EMBARQ'S PROPOSAL?**

A. There are a number of problems with Embarq's proposed addition to section 61.2.4.

First, while I am not a lawyer, I understand that Embarq's proposal to require Verizon Access to pay third-party transit charges on Embarq's traffic may be contrary to FCC restrictions on the extent to which a LEC may charge other carriers for traffic originating on the LEC's network. *See* 47 C.F.R. § 51.703(b).

Second, Embarq's proposal is unnecessary, because Verizon Access has already agreed (in section 61.1.5) to establish a direct connection with Embarq once transit traffic exceeds a DS1 level.

Third, Embarq's language incorrectly assumes that Verizon Access alone controls the timeframe for establishment of a direct end office trunk ("DEOT") group. As Embarq should know, engineering and

installation of a DEOT between carriers is necessarily a joint undertaking, so one Party alone cannot control the process. For instance, if Embarq's network has no spare transmission capacity over which direct trunks can be configured, Embarq's facilities will require augmentation before direct trunking can occur. The length of time required for Embarq to complete that augment is solely within Embarq's control. If the augment takes more than 60 days, it would be patently unreasonable to require Verizon Access to pay Embarq's transit bills, as Embarq proposes.

Fourth, Embarq's language ignores the possibility that the DS1 threshold could be triggered in a given month, only to be followed by subsequent months where traffic does not reach the threshold. In the case of a temporary spike in traffic that does not represent a trend, it would likely be to both parties' advantage to continue with indirect trunking. Embarq's overly categorical language would not take account of such events.

**Q. IS THERE ANY PUBLIC POLICY RATIONALE FOR EMBARQ'S POSITION?**

A. No. The effect and likely intent of Embarq's language is to shift its expenses to its competitor, which is obviously an anticompetitive result. If Embarq believes Verizon Access has violated the contract by taking too long to do its part to establish direct interconnection, it can seek recourse under the usual dispute resolution provisions of the

Agreement. There is no reason to carve out an exception for establishment of direct trunking in these circumstances, and the Commission should reject Embarq's proposed language that would do so.

**ISSUE 7: WHAT RATE SHOULD APPLY TO TRANSIT TRAFFIC UNDER THE PARTIES' INTERCONNECTION AGREEMENT?**

**Q. WHAT IS TRANSIT TRAFFIC?**

A. Transit Traffic is traffic that originates on one Party's network, passes through the other Party's network, and terminates to a third-party carrier (or that originates on a third-party carrier's network, transits through a party's network, and terminates to the other party's network). ICA, § 1.112. Transit Service is the delivery of such Transit Traffic. *Id.* § 1.111.

Transit Service allows smaller carriers, most of which are already connected to the carrier serving most of the customers in the area (here, Embarq), to connect indirectly through that predominant carrier's network to exchange calls with each other, rather than having to establish direct connections to handle relatively small volumes of traffic between their networks.

**Q. HAVE THE PARTIES NEGOTIATED LANGUAGE REQUIRING EMBARQ TO PROVIDE TRANSIT SERVICE TO VERIZON ACCESS UNDER THE ICA?**

A. Yes. The agreed-upon language in section 68.2 specifies that Embarq

will provide transit service allowing Verizon Access's end users to connect to local end users of other carriers. The parties disagree, however, about the rate that Embarq should charge Verizon Access for transit service under the ICA.

**Q. WHAT ARE THE PARTIES' RESPECTIVE RATE PROPOSALS?**

A. In the absence of an acceptable proposal from Embarq, Verizon Access has proposed a rate of $0.002867 (that is, the sum of the common transport and tandem switching rate elements the Commission approved for Embarq for reciprocal compensation purposes). Embarq proposes a new transit rate of $0.005, almost double the existing transit rate.

**Q. WHY SHOULD THE COMMISSION REJECT EMBARQ'S PROPOSED TRANSIT RATE?**

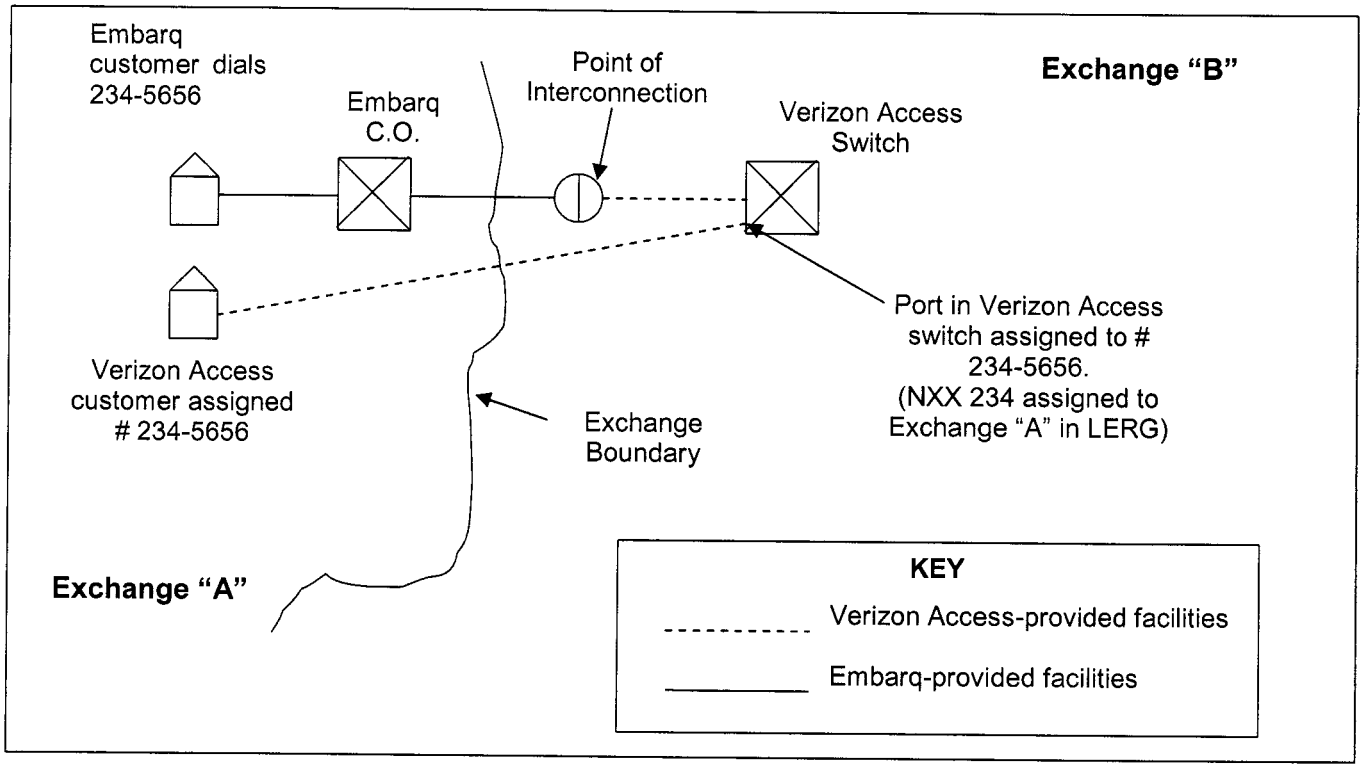
A. Having agreed to negotiate and arbitrate the transit rate, Embarq cannot claim that the Commission must approve any rate Embarq proposes. The available reference points demonstrate that Embarq's proposed rate of $0.005 is unreasonably high. Aside from the existing rate of $0.002867 noted above, the Commission might look to (1) the analogous Embarq interstate rate of $0.002052; (2) the transit rates Verizon Access recently negotiated with BellSouth here in Florida and elsewhere—that is, $0.0015 in 2007, $0.0020 in 2008, and $0.0025 thereafter; and (3) the $0.002071 transit rate in the existing Verizon Florida Inc./Sprint ICA. These reference points are in line with Verizon

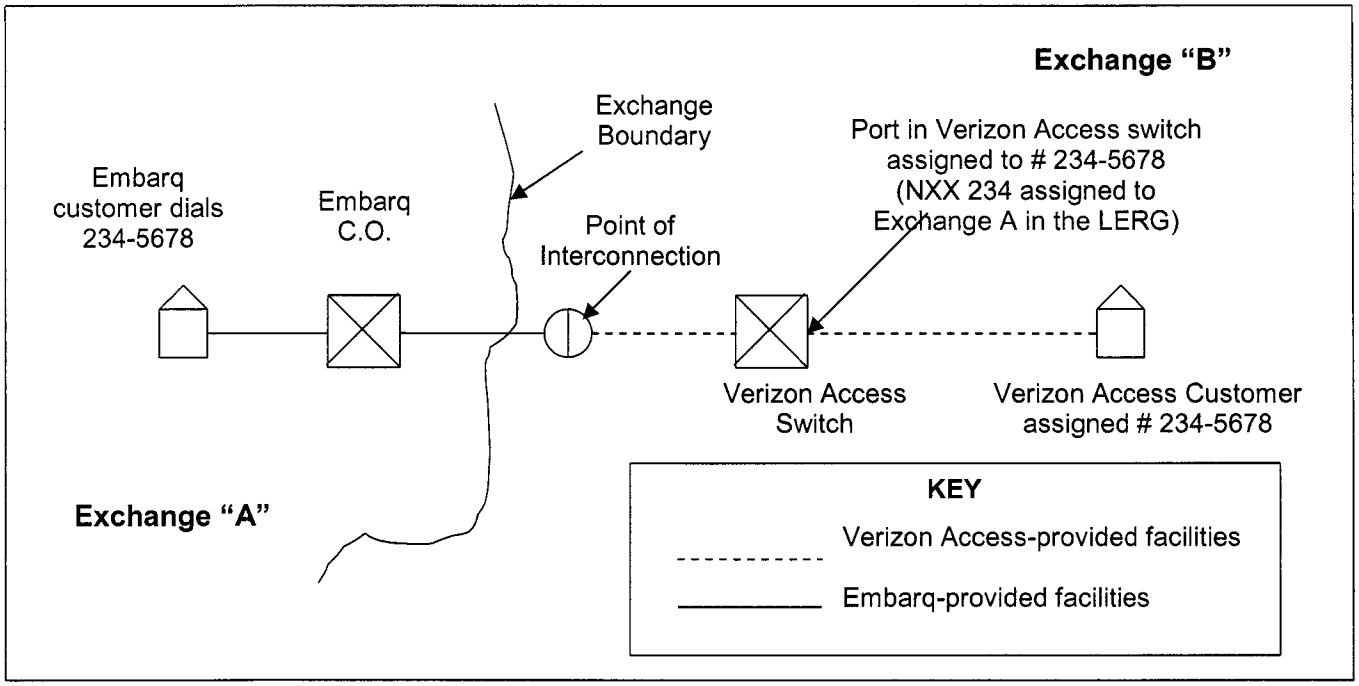
Access's proposal and should guide the Commission in establishing a reasonable transit rate in this case.

**Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes.

Docket No. 060767-TP
Local Call Example: ILEC to CLEC
Exhibit DP-1, Page 1 of 1




Exchange "B"
Exchange Boundary
Port in Verizon Access switch assigned to # 234-5678 (NXX 234 assigned to Exchange A in the LERG)
Embarq customer dials 234-5678
Embarq C.O.
Point of Interconnection
Verizon Access Switch
Verizon Access Customer assigned # 234-5678
Exchange "A"
KEY
Verizon Access-provided facilities
Embarq-provided facilities