

# Florida Public Service Commission

## White Paper on **Reciprocal Compensation**

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## **Introduction**

### ***What is reciprocal compensation?***

The Telecommunications Act of 1996 (the Act) requires local exchange carriers (LECs) to "establish reciprocal compensation arrangements for the transport and termination of telecommunications." This provision is more generally referred to as reciprocal compensation. When LECs collaborate to complete a call, this provision ensures compensation both for the originating LEC, which receives payment from the end-user, and for the recipient's LEC. For example, when a customer of an incumbent local exchange carrier (ILEC) makes a local call to a customer of a competitive local exchange carrier (CLEC), the CLEC incurs a cost to terminate that call -- and vice versa. The reciprocal compensation provisions of the Act require ILECs and CLECs to pay each other for local calls that are terminated on their respective networks. By regulation the FCC has limited the scope of the reciprocal compensation requirement to "local telecommunications traffic."

Under federal rules, an ILEC has to pay the same amount for sending calls to CLECs that CLECs pay for sending calls to the ILEC. Thinking that they would be net receivers of calls, ILECs in 1996 and 1997 lobbied regulators for reciprocal compensation. They argued that it really cost them between \$0.005 and \$0.009 per minute to terminate calls. This was considerably higher than the approximate \$0.002 amount the FCC had determined in August 1996, but upon insistence of the ILECs, the higher amounts were used. CLECs soon discovered that by terminating more local traffic than they were generating, they could actually generate a profit. As profit maximizing firms, CLECs began looking for customers with this type of calling pattern and found customers like centralized calling centers and Internet Service Providers (ISPs). With the prevalence of ISP services expanding, and ISP traffic terminating on their networks, CLECs began to bill ILECs millions of dollars for reciprocal compensation.

### ***Historical Perspective***

The first instance the Florida Public Service Commission (FPSC) arbitrated rates for interconnection occurred in Docket No. 950895-TP. Yet the resulting order (Order No. PSC-96-0445-FOF-TP) did not result in a specific reciprocal compensation rate, but what is now more commonly known as a Bill and Keep arrangement for all local traffic. That is, the originating LEC is under no obligation to compensate the carrier terminating the call for the use of its network. Hence, the originating LEC both bills and keeps payment from the end-user. The specific terminology used to identify the arrangement was "mutual traffic exchange." A provision was included in this order that allowed any party that believed that traffic was imbalanced to the point that the party was not receiving benefits equivalent to those it provided through mutual traffic exchange may request the compensation mechanism be changed no sooner than one year after the order. This time period was designated to give all parties practical experience with local interconnection.

Several benefits were cited in that docket by CLECs for mutual traffic exchange. MFS-FL stated that under mutual traffic exchange, each carrier would be compensated in two ways for terminating local calls originated by customers of other carriers. First, each carrier would have the reciprocal right to receive termination of local calls made by its customers to subscribers on the other carrier's network without cash payment. This is also referred to as payment in kind. Second,

the terminating carrier is compensated for call termination by its own customer, who pays the terminating carrier a monthly fee for service, including the right to receive calls without a separate charge.

MCImetro and MFS-FL also asserted that another advantage of mutual traffic exchange is that it minimizes the costs of measurement and billing. With mutual exchange of traffic, there would be no need for terminating companies to measure delivered traffic. MCImetro added that mutual traffic exchange is the least cost means of compensating for terminating traffic and is, therefore, the method most likely to help drive local exchange rates to the lowest possible level.

Another advantage to mutual traffic exchange is that it provides carriers with the incentive to adopt an efficient network architecture. MFS-FL contended that a compensation scheme in which the terminating carrier is able to transfer termination costs to the originating carrier reduces the incentive of the terminating carrier to use an efficient call termination design.

The first generation of negotiated agreements however, cost the ILECs dearly because it was in these negotiated agreements that reciprocal compensation rates were first agreed to by the parties. The volume of terminating traffic did not go to the ILECs, as they had expected, but instead went to the CLECs with customers that received more incoming calls. CLECs were able to do this by targeting companies like travel reservation agencies, taxicab companies, and ISPs as customers. With a newfound windfall of revenue coming in, CLECs soon stopped supporting mutual traffic exchange in favor of reciprocal compensation. As second generation contracts were negotiated, the ILECs learned from their miscalculation regarding the Internet and began making it harder for CLECs to maintain this revenue stream. Since that time, the ILECs have consistently challenged the CLECs' right to reciprocal compensation for ISP traffic.

### ***Reciprocal Compensation Importance as a Revenue Stream***

There are important financial implications associated with reciprocal compensation for ISP traffic. For some CLECs, reciprocal compensation accounts for a significant percent of their revenue. While most CLECs are currently experiencing negative Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), the EBITDA for ISP reciprocal compensation is often positive. To a large extent, reciprocal compensation has helped fuel the growth of the CLEC industry.

Since creation of the Act, we have witnessed the entry of over 375 CLEC firms in the United States. Prior to the Act, there were 13. In 1996 there were only 9 publicly-traded competitive carriers, with a market capitalization of \$3.1 billion. In 1998, there were 24 publicly traded CLECs with a market capitalization of \$17.5 billion. Today, there are 35 with a market capitalization of \$86.4 billion. The capital expenditure for CLECs was \$5.0 billion in 1997, \$9.2 billion in 1998, and \$15.1 billion in 1999. CLEC revenue from switched local services was \$782 million in 1996. That rose to \$3.5 billion in 1998 and to \$6.3 billion in 1999.

While these growth numbers are impressive, almost none of the CLECs have turned a profit. While all CLECs do not heavily rely on reciprocal compensation for sustain ability, a number of them do. As an anecdotal example, ICG Communications Inc. stock value has declined recently by

one half, based in large part on projections for lower rates in reciprocal compensation agreements with local phone carriers, along with increased competitive and pricing pressures. For reciprocal compensation to be listed with competition and pricing in the management explanation of the stock collapse is a direct indication of the importance of this revenue stream.

## **Current Activity**

### ***FCC Action***

As early as 1983, the FCC found that ISPs use interstate exchange access, but determined that, in order to protect the then-infant information services industry, ISPs would be exempt from exchange access charges. Under this exemption, the FCC treated ISPs as end users under the access charge regime. ISPs purchased their links to the public switched network through intrastate business tariffs, and, for separation purposes, both ILECs and CLECs treated revenues and expenses from ISP traffic as intrastate.

After several years of state regulatory commission and federal district court deliberation on this issue, the FCC issued a Declaratory Ruling on February 26, 1999, addressing the question of the proper regulatory treatment of ISP traffic. While purporting to establish a final determination, the Declaratory Ruling may have created more questions than answers concerning reciprocal compensation.

The Declaratory Ruling began a new phase in the regulatory treatment of both ISP traffic and reciprocal compensation. In the Declaratory Ruling, the FCC held that ISP traffic was jurisdictionally mixed, but largely interstate. The FCC rejected the distinction between telecommunications services and information services that a few state regulatory commissions had relied on. The FCC held that a call to an ISP did not terminate with the ISP, but was instead a single interstate call originating with an end user and terminating on the Internet.<sup>1</sup>

Prior to the Declaratory Ruling, all state regulatory commissions that ruled on this issue found in favor of the CLEC and determined that reciprocal compensation should be paid. In most cases, these commissions focused on the intention of the parties in treating ISP traffic as local traffic subject to reciprocal compensation. They also looked at the ILECs' own treatment of such traffic and how the information service component of an Internet dial-up call was distinct from the telecommunications component.

The Declaratory Ruling avoided questioning state commission decisions requiring reciprocal compensation for ISP traffic and allowed state commissions to continue accepting jurisdiction and to adopt whatever compensation system for ISP traffic that they deemed appropriate.

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<sup>1</sup> The FPSC filed comments with the FCC stating that we believed that the call was not a single interstate call but is made up of two calls. Specifically it is an intrastate telecommunications service, provided by one or more LECs, and interstate information services, provided by the ISP. FPSC Comments on Notice of Proposed Rulemaking, 4/9/99, CC Dockets 96-98, 99-68; FPSC Comments, 7/21/00, CC Dockets 96-98, 99-68.

### ***Court Findings***

On March 24, 2000, the United States Court of Appeals for the District of Columbia (the Court) vacated the FCC Declaratory Ruling in the Matter of the Local Competition Provisions in the Telecommunications Act of 1996, Intercarrier Compensation for ISP-Bound Traffic, 14 FCC Rcd. 3689 (1999) (Declaratory Ruling), and remanded the case to the FCC "for want of reasoned decision-making" (*Bell Atlantic Telephone Companies v. FCC*, F.3d, 2000). In this ruling, the Court of Appeals sided with competitors and said that the FCC had not explained why calls to ISPs were more like long distance than local traffic. In the interim, the Court's vacatur of the FCC's ruling leaves ILECs free to seek relief from state-authorized compensation that they believe to be wrongfully imposed.<sup>2</sup>

In its decision, the Court found the FCC's reasoning and conclusion that calls to ISPs are not local traffic faulty and inconsistent, both internally and with other FCC decisions. The Court questioned the FCC's application of an "end-to-end" analysis to calls to ISPs. The Court noted that the FCC traditionally has used the end-to-end analysis for jurisdictional purposes to determine whether particular traffic is interstate. The Court explained that, "[under this method, [the FCC] has focused on the end points of the communication and consistently has rejected attempts to divide communications at any intermediate points of switching or exchanges between carriers." The Court went on to state that however sound the end-to-end analysis may be for jurisdictional purposes, the FCC failed to explain why viewing ISP traffic as continuous is appropriate for purposes of reciprocal compensation.

The Court also observed that the FCC failed to apply or even mention its definition of "termination." The FCC defines "termination" as "the switching of traffic that is subject to section

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<sup>2</sup> See 47 U.S.C. § 251(b)(5) and 47 C.F.R. § 51.701(a). In other words, the D.C. Circuit Court's decision leaves undisturbed the authority of state commissions to set intercarrier compensation rates for local traffic, including ISP traffic, and validates the decisions of the vast majority of state commissions and federal court decisions that have affirmed state authority over this matter. See *Illinois BellTel. Co. d/b/a Ameritech Illinois v. WorldCom Technologies, Inc., et al.*, 179F.3d 566 (7th Cir. 1999), affirming *Illinois Bell Tel. Co. v. WorldComTechnologies*, No. 98 C 1925, 1998 WL 419493 (N.D. Ill. July 23, 1998); *US West Communications, Inc. v. MFS Intelenet, Inc.*, 193 F.3d 1112 (9th Cir. 1999) aff'g *U.S. West Communications, Inc. v. MFS Intelenet, Inc.*, et al, No. C97-222WD, 1998 WL 350588 (W.D. Wash. Jan. 7, 1998); *Southwestern Bell Tel. Co., v. Public Utility Comm'n of Texas, et al.*, No.98-50787, 2000 WL 332062 (5th Cir. March 30, 2000) aff'g *SouthwesternBell Tel. Co. v. Public Utility Comm'n*, No. MO-98-CA-43, 1998 U.S. Dist. LEXIS 12938 (W.D. Tex. June 16, 1998); *Southwestern Bell Tel. Co. v. Brooks Fiber Communications*, No. 98-CV-468-K(J), Order (N.D. Okla. Oct. 1, 1999); *Michigan Bell Tel. Co. v. MFS Intelenet*, No. 5:98 CV 18,1999 U.S. Dist. LEXIS 12093 (W.D. Mich. Aug. 2, 1999); *BellSouth Telecommunications, Inc. v. ITC DeltaCom Communications, Inc.*, 62F.Supp. 2d 1302 (M.D. Ala. Aug. 18, 1999) aff'd on recon. (M.D. Ala. Nov. 15, 1999); *U.S. West Communications, Inc. v. WorldComTechnologies, Inc., et al.*, 31 F.Supp.2d 819 (D. Or. Dec. 10, 1998); *Southwestern Bell Tel. Co. v. Public Util. Comm. of Texas*, F.3d 2000 WL 332062 (5th Cir. March 30, 2000).

251(b)(5) at the terminating carrier's end office switch (or equivalent facility) and delivery of that traffic from that switch to the called party's premises." The Court concluded that "[calls to ISPs appear to fit this definition: the traffic is switched by the LEC whose customer is the ISP and then delivered to the ISP, which is clearly the called party." The Court noted that ISPs are information service providers and, although they use telecommunications to provide information services, they are not telecommunications providers. The Court concluded that the mere fact that the ISP originates further telecommunications does not mean that the original telecommunication does not terminate at the ISP.

The Court further stated that the FCC did not satisfactorily explain why an ISP is not, for purposes of reciprocal compensation, "simply a communications-intensive business end user [similar to pizza delivery firms, travel reservation agencies, credit card verification firms, or taxicab companies,] selling a product to other consumer and business end-users." Accordingly, because the FCC did not supply a "real explanation" for its decision to treat the end-to-end analysis as controlling, the matter was remanded to the FCC.

### ***State Activity***

Since the Declaratory Ruling by the FCC, a number of state regulatory commissions have continued to exercise jurisdiction over reciprocal compensation for ISP traffic (see Attachment A). According to our analysis, twenty states have told the ILECs to keep paying reciprocal compensation. Seven states have discontinued reciprocal compensation payments, and three are awaiting a FCC decision.

Several state commissions have opened a generic proceeding. For example, the New York Public Service Commission opened a proceeding in April 1999 to "reexamine reciprocal compensation, particularly costs and rate structures applicable to large-volume call termination to single customers." On August 26, 1999, the New York Public Service Commission concluded that ISP traffic should be subject to reciprocal compensation payments. The Commission also adopted a rebuttable presumption concerning convergent traffic. Specifically, it states that if a carrier's incoming to outgoing traffic exceeds a 3:1 ratio, delivery of that traffic should be compensated at the lower end-office rate rather than the higher tandem rate.

The FPSC currently has an open docket (Docket No. 000075-TP) investigating the appropriate methods to compensate carriers for exchange of traffic. Hearings are currently scheduled for March 7 through the 9 of next year.

State commissions appear open to arguments that, without reciprocal compensation, CLECs would be entirely uncompensated for their transport of ISP bound traffic, and that, during the original negotiations of the interconnection agreements, the ILECs were aware that ISP traffic was considered local. To date, the FCC has explicitly reserved state commission jurisdiction and avoided adopting a ruling that would overturn state actions. This ensures that state commissions will continue to play a vital role in this ongoing debate.

### ***Congressional Movement***

With the advent of the Internet and unpredicted data traffic growth, reciprocal compensation became a burden for the incumbents and a windfall for the CLECs. As a result, ILECs petitioned every forum in the country to undo what they had previously negotiated the CLECs to accept. Following four years of prolonged state commission hearings on reciprocal compensation, along with FCC and court actions, there is currently legislation in the Congress to do away with these fees. The Reciprocal Compensation Adjustment Act of 2000 (H.R. 4445; See Attachment B) would amend the Communications Act of 1934 to provide that "no local exchange carrier shall be required to make any payment for the transport or termination of telecommunications to the Internet or any provider of Internet access service." It also specifies that such traffic is Interstate in nature and subject to FCC control rather than that of state utility commissions. The bill was introduced by Representative Billy Tauzin (R-LA) and co-sponsored by Tom Bliley (R-VA), John Dingell (D-MI), and Rick Boucher (D-VA). Senator Brownback is expected to use language from H. R. 4445 in the Commerce, Justice, and State appropriations bill, if H. R. 4445 passes.

Meanwhile, the CLECs fought to retain reciprocal compensation for ISP traffic. Robert Taylor, the Chairman of the Association for Local Telecommunications Services (ALTS), recently testified at a Subcommittee on Telecommunications, Trade, and Consumer Protection legislative hearing on H.R. 4445 that "any telecommunications company that carries telecommunications traffic, whether voice, data or video, deserves to be paid for its costs of terminating that traffic, plus a reasonable profit. Eliminating reciprocal compensation amounts to an unconstitutional `taking.' Further, it could lead to an increase in Internet rates or a return to monopoly provisioning, or discourage competitive investment." He further argued that if the telephone companies had won the right to provide service to Internet providers, then CLECs would be paying them. Instead, most Internet service providers choose to obtain service from CLECs because the CLECs provide better service quality and lower prices. They argue that this bill is bad public policy, bad for consumers and bad for competition, and that it could lead to increased costs for the ISPs. ALTS is a national industry association representing facilities-based CLECs.

The United States Telecom Association (USTA) has countered, saying that ILECs may be forced to raise their rates if the current reciprocal compensation system for dial-up Internet traffic remains in place. USTA President Gary R. Lytle says the price hikes would be necessary to absorb the "excessive" reciprocal compensation bills that CLECs have been charging ILECs for terminating their customers' calls to Internet service providers. Mr. Lytle also discounted CLECs' claims that moving to a "bill-and-keep" regime for dial-up Internet traffic would lead to higher prices for Internet access. "The facts suggest the opposite," he said. "In the states that have done away with reciprocal compensation, Internet prices are virtually identical" to those states that have kept a reciprocal compensation regime in place, he said.

NARUC sent a letter opposing the reciprocal compensation bill to all members of Congress on September 11, 2000 (See Attachment C). This letter received a lot of press coverage and has been a catalyst for discussion, especially in the House subcommittee with jurisdiction over H. R. 4445. NARUC staff have been concentrating on educating members of Congress and their staff members about what states have been doing on the issue, and trying to convince them that states

should continue to work out the details of how reciprocal compensation should operate and should not be preempted.

The FCC is reluctant to address the issue at this time, especially since it is having problems with its budget in Congress. Representatives Tauzin and Bliley, along with Senator Lott, sent a letter to the FCC requesting that the FCC act on reciprocal compensation by September 30, 2000, but the FCC is unlikely to meet that deadline. The Administration has other issues that it is dealing with (largely appropriations), so it has been silent on reciprocal compensation. The regional bell operating companies have been lobbying particularly hard in this area since they have apparently lost in their efforts before Congress to obtain interLATA data relief.

A new draft of the bill was circulated in Washington on September 15, 2000. The draft mandates a bill and keep arrangement for dial-up Internet traffic with a safety mechanism for the CLECs, allows the FCC to prescribe a "competitively neutral and nondiscriminatory mechanism, other than reciprocal compensation" for Internet traffic if the General Accounting Office finds that the bill "caused or will cause an unreasonable increase in" Internet access prices. The House Subcommittee on Telecommunications, Trade and Consumer Protection approved a substitute amendment to H.R. 4445 on September 18, 2000 (See Attachment D). The two amendments were successfully added to the substitute amendment. Representative Edward Markey's (D-MA) amendment ensures that wireless providers are not excluded from the new bill and keep arrangements. This amendment was added over the objections of Representative Tauzin. Representative Christopher Cox's (R-CA) amendment precludes the FCC from imposing access charges on Internet telephony services. It states that the FCC "shall not impose access charges, or any other charge for the support of the local loop, on Internet telecommunications." In addition, the general scope of the bill is expanded. Originally, the bill was focused only on reciprocal compensation for dial-up calls to the Internet. This version of the bill eliminates reciprocal compensation for local voice, wireless calls, and dial-up calls to the Internet.

## **Policy Issues**

### ***Symmetric***

Reciprocal compensation as it is currently used, is symmetric in nature. That is, the per minute terminating price charged by the CLEC is the same as the one charged by the ILEC. The problem, however is that the ILEC's terminating cost is different than the CLEC's terminating cost. Regulators face a problem of choosing whose terminating cost should be used. The FCC chose the ILEC's forward-looking terminating cost as the reciprocal terminating charge, with a goal of assisting local market entry for the CLEC industry.

In general, the ILEC is a higher cost local service provider because it must serve both rural and urban customers.<sup>3</sup> The ILEC's network represents the existing local loop network, built on a mix of vintage and advanced technologies. In addition, the ILEC serves the majority of local

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<sup>3</sup> *Local Competition Report*, FCC, August 1999, p.5; *Development of Competition in Local Telephone Markets*, GAO, January 2000, p.16.



residential customers. Serving residential customers usually requires longer loops and increased switching facilities. This creates higher investment costs. In contrast, the CLEC has the option of providing service in urban areas only and using low-cost technology. These urban business customers are more concentrated in geography, and serving them takes a lower investment cost on average than serving residential customers. Such differences explain the typical cost variance between ILEC's and CLEC's.

### ***Rational Responses***

Based on this variance, setting the symmetric reciprocal compensation at the ILEC's terminating cost can create a revenue source for the CLEC. This gives rise to a second policy issue. Firms rationally respond to opportunities to maximize their profit and/or minimize their costs. In the domain delineated by current reciprocal compensation policy, the CLEC industry has made "rational" responses to maximize their profit by: (1) keeping their terminating cost as low as possible, so that the terminating cost difference will be at its maximum, hence, the per minute profit will be at its maximum; and (2) creating imbalanced traffic such that at the extreme, there is only a one way traffic which originates from the ILEC and connects to the CLEC's terminating facilities as long as possible.

### ***Specializing In Servicing Internet Service Providers***

The best business end user that fits the above characteristics is an ISP. From the CLEC's perspective, specializing in serving ISPs enables CLECs to minimize the terminating cost and maximize profits because ISP-bound traffic is one-way. From the ISP's perspective, the flat rate that the CLEC charges the ISP, enables the ISP to only charge ISP subscribers a simple flat fee. Hence, the CLEC never has to pay the ILEC any reciprocal compensation and the CLEC can charge the ISP a flat rate. The flat rate ISP charge creates an incentive for the subscribers to connect to the Internet as long as possible, which in turn, further increases the CLEC's profit.

As Internet subscribers stay on the local network longer, the cost of providing this local service escalates. Yet, most local service customers are charged a flat monthly fee for their local service, whether or not they subscribe to Internet services. We do not, however, see significant rate increases resulting from these conditions, because most end users are served by either by BellSouth, which is under price-cap regulation until January 1, 2001, or providers who can only raise their basic service prices by inflation less 1 percent. Thus, reciprocal compensation forces the ILEC to incur additional expenses in order to meet its carrier of last resort responsibilities (COLR).

Should these expenses impair any ILECs ability to provide COLR responsibilities, any party can petition the FPSC for a change in circumstances relate to Florida's interim universal service program. Specifically, Section 364.025(3), F.S., states that:

In the event any party, prior to January 1, 2004, believes that circumstances have changed substantially to warrant a change in the interim mechanism, that party may petition the commission for a change, but the commission shall grant such petition only after an opportunity for a hearing and a compelling showing of changed circumstances, including that the provider's customer population includes as many

residential as business customers. The commission shall act on any such petition within 120 days.

To date, no party has come before the FPSC to request such a change.

### **Policy Change Options**

#### ***Short-Term Negotiation-Based***

Changes have been emerging recently. The CLECs support the continuation of the current reciprocal compensation policy by citing the FCC's deference of jurisdiction to state commissions, most of which have treated ISP-bound as local traffic. Meanwhile, the ILECs have shown the tendency to refuse to pay by citing the FCC's finding in the same Declaratory Ruling that the ISP-bound traffic is interstate. However, negotiation-based processes have been taking place between the CLECs and ILECs, and such voluntary negotiations have effectively brought down the per-minute compensation charge. For example, BellSouth Telecommunications, Inc. and ICG Communications, Inc. recently agreed to reduce reciprocal compensation from \$0.009 per minute in 2000 to \$0.0015 in 2002 for all of BellSouth's nine-state territory.<sup>4</sup>

#### ***Bill And Keep (Mutual Traffic Exchange)***

To better solve these problems, the pricing structure of reciprocal compensation needs to be changed. Some have suggested using the "bill and keep approach." However, the basis on which the bill and keep approach would be reasonable is when the traffic is balanced, i.e., the amount of traffic from the ILEC to the CLEC is more or less equivalent to the amount of traffic from the CLEC to the ILEC. As mentioned previously, the FPSC's first order on reciprocal compensation adopted this arrangement. It also contained a provision that allowed any party that believed imbalanced traffic was causing detrimental effects to petition for relief (Order No. PSC-96-0445-FOF-TP). Yet the paradox is that the reciprocal compensation arrangement creates the incentive for carriers to look for customers with specific calling patterns that exacerbate any imbalance.

### **Conclusion**

Most state commissions currently believe that reciprocal compensation is the most appropriate compensation mechanism for ISP traffic. But, as evidenced in the recent decision to eliminate reciprocal compensation in Colorado and Massachusetts, some state commissions are tiring of CLEC business plans that are based on "arbitrage" of reciprocal compensation. According to commenters, certain state regulators have grown impatient with CLECs that are not interested in promoting local exchange competition.

To be effective in the upcoming generic proceeding before the Florida Commission, CLECs will need to show how reciprocal compensation supports the Act's policy of fostering competition in the provision of telecommunications services and how the rates being charged approximate actual costs. It is unknown whether the FCC, in response to the Court remand, will order a specific

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<sup>4</sup> See Telecommunications Reports, March 20, 2000

compensation mechanism for ISP traffic, leave the issue in the hands of state commissions, or create some hybrid arrangement.

FCC rules on this issue are expected to be released in the near future. Staff understands that the new order on reciprocal compensation has been drafted twice, only to be delayed by the court remand and a change in the administration of the Common Carrier Bureau at the FCC (Larry Strickling). It is our understanding that the FCC will hold fast to its decision that the calls are Interstate in nature (a possible power grab in anticipation of the entire telecommunications network becoming “packet switched”) and that for now, it will leave the nuts and bolts issue of rates and costs to the states. If this is true, the states will continue to play a vital role in the ongoing debate over reciprocal compensation. Whatever agreement is reached, it is essential that it be beneficial to both parties.

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