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ADMINISTRATION OF  
FLORIDA  
PUBLIC SERVICE COMMISSION  
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February 2, 2001

Ms. Blanca S. Bayo, Director  
Division of Records & Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

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

Dear Ms. Bayo:

Please find enclosed an original and 15 copies of Verizon Florida Inc.'s Prehearing  
Statement for filing in the above matter. Also enclosed is a diskette with a copy of the  
Prehearing Statement in WordPerfect 8 format. Service has been made as indicated  
on the Certificate of Service. If there are any questions regarding this matter, please  
contact me at 813-483-2617.

Sincerely,

*Kimberly Caswell*  
Kimberly Caswell

KC:tas  
Enclosures

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Investigation into Appropriate Methods ) Docket No. 000075-TP  
to Compensate Carriers for Exchange of ) Filed: February 2, 2001  
Traffic Subject to Section 251 of the )  
Telecommunications Act of 1996 )  
\_\_\_\_\_ )

**VERIZON FLORIDA INC.'S PREHEARING STATEMENT**

Verizon Florida Inc. (Verizon) files its Prehearing Statement in accordance with Order numbers PSC-00-2229-PCO-TP and PSC-00-2350-PCO-TP in this docket and Commission Rule 25-22.038.

**A. Witnesses**

Verizon's witnesses for this phase of the proceeding and the issues to which they will testify are as follows:

Edward C. Beauvais: Issues 4-8; Mr. Beauvais' testimony may also touch on Issues 1-3 and 9, but these are primarily legal issues that will be addressed in the posthearing brief.

Howard Lee Jones: Issues 6 and 7 (technical aspects).

**B. Exhibits**

Verizon will introduce the following exhibits:

1. Direct Exhibit ECB-1, attached to Dr. Beauvais' Direct Testimony.
2. Rebuttal Exhibits ECB-1 and ECB-2, attached to Dr. Beauvais' Rebuttal Testimony.
3. Direct Exhibits HLJ-1 and HLJ-2, attached to Mr. Jones' Direct Testimony.

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Verizon reserves the right to introduce additional exhibits at the hearing or other appropriate points.

### **C. Verizon's Basic Position**

Under FCC decisions, the internet service provider-bound (ISP-bound) traffic at issue in this docket is primarily jurisdictionally interstate. Therefore, this Commission lacks the authority to establish a generic reciprocal compensation mechanism for this traffic. While the FCC has purported to allow states interim authority to devise intercarrier compensation mechanisms, they can only do so in the context of construing or arbitrating interconnection agreements, and only until the FCC can complete its proceeding. As such, the best course for this Commission would be to await the FCC's decision, rather than proceed with this docket and risk having its decisions overturned by federal action.

If the Commission does move forward, it must carefully consider how to structure compensation between carriers for quantities of usage that have not been previously observed in the history of telecommunications. Ideally, any intercompany compensation structure should match the end user's rate structure. However, this outcome may not be viable in the short term in Florida, given the statutory constraints on the Commission's ability to revise end user rate structures. As such, the best alternative at this time is a bill-and-keep plan. Carriers must remain free, however, to negotiate alternative forms of intercarrier compensation.

### **D., E., F., G. Verizon's Specific Positions**

Verizon believes the issues identified for resolution in this case are mixed questions of fact, law, and policy, although Issues 1-3 and 9 are primarily legal in nature.

#### **Issue 1: (a) Does the Commission have the jurisdiction to adopt an intercarrier compensation mechanism for delivery of ISP-bound traffic?**

**Verizon's Position:** No. The ISP-bound traffic at issue is primarily jurisdictionally interstate, so the Commission does not have the authority to establish an intercarrier compensation mechanism for this traffic.

#### **(b) If so, does the Commission have the jurisdiction to adopt such an intercarrier compensation mechanism through a generic proceeding?**

**Verizon's Position:** As noted, the Commission does not have the jurisdiction to adopt a reciprocal compensation mechanism for ISP-bound traffic. Even if it did, establishment of such a mechanism through a generic docket would be impermissible; the Telecommunications Act of 1996 contemplates negotiation and then, if negotiations fail, Commission intervention through arbitration.

#### **Issue 2: Is delivery of ISP-bound traffic subject to compensation under 251 of the Telecommunications Act of 1996?**

**Verizon's Position:** No. The FCC has held that Section 251 of the Act provides for reciprocal compensation only for the transport and termination of local traffic. As noted above, ISP-bound traffic is not local in nature.

#### **Issue 3: What actions should the Commission take, if any, with respect to establishing an appropriate compensation mechanism for ISP-bound traffic in light of current decisions and activities of the courts and the FCC?**

**Verizon's Position:** Given the pending decision by the FCC in its rulemaking to devise a reciprocal compensation mechanism, this Commission should await the FCC's action. This is the only sure way for the Commission to avoid the frustration of conducting a hearing proceeding only to have its decisions later reversed by federal rulings.

**Issue 4: What policy considerations should inform the Commission's decision in this docket?**

**Verizon's Position:** Verizon's witness Beauvais discusses a number of policy considerations that should inform this Commission's decision, should it choose to act at this point. Foremost among these is the question of how any reciprocal compensation mechanism will affect competition. In no event should carriers be forced to maintain a usage-based intercarrier compensation structure in the presence of flat local rates for end users. This approach will continue to create aberrant incentives for carriers and undermine efficient competition, to the ultimate detriment of consumers.

**Issue 5: Is the Commission required to set a cost-based mechanism for delivery of ISP-bound traffic?**

**Verizon's Position:** If it moves forward with a reciprocal compensation mechanism, the Commission must remain aware of cost considerations and, particularly, cost differences as between incumbent and alternative local exchange carriers' networks.

**Issue 6: What factors should the Commission consider in setting the compensation mechanisms for delivery of ISP-bound traffic?**

**Verizon's Position:** As discussed above, the Commission should first consider the legal question of whether it has the authority to establish a generic intercarrier compensation mechanism. If, contrary to Verizon's view, the Commission concludes

that it does, there are a number of considerations that should factor into its decision. Some of the most important of these include the characteristics of ISP-bound traffic; the differing incumbent and alternative local exchange carrier network infrastructures and costs; the nature of end user rate structures; and the economic and competitive consequences of any proposed compensation mechanism.

**Issue 7: Should intercarrier compensation for delivery of ISP-bound traffic be limited to carrier and ISP arrangements involving circuit-switched technologies?**

**Verizon's Position:** Yes. The switching functions that have been the foundation for reciprocal compensation are not present in a non-circuit-switched environment, and there is no cost basis for assessing reciprocal compensation for delivery of non-circuit-switched traffic. Awarding reciprocal compensation to carriers using non-circuit switched technologies would be tantamount to giving them an unwarranted subsidy.

**Issue 8: Should ISP-bound traffic be separated from non-ISP bound traffic for purposes of assessing any reciprocal compensation payments? If so, how?**

**Verizon's Position:** While it is possible to measure dial-up traffic, ideally there would be no need to do so. The preferable long-term approach is to align the relative prices for intercompany compensation and end user traffic, thus obviating the need to separate ISP-bound traffic from other traffic. As this rate alignment may not be possible in the short run, Verizon has recommended a bill-and-keep approach for all traffic, so that no traffic separation will be necessary.

**Issue 9: Should the Commission establish compensation mechanisms for delivery of ISP-bound traffic to be used in the absence of the parties reaching an agreement or negotiating a compensation mechanism? If so, what should be the mechanism?**

**Verizon's Position:** No. As explained above, Verizon does not believe the Commission has the authority to establish an intercarrier compensation mechanism for interstate, ISP-bound traffic. If the Commission does establish a reciprocal compensation mechanism, however, it cannot supplant the parties' right to negotiate reciprocal compensation arrangements that differ from any the Commission may establish.

#### **H. Stipulated Issues**

Verizon is unaware of any stipulations at this time.

#### **I. Pending Matters**

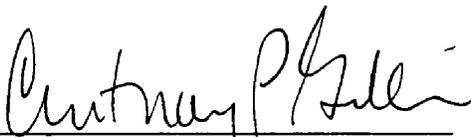
Verizon is unaware of any pending matters.

#### **J. Procedural Requirements**

To the best of its knowledge, Verizon can comply with all requirements set forth in the procedural order in this case.

Respectfully submitted on February 2, 2001.

By:

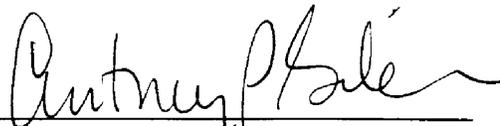


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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that copies of Verizon Florida Inc.'s Prehearing Statement in Docket No. 000075-TP were sent via U.S. mail on February 2, 2001 to the parties on the attached list.

  
\_\_\_\_\_  
per Kimberly Caswell

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