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Blanca Bayó
Director, Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Docket No. 960786-TL

Dear Ms. Bayó:

Enclosed for filing on behalf of WorldCom, Inc. and its operating subsidiaries are the original and fifteen copies of the rebuttal testimony of:

Mark Argenbright 08880-01
Greg Darnell 08881-01

By copy of this letter, this testimony has been furnished to the parties on the attached service list. If you have any questions regarding this filing, please call.

Very truly yours,

Richard D. Melson

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I HEREBY CERTIFY that a copy of the foregoing was furnished by hand delivery (*) or by U.S. Mail to the following parties this 20th day of July, 2001.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY OF MARK ARGENBRIGHT

ON BEHALF OF MCI WORLDCOM

DOCKET NO. 960786-TL

JULY 20, 2001

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Mark E. Argenbright. My business address is Six Concourse Parkway, Suite 3200, Atlanta, Georgia 30328.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by WorldCom, Inc. in the Law and Public Policy group and hold the position of Senior Staff Specialist, State Regulatory Policy. In my current position, I assist in the development and coordination of WorldCom's regulatory and public policy initiatives for the company's domestic operations. These responsibilities require that I work closely with our state regulatory groups across the various states, including Florida.

Q. PLEASE SUMMARIZE YOUR TELECOMMUNICATIONS BACKGROUND AND EDUCATION.

A. My previous position within WorldCom was Senior Manager, Regulatory Analysis, in which I was responsible for performing regulatory analysis in support of a wide range of company activities. Prior to that, I was employed by the Anchorage Telephone Utility (now known as Alaska Communications Systems) as a Senior Regulatory Analyst and American Network, Inc. as a Tariff

Specialist. I have worked in the telecommunications industry for sixteen years, with the majority of my positions in the area of regulatory affairs. I received a Bachelor of Science Degree in Business Administration from the University of Montana in 1980.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to show that BellSouth in Florida does not currently provide interconnection in accordance with the requirements of checklist item (i) [Issue 2 in this proceeding]; that BellSouth does not currently provide unbundled local transport in accordance with the requirements of checklist item (v) [Issue 6 in this proceeding]; and that BellSouth does not currently provide reciprocal compensation in accordance with the requirements of checklist item (xiii) [Issue 14 in this proceeding]. In this regard, I will respond to the testimony of BellSouth witnesses Cox and Milner, who erroneously claim that BellSouth meets these checklist requirements.

Q. DO YOU OR ANY OTHER WORLDCOM WITNESSES ADDRESS ISSUES RELATED TO BELLSOUTH'S OPERATIONS SUPPORT SYSTEMS?

A. No. Based on the Commission's ruling that OSS issues, including commercial performance data, will be considered through the KPMG third-party OSS test and a workshop process, WorldCom has not filed OSS testimony in this proceeding. We have, however, filed affidavits of Sherry Lichtenberg in the third-party test portion of this docket which detail some of the OSS problems that WorldCom has experienced in connection with its launch of residential service in Georgia and continuing problems with the implementation of BellSouth's change management process. Just as Ms. Cox says that BellSouth's performance data will be provided in separate filing as part of KPMG's Commercial Data Review (Direct at 5), WorldCom will submit updated commercial performance data in that portion of this docket as its Georgia entry continues.

Issue 2: Does BellSouth currently provide interconnection in accordance with the requirements of Sections 251(c)(2) and 252(d)(1) of the Telecommunications Act of 1996, pursuant to Section 271(c)(2)(B)(i) and applicable rules promulgated by the FCC?

(f) Has BellSouth satisfied other associated requirements, if any, for this issue?

Q. DOES BELLSOUTH CURRENTLY PROVIDE INTERCONNECTION IN ACCORDANCE WITH THE REQUIREMENTS OF THE TELECOMMUNICATIONS ACT OF 1996 ("ACT")?

A. No. BellSouth does not currently provide interconnection in accordance with the requirements of the Act. Specifically:

(1) While BellSouth has been ordered to permit interconnection at a single point of interconnection ("POI") in each LATA, BellSouth still seeks to impose on ALECs the financial responsibility for transporting traffic that originates from other BellSouth local calling areas within the LATA to the POI.

I will refer to this as the "point of interconnection" issue.

(2) While BellSouth will interconnect with ALECs for the exchange of traffic, BellSouth seeks to require ALECs to establish unnecessary and inefficient interconnection trunking arrangements in order to separate local, intraLATA toll and transit traffic onto separate trunk groups. I will refer to this as the "trunk fragmentation" issue.

(3) While BellSouth will interconnect with ALECs for the exchange of traffic, BellSouth refuses to allow ALECs who desire to serve as providers of terminating access service to route access traffic to BellSouth end offices over the same trunk groups used to terminate local traffic. I will refer to this as the "tandem provider" issue.

Q. HAS THE COMMISSION PREVIOUSLY CONSIDERED ANY OF THESE ISSUES IN OTHER DOCKETS?

A. Yes. The Commission considered the point of interconnection (POI) issue in the WorldCom/BellSouth arbitration (Docket No. 000649-TP) and ruled that BellSouth is required to permit WorldCom to interconnect at a single POI in each LATA. However, the Commission deferred the issue of financial responsibility for such traffic to Phase II of Docket No. 000075-TP. Unless and until the Commission rules (or BellSouth agrees) that BellSouth is required to bear the financial responsibility for delivering all of its traffic originating within the LATA to the ALEC's single POI, BellSouth will not have met its obligation under Section 251(c)(2)(D) of the Act to provide interconnection on terms and conditions that are just, reasonable and nondiscriminatory.

The Commission likewise considered the trunk fragmentation issue and the tandem provider issue in the WorldCom/BellSouth arbitration and ruled that BellSouth would be permitted, for purposes of the parties' Interconnection Agreement, to fragment local, intraLATA toll and transit traffic onto different trunk groups and to refuse to allow WorldCom to terminate access traffic to BellSouth end offices over the trunk groups that are established for local interconnection purposes. BellSouth's failure to implement efficient trunking arrangements nevertheless precludes it from meeting the requirements of this checklist item for Section 271 purposes, even if the Commission has not affirmatively required BellSouth to implement such efficient practices in the context of prior arbitration proceedings.

<u>POINT OF INTERCONNECTION ISSUE</u>

Q. WHAT DOES IT MEAN TO "INTERCONNECT" ALEC AND ILEC NETWORKS?

A. Construction of a local network by an ALEC means nothing unless that network can be interconnected seamlessly with the ILEC's network and with the networks of other telecommunications carriers. In the context of my testimony, interconnection means the linking of networks. The point at which an ALEC's local network physically connects to the ILEC's network is called the point of interconnection, or "POI."

The POI plays a critical role in interconnection. From a financial perspective, the POI represents the "financial demarcation" -- the point where the ALEC's network ends and the ILEC's "transport and termination" charges begin and visa versa. From an engineering perspective, there are a variety of things that must happen at the POI to make interconnection seamless and complete.

Q. WHAT IS BELLSOUTH'S OBLIGATION TO ESTABLISH INTERCONNECTION ARRANGEMENTS WITH ALECs?

A. Section 251(c)(2) of the Act provides that an ILEC has the "duty to provide, for the facilities and equipment of any requesting telecommunications carrier, interconnection with the local exchange carrier's network . . . at any technically feasible point within the carrier's network." BellSouth thus must allow a requesting carrier to interconnect at any technically feasible point.

The FCC explained the interconnection obligation in Paragraph 172 of its Local Competition Order, stating:

> The interconnection obligation of section 251(c)(2) . . . allows competing carriers to choose the most efficient points at which to *exchange traffic* with incumbent LECs, thereby lowering the competing carrier's costs of, among other things, transport and termination of traffic.

In re Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, *First Report and Order,* FCC-96-325 at ¶172 (rel. August 8, 1996) ("Local Competition Order") (emphasis added). The FCC also stated that "[o]f course, requesting carriers have the right to select points of interconnection at which to exchange traffic with an incumbent LEC under section 251(c)(2)." Local Competition Order ¶ 220, n.464. Because ALECs have the right to choose the point where the parties exchange traffic, ALECs have the right to select the POI for both the ALEC's originating traffic and for BellSouth's originating traffic.

Q. HOW HAS THE FCC ADDRESSED THIS INTERCONNECTION OBLIGATION IN ITS PRIOR SECTION 271 ORDERS?

A. In Paragraph 77 of its Texas 271 Order, the FCC ruled that an ALEC may choose to interconnect with an ILEC at a single point in each LATA. The FCC explained that:

> Section 251, and our implementing rules, require an incumbent LEC to allow a competitive LEC to interconnect at any technically feasible point. This means that a competitive LEC has the option to interconnect at only one technically feasible point in each LATA.

In the Matter of Application by SBC Communications Inc. et al. to Provide In-Region, InterLATA Services In Texas, CC Docket No. 00-65, *Memorandum Opinion and Order,* FCC 00-238 at ¶ 77 (rel. June 30, 2000) ("Texas 271 Order").

Q. HAS THE FCC ADDRESSED THE PARTIES' FINANCIAL RESPONSIBILITIES FOR DELIVERING LOCAL TRAFFIC TO THE DESIGNATED POI?

A. Yes, that responsibility is addressed both in the FCC Rules and in several FCC orders. FCC Rule 51.703(b) provides that "[a] LEC may not assess charges on any other telecommunications carrier for local telecommunications traffic that originates on the LEC's network."

In its decision earlier this year in the Kansas/Oklahoma 271 proceeding, the FCC confirmed that its decision in the Texas 271 Order to allow a single point of interconnection per LATA did not "change an incumbent LEC's reciprocal compensation obligations under our current rules." *In the Matter of Joint Application by SBC Communications Inc., et al. for Provision of In-Region, InterLATA Services in Kansas and Oklahoma,* CC Docket No. 00-217, *Memorandum Opinion and Order* at ¶235 (rel. January 22, 2001) ("Kansas/Oklahoma 271 Order"). The FCC noted, for example, that "these rules preclude an incumbent LEC from charging carriers for local traffic that originates on the incumbent LEC's network." *Id.* Thus, not only may an ALEC establish a single POI in each LATA, it may do so without being required to build, lease, or otherwise pay for facilities on BellSouth's side of the POI.

Q. ARE THERE ANY OTHER FCC ORDERS THAT ADDRESS THE RESPONSIBILITY OF A CARRIER TO DELIVER ITS ORIGINATING TRAFFIC TO A CO-CARRIER FOR TERMINATION?

A. Yes. The FCC places the responsibility for costs associated with originating traffic on the carrier that originates the call when the originated traffic must be delivered to another carrier's network for completion. This responsibility includes the facilities necessary to deliver the call to a co-carrier's network. The FCC addressed this point in *In re: TSR Wireless, LLC, et al v. U.S. West, et. al.*, Memorandum Opinion and Order, File Nos. E-98-13, E-98-15, E-98-16, E-98-17, E-98-18 (rel. June 21, 2000) ("TSR Wireless Order"). The TSR Wireless Order sets forth the framework by which carriers recover costs incurred in carrying both originating and terminating traffic. The FCC describes the obligations of a carrier when its customers originate traffic as follows:

> The Local Competition Order requires a carrier to pay the cost of facilities used to deliver traffic originated by that carrier to the

> network of its co-carrier, who then terminates that traffic and bills the originating carrier for termination compensation. In essence, the originating carrier holds itself out as being capable of transmitting a telephone call to any end-user, and is responsible for paying the cost of delivering the call to the network of the co-carrier who will then terminate the call. Under the Commission's regulations, the cost of the facilities used to deliver this traffic is the originating carrier's responsibility, because these facilities are part of the originating carrier's network. The originating carrier recovers the costs of these facilities through the rates it charges its own customers for making calls. This regime represents "rules of the road" under which all carriers operate, and which make it possible for one company's customer to call any other customer even if that customer is served by another telephone company.

TSR Wireless Order ¶ 34.

Q. THE FCC HAS RECENTLY ISSUED A NOTICE OF PROPOSED RULEMAKING TO ADDRESS THE DEVELOPMENT OF A UNIFIED INTERCARRIER COMPENSATION REGIME. DOES ANYTHING IN THIS NOTICE AFFECT BELLSOUTH'S FINANCIAL RESPONSIBILITY FOR TRANSPORTING TRAFFIC ORIGINATED ON ITS NETWORK TO THE POI?

A. No. The Notice of Proposed Rulemaking begins "a fundamental reexamination of all currently regulated forms of intercarrier compensation" and seeks comment on "the feasibility of a bill-and-keep approach for such a unified regime." *In the Matter of Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, *Notice of Proposed Rulemaking* at ¶ 1 (rel. April 27, 2001) ("Intercarrier Compensation NPRM"). While the FCC seeks comments on whether the single POI per LATA rule and the current division of financial responsibility should continue to apply under a future bill-and-keep regime, the FCC actually reaffirms BellSouth's obligation, under current rules, to deliver traffic to the POI at its own cost, in stating as follows:

> Our current reciprocal compensation rules preclude an ILEC from charging carriers for local traffic that originates on the ILEC's network.
>
> Intercarrier Compensation NPRM, ¶ 112 and footnote 180)

Q. HAS THIS COMMISSION ADDRESSED BELLSOUTH'S INTERCONNECTION OBLIGATION?

A. Yes, up to a point. In the WorldCom/BellSouth arbitration, the Commission said:

> [W]e find that WorldCom, as the requesting carrier, has the exclusive right pursuant to the Act, the FCC's Local Competition Order and FCC regulations, to designate the network point (or points) of interconnection at any technically feasible point for the mutual exchange of traffic.

In re: Petition by MCImetro for Arbitration with BellSouth, Docket No. 000649-TP, Final Order issued March 30, 2001 at page 81 ("WorldCom/BellSouth Arbitration Order"). However, the Commission found that the record in the arbitration proceeding was inadequate to resolve the issue of financial responsibility for delivery of traffic to the POI, and noted that these issues were to be addressed in its generic docket on reciprocal compensation. *Id.* at 82.

Q. WHAT POSITION HAS BELLSOUTH TAKEN ON THIS ISSUE IN THE PHASE II OF THE GENERIC DOCKET ON RECIPROCAL COMPENSATION?

A. BellSouth has continued to maintain the same position that it took in the WorldCom/BellSouth arbitration. BellSouth contends that unless an ALEC establishes a POI in each BellSouth local calling area in which the ALEC has customers, the ALEC is financially responsible for transporting traffic that originates on BellSouth's network from those local calling areas to the POI. *See* Direct Testimony of John A. Ruscilli in Docket 000075-TP (Phase II) at pages 13-26. As pointed out in the testimony sponsored in that docket by various competitive carriers, BellSouth's position is wrong as a matter of law and unwise as a matter of policy.

Q. HOW WILL THE RESOLUTION OF THIS ISSUE IN DOCKET NO. 000075-TP AFFECT BELLSOUTH'S 271 APPLICATION?

A. BellSouth's obligation under federal law to deliver originating traffic, at its own cost, to the ALEC-designated POI is clear. The Commission should therefore rule in favor of the ALECs, and against BellSouth, in the generic docket on reciprocal compensation. Regardless of the Commission's ruling, however, BellSouth will not satisfy the requirements of checklist item (i), and will not be entitled to Section 271 relief, unless and until it accepts its obligation to deliver traffic to the POI at its own expense and incorporates that obligation into its Interconnection Agreements and its Statement of Generally Available Terms and Conditions (SGAT).

<u>TRUNK FRAGMENTATION ISSUE</u>

Q. CAN YOU PLEASE PROVIDE AN OVERVIEW OF WHAT YOU HAVE DESCRIBED AS THE TRUNK FRAGMENTATION ISSUE?

A. Yes. Once networks are physically connected, it is necessary from an engineering perspective to partition the interconnection facilities into various types of trunk groups required to carry the different types of interconnection traffic. Based on our experience, the most efficient way to segregate that traffic is as follows:

- A separate trunk group for local traffic, non-equal access intraLATA interexchange (toll) traffic, and local transit traffic to other LECs.
- A separate trunk group for equal access interLATA or intraLATA interexchange traffic that transits the ILEC network.
- Separate trunks connecting the ALECs switch to each 911/E911 tandem.
- A separate trunk group connecting the ALEC's switch to BellSouth's operator service center.
- A separate trunk group connecting the ALEC's switch to the BellSouth directory assistance center if the ALEC is purchasing BellSouth's unbundled directory assistance service.

Q. DOES BELLSOUTH DISPUTE THIS TRUNKING SCHEME?

A. Yes, in part. With respect to the first type of trunk group, BellSouth takes the position that it is necessary to "fragment" the traffic by separating local and intraLATA toll traffic from local transit traffic.

Q. WHAT IS THE PROBLEM WITH BELLSOUTH'S POSITION?

A. First, there is no technical requirement to segregate local, intraLATA toll, and transit traffic on separate trunk groups. BellSouth has available what it calls "super group" trunks than can accommodate local, intraLATA toll, and transit traffic on a single trunk group. Second, because of engineering efficiencies, it is often more efficient to "pack" a trunk group with both local traffic, intraLATA toll, and transit traffic than to require separate trunk groups for each type of traffic. Because these types of traffic are "rated" differently, the receiving carrier would either have to have a way to discern the jurisdiction of the traffic (for example, calling party number or "CPN") or would have to rely on reporting by the sending carrier, via a percent local usage (PLU) or similar reporting mechanism.

Q. HAS THIS COMMISSION PREVIOUSLY ADDRESSED THIS ISSUE?

A. Yes. In the WorldCom/BellSouth arbitration, the Commission permitted BellSouth to require WorldCom to separate transit traffic from local and intraLATA traffic when interconnecting with BellSouth's network. WorldCom/BST Arbitration Order at page 87.

Q. IF THE COMMISSION HAS PREVIOUSLY RULED ON THIS QUESTION, WHY IS WORLDCOM RAISING IT AGAIN AS AN ISSUE IN THIS 271 DOCKET?

A. Checklist item (i) requires BellSouth to provide interconnection in accordance with the requirements of Sections 251(c)(2) and 252(d)(1). Under Section 251(c)(2)(D), interconnection must be provided "on rates, terms and conditions that are just, reasonable and nondiscriminatory." When BellSouth has super group trunks available that are capable of carrying local, intraLATA toll and transit traffic on the same trunk group, it is unjust and unreasonable for BellSouth to insist on using a less efficient form of interconnection that fragments such traffic. That inefficiency translates into unnecessary, increased costs for the ALEC who interconnects with BellSouth. Unless and until BellSouth agrees to exchange local, intraLATA toll and transit traffic with an

ALEC over a single trunk group, and incorporates that requirement into its Interconnection Agreements and SGAT, BellSouth will not have satisfied its obligations under checklist item (i).

TANDEM PROVIDER ISSUE

Q. PLEASE PROVIDE AN OVERVIEW OF WHAT YOU HAVE CALLED THE TANDEM PROVIDER ISSUE.

A. This issue involves the question of whether an ALEC will be permitted to route terminating switched access traffic directly to BellSouth end offices over local interconnection trunks, or whether it will be required to deliver such traffic to BellSouth at BellSouth access tandems over access trunks.

Q. WHY DOES IT MATTER HOW AN ALEC IS PERMITTED TO DELIVER TERMINATING SWITCHED ACCESS TRAFFIC?

A. Assume that an ALEC (such as WorldCom) wants to compete with BellSouth for providing terminating access service to interexchange carriers (IXCs). In this situation, an IXC could route its terminating traffic to a WorldCom tandem switch, from which WorldCom could terminate the call directly (if the called party were a WorldCom local customer) or could deliver the call to BellSouth's end office switch for termination (if the called party were a BellSouth local customer). In the case of a call to a BellSouth customer, BellSouth would be entitled to bill the IXC for the end office switching component of access charges, and WorldCom would be entitled to bill the IXC for the tandem switching and transport components.

If, however, WorldCom is not permitted to route terminating access traffic directly to BellSouth's end offices, but instead must send such traffic to BellSouth's access tandem via switched access trunks, then WorldCom is foreclosed from providing a competitive access service -- since BellSouth will always perform the tandem switching and transport functions, and will be entitled to bill the IXC for those services.

Q. WHY DOES BELLSOUTH INSIST THAT TERMINATING ACCESS TRAFFIC BE DELIVERED TO ITS ACCESS TANDEM VIA ACCESS TRUNKS?

A. BellSouth claims that if an ALEC is allowed to deliver terminating switched access traffic to BellSouth end offices over local interconnection trunks, then BellSouth will not have the information necessary to identify and bill the appropriate IXC for its end office switching services.

Q. IS THIS A VALID CONCERN?

A. Yes and no. Clearly BellSouth must get the information necessary to bill the IXC for BellSouth's portion of the access charges. However, that information can be provided by the ALEC to BellSouth in standard EMI format. This is exactly the same way that BellSouth provides the ALEC with the data necessary for the ALEC to bill the IXC for end office switching when BellSouth delivers terminating access traffic bound for an ALEC customer. If an ALEC is willing and able to provide EMI records on a reciprocal basis, there is no reason for BellSouth to refuse to permit this traffic to be delivered directly to its end office switches other than a desire to foreclose competition.

Q. HAS THE COMMISSION PREVIOUSLY CONSIDERED THIS QUESTION?

A. Yes. In the WorldCom/BellSouth arbitration, the Commission permitted BellSouth to require WorldCom to deliver all terminating switched access traffic to BellSouth over switched access trunks to BellSouth's access tandem. WorldCom/BST Arbitration Order at page 98. The Commission's decision to impose this requirement was the result of its concern over BellSouth's ability to properly bill IXCs for its share of switched access charges if access and local traffic were commingled on the same trunk groups.

Q. IF THE COMMISSION HAS PREVIOUSLY RULED ON THIS QUESTION, WHY IS WORLDCOM RAISING IT AGAIN AS AN ISSUE IN THIS 271 DOCKET?

A. As I previously stated, BellSouth is required under Section 251(c)(2)(D) to provide interconnection "on rates, terms and conditions that are just, reasonable and nondiscriminatory." When BellSouth is technically capable of accepting access traffic at its end office switches over local interconnection trunks, and an ALEC is technically capable of providing BellSouth, in industry standard format, with the information necessary to properly bill for such calls, it is discriminatory for BellSouth to require that such traffic be delivered instead via access trunks to its access tandem. This is particularly true when the result of such a requirement is that BellSouth retains a monopoly over the provision of terminating switched access service. Unless and until BellSouth agrees to allow ALECs to deliver such traffic directly to its end offices via local interconnection trunks, and incorporates that requirement into its Interconnection Agreements and SGAT, BellSouth will not have satisfied its obligations under checklist item (i).

<u>**SUMMARY - CHECKLIST ITEM (i)**</u>

Q. WHAT ACTION SHOULD THE COMMISSION TAKE WITH RESPECT TO CHECKLIST ITEM (i)?

A. For the reasons set forth above, the Commission should find that BellSouth does not currently meet its obligation to provide interconnection in accordance with the requirements of Sections 252(c)(2) and 252(d)(1), and thus fails to satisfy checklist item (i).

Issue 6: Does BellSouth currently provide local transport on the trunk side of a wireline local exchange carrier switch unbundled from local switching or other services, pursuant to Section 271(c(2)(B)(v) and applicable rules promulgated by the FCC?

(b) Has BellSouth satisfied all other associated requirements, if any, for this item?

Q. DOES BELLSOUTH CURRENTLY PROVIDE UNBUNDLED LOCAL TRANSPORT IN ACCORDANCE WITH THE REQUIREMENTS OF THE ACT AND THE FCC RULES?

A. No. BellSouth does not currently provide unbundled local transport in accordance with the requirements of the Act and the FCC rules. Specifically, BellSouth does not provide, as an unbundled network element (UNE), dedicated transport that (i) connects two points on an ALECs network (such as two switches, a network node and a switch, or two network nodes), or (ii) connects a point on an ALEC's network to a point on the network of a different ALEC, even where the facilities to provide such UNEs are currently in place. BellSouth thus fails both checklist item (v) relating to unbundled local transport and checklist item (ii) which requires nondiscriminatory access to all unbundled network elements.

Q. DID THE COMMISSION PREVIOUSLY RULE IN THE WORLDCOM/BELLSOUTH ARBITRATION (DOCKET NO. 000649-TP) THAT BELLSOUTH WAS NOT REQUIRED TO PROVIDE DEDICATED TRANSPORT IN THESE SITUATIONS?

A. Yes. However, WorldCom believes that BellSouth is clearly required by the Act and the FCC rules to provide unbundled transport in these situations, and BellSouth's failure to provide that transport -- for whatever reason -- prevents BellSouth from meeting the requirements of checklist item (v) for Section 271 purposes.

Q. WHAT FCC REQUIREMENTS APPLY TO THIS ISSUE?

A. FCC Rule 51.319(d) requires BellSouth to provide nondiscriminatory access to interoffice transmission facilities on an unbundled basis to any requesting telecommunications carrier for the provision of a telecommunications service. Dedicated transport is defined as

> incumbent LEC transmission facilities, including all technically feasible capacity-related services including, but not limited to, DS1, DS3 and OCn levels, dedicated to a particular customer or carrier, that provide telecommunications between wire centers

> owned by incumbent LECs or requesting telecommunications carriers, or between switches owned by incumbent LECs or requesting telecommunications carriers.

47 C.F.R. § 51.319(d)(1)(A). BellSouth is required to "[p]rovide all technically feasible transmission facilities, features, functions, and capabilities that the requesting telecommunications carrier could use to provide telecommunications services." 47 C.F.R. § 51.319(d)(2)(B). Further, BellSouth must permit a requesting carrier to connect unbundled interoffice transmission facilities to equipment designated by the requesting carrier. 47 C.F.R. § 51.319(d)(2)(C).

BellSouth's unbundling obligation "extends *throughout* its ubiquitous transport network." *In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98, *Third Report and Order and Fourth Further Notice of Proposed Rulemaking*, FCC 99-238 at ¶ 324 (emphasis added) ("UNE Remand Order"). Thus, BellSouth is not required to build new transport facilities to meet specific requests by ALECs for point-to-point service, but it is required to provide unbundled service where it has facilities in place.

Q. WHAT IS WORLDCOM'S POSITION REGARDING THE EXTENT OF BELLSOUTH'S OBLIGATION TO PROVIDE UNBUNDLED TRANSPORT?

A. WorldCom's position is that where BellSouth has dedicated interoffice transmission facilities currently in place, it is required to provide such facilities on an unbundled basis to the locations and equipment designated by WorldCom, including network nodes connected to WorldCom wire centers and switches and to the wire centers and switches of other requesting carriers.

Q. WHAT IS BELLSOUTH'S POSITION REGARDING ITS OBLIGATION?

A. BellSouth contends that it is required to provide dedicated transport only between BellSouth switches/wire centers and WorldCom switches/wire centers even if it has facilities in place to other locations that WorldCom wishes to connect.

Q. WHY DOES WORLDCOM NEED BELLSOUTH TO PROVIDE DEDICATED TRANSPORT TO POINTS THAT ARE NOT IN BELLSOUTH OR WORLDCOM WIRE CENTERS OR END OFFICES?

A. WorldCom's local networks utilize a very different architecture than the ILECs' networks. WorldCom does not have a "hub and spoke" architecture that connects all the loops (or "spokes") at various wire centers. Rather, WorldCom's "local loops" ride fiber optic SONET rings and can traverse several serving wire center territories to get between a customer and the serving switch. These "loops" can be routed through several transport nodes within WorldCom's network to connect the customer to the switch. The SONET rings that connect the switching node to the transport nodes (which then link to the separate SONET rings that terminate in the customer premise) act in a similar way to BellSouth's common transport. In other words, because of the way WorldCom's network is configured, it will often be most efficient to link transport nodes, which are WorldCom's traffic aggregation points, to BellSouth dedicated transport rather than making the link at the WorldCom switch.

Q. IS WORLDCOM'S APPROACH CONSISTENT WITH THE UNE REMAND ORDER?

A. Yes. In rejecting ILEC claims that unbundled transport should not be made available because competitive alternatives are available, the FCC noted that

> [t]he competitive alternatives that are available along limited point-to-point routes do not necessarily allow competitive LECs to connect their collocation arrangements or switching nodes according to the needs of their individual network designs. These carriers also require dedicated transport to deliver traffic *from their own traffic aggregation points* to the incumbent LECs network for purposes of interconnection.

UNE Remand Order, ¶ 346 (emphasis added)

BellSouth transmission facilities currently run to many nodes (traffic aggregation points) on WorldCom's network. These facilities are part of BellSouth's existing ubiquitous network. There is no legitimate reason for BellSouth's refusal to provide transport to locations that are currently part of its existing transport network.

Q. WHY DOES WORLDCOM NEED BELLSOUTH TO PROVIDE DEDICATED TRANSPORT BETWEEN WORLDCOM AND THIRD PARTY CARRIERS?

A. BellSouth typically will have transport facilities connecting its switches both to WorldCom locations and to locations of third party carriers with whom WorldCom needs to interconnect. In such cases, it frequently will be more efficient for WorldCom to obtain dedicated transport from BellSouth than to construct its own new transport facilities.

Q. IS BELLSOUTH REQUIRED TO PROVIDE DEDICATED TRANSPORT

TO THIRD PARTY CARRIERS WITH WHICH BELLSOUTH IS INTERCONNECTED?

A. Yes. As I previously noted, the FCC has required ILECs to provide dedicated transport throughout their networks. UNE Remand Order, ¶ 324. In addition, the FCC's rules require BellSouth to provide transmission facilities to the locations of all requesting telecommunications carriers. The FCC's definition of dedicated transport applies to the provision of telecommunications between wire centers and switches of ILECs or "requesting telecommunications carriers." 47 C.F.R. § 51.319(d)(1). "Requesting telecommunications carriers" in this context means all requesting carriers with whom BellSouth is interconnected, not just a single requesting carrier. The reason is that BellSouth's transport network is ubiquitous and BellSouth typically will have transport facilities in place to all requesting telecommunications carriers

Q. DO YOU HAVE ANY SUPPORT FOR WORLDCOM'S INTERPRETATION THAT USE OF THE PHRASE "REQUESTING TELECOMMUNICATIONS CARRIERS" REQUIRES BELLSOUTH TO CONNECT THE LOCATIONS OF TWO DIFFERENT CARRIERS?

A. Yes, this is the conclusion reached by the Texas PUC regarding Southwestern Bell's unbundling obligation for dedicated transport in Docket 18117: Complaint of MCI Telecommunications Corporation and MCIMetro Access Transmission Service, Inc. against SWBT for Violation of Commission Order in Docket Nos. 16285 and 17587 Regarding Provisioning of Unbundled Dedicated Transport.

Q. BELLSOUTH HAS PREVIOUSLY RELIED ON PARAGRAPH 440 OF

THE LOCAL COMPETITION ORDER TO SUPPORT ITS POSITION THAT IT IS NOT REQUIRED TO PROVIDE TRANSPORT TO OTHER CARRIERS' LOCATIONS. DO YOU AGREE?

A. No. The FCC's rules are not as restrictive as BellSouth has claimed. For example, paragraph 440 of the Local Competition Order mentions a number of locations to which BellSouth must provide unbundled transport. One of those locations, for instance, is an IXC's point of presence. In this case, the FCC has clearly indicated that an ALEC is entitled to order unbundled transport to connect to another carrier, an IXC.

<u>SUMMARY - CHECKLIST ITEM (v)</u>

Q. WHAT ACTION SHOULD THE COMMISSION TAKE WITH RESPECT TO CHECKLIST ITEMS (ii) and (v)?

A. For the reasons set forth above, the Commission should find that BellSouth does not currently meet its obligation to provide nondiscriminatory access to the dedicated transport network element, and thus fails to satisfy both checklist items.

Issue 14: In Order PSC-97-1459-FOF-TP, issued November 19, 1997, the Commission found that BellSouth met the requirements of Section 271(c)(2)(B)(xiii) of the Communications Act of 1934, as amended by the Telecommunications Act of 1996. Does BellSouth currently provide reciprocal compensation arrangements in accordance with the requirements of Section 252(d)(2) of the Telecommunications Act of 1996,

pursuant to Section 271(c)(2)(B)(xiii) and applicable rules promulgated by the FCC?

Q. DOES BELLSOUTH CURRENTLY PROVIDE RECIPROCAL COMPENSATION ARRANGEMENTS IN ACCORDANCE WITH THE REQUIREMENTS OF THE ACT AND FCC RULES?

A. No. BellSouth does not currently provide reciprocal compensation in accordance with the requirements of the Act. Specifically:

(1) BellSouth does not pay reciprocal compensation at the tandem interconnection rate to ALECs that do not operate a traditional tandem switch, but who nevertheless utilize a switch that serves a geographic area comparable to that served by a BellSouth tandem switch. I will refer to this as the "tandem interconnection" issue.

(2) BellSouth has not agreed to pay reciprocal compensation in situations in which an ALEC provides a competitive foreign exchange (FX) service by assigning NXXs to a customer with a physical location outside the rate center in which the NXX is homed. I will refer to this as the "FX" issue.

Q. WHAT WEIGHT SHOULD THE COMMISSION GIVE TO ITS FINDING IN THE PRIOR 271 PROCEEDING THAT BELLSOUTH MET THE REQUIREMENTS OF THIS CHECKLIST ITEM?

A. It should give that finding no weight with respect to the two items raised above. Since the time of the prior order, the FCC's rules related to the tandem interconnection issue have been reinstated by the courts and clarified by the FCC. The FX issue -- which has been raised by BellSouth in a number of recent arbitration proceedings -- had not been raised prior to the earlier hearings in this docket. Thus neither of these issues has previously been considered by the Commission in the context of an application for 271 relief

Q. HAS THE COMMISSION PREVIOUSLY CONSIDERED THESE ISSUES IN OTHER DOCKETS?

A. Yes, but they are not yet definitively resolved. The Commission considered both the tandem interconnection issue and the FX issue in the WorldCom/BellSouth arbitration (Docket No. 000649-TP) and accepted the parties' stipulation to defer these issue to Phase II of Docket No. 000075-TP. Unless and until the Commission rules (or BellSouth agrees) that BellSouth is required to pay compensation at the tandem interconnection based solely on the geographic reach of an ALEC's switch, BellSouth will not have met its obligation under Section 252(d)(2) of the Act to provide reciprocal compensation on just and reasonable terms and conditions.

Similarly, unless and until the Commission rules (or BellSouth agrees) that ALECs are permitted to assign NPA/NXXs to end users located outside the rate center in which the NPA/NXX is homed, and that BellSouth is required to pay reciprocal compensation on local calls to such numbers, BellSouth will not have met its obligation under Section 252(d)(2) of the Act to provide reciprocal compensation on just and reasonable terms and conditions.

<u>TANDEM INTERCONNECTION ISSUE</u>

Q. AS A THRESHOLD MATTER, WHAT IS BELLSOUTH'S OBLIGATION TO COMPENSATE ALECS FOR THE USE OF THEIR NETWORKS TO

TERMINATE LOCAL TRAFFIC?

A. Section 251(b)(5) of the Act imposes on each local exchange carrier "[t]he duty to establish reciprocal compensation arrangements for the transport and termination of telecommunications." Section 252(d)(2)(A) of the Act further provides as follows:

> For the purposes of compliance by an incumbent local exchange carrier with section 251(b)(5), a State commission shall not consider the terms and conditions for reciprocal compensation to be just and reasonable unless –
>
> (i) such terms and conditions provide for the mutual and reciprocal recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities of calls that originate on the network facilities of the other carrier; and
>
> (ii) such terms and conditions determine such costs on the basis of a reasonable approximation of the additional costs of terminating such calls.

Q. GIVEN THAT THERE IS TO A RECIPROCAL COMPENSATION OBLIGATION FOR TRANSPORT AND TERMINATION, HAS THE FCC ADDRESSED THE LEVEL OF COMPENSATION THAT IS TO BE APPLIED?

A. Yes. After establishing how reciprocal compensation rates would be determined for ILECs, the FCC turned to the question of what rates should apply to ALECs. The FCC concluded in Paragraph 1085 of the Local Competition Order that the ILECs' reciprocal compensation rates should be adopted as the "presumptive proxy" for the ALEC's rates -- in other words, the rates were required to be the same. The only exception to this rule arises when an ALEC establishes that its transport and termination costs are higher than those of the ILEC. Local

Competition Order, ¶ 1089; FCC Rule 51.711(b).

Q. WHAT REASONS DID THE FCC GIVE FOR ORDERING SYMMETRICAL TREATMENT?

A. The FCC provided a number of reasons for ordering symmetrical treatment, including the following:

> Typically the ILEC and ALEC will be providing service in the same geographic area, so their forward-looking costs should be the same in most cases. Local Competition Order, ¶ 1085.

> Imposing symmetrical rates would not reduce carriers' incentives to minimize their internal costs. ALECs would have the correct incentives to minimize their costs because their termination revenues would not vary directly with changes in their costs. At the same time, ILECs would have the incentive to reduce their costs because they could be expected to transport and terminate much more traffic originating on their own networks than on ALEC's networks. Thus, even assuming ILEC cost reductions were immediately translated into lower transport and termination rates, any reduction in reciprocal compensation revenues would be more than offset by having a more cost-effective network. Local Competition Order, ¶ 1086.

> Symmetrical rates might reduce ILEC's ability to use their bargaining power to negotiate high termination rates for themselves and low termination rates for ALECs. Local Competition Order, ¶ 1087.

Q. WHAT DID THE FCC CONCLUDE CONCERNING SYMMETRY OF TANDEM INTERCONNECTION RATES?

A. The FCC stated the following in paragraph 1090 of the Local Competition Order:

> We find that the "additional costs" incurred by a LEC when transporting and terminating a call that originated on a competing carrier's network are likely to vary depending on whether tandem switching is involved. We, therefore, conclude that states may establish transport and termination rates in the arbitration process that vary according to whether the traffic is routed through a

> tandem switch or directly to the end-office switch. In such event, states shall also consider whether new technologies (e.g., fiber ring or wireless networks) perform functions similar to those performed by an incumbent LEC's tandem switch and thus, whether some or all calls terminating on the new entrant's network should be priced the same as the sum of transport and termination via the incumbent LEC's tandem switch. *Where the interconnecting carrier's switch serves a geographic area comparable to that served by the incumbent LEC's tandem switch, the appropriate proxy for the interconnecting carrier's additional costs is the LEC tandem interconnection rate.*
>
> (Emphasis added)

Q. PLEASE EXPLAIN WHAT THIS LANGUAGE MEANS IN PRACTICAL TERMS.

A. The FCC reached three conclusions. First, it is appropriate to establish an additional rate for ILECs when they use a tandem switch in the transport and termination of ALECs' local traffic. Second, states may consider whether some or all calls terminated by an ALEC may be priced at that higher rate if the ALEC uses alternative technologies or architectures to perform functions similar to those performed by the ILEC's tandem switch. Third, the higher rate *must* be applied when the ALEC's switch serves a geographic comparable to that served by the ILEC's tandem switch.

Q. DOES THE FCC'S CODIFICATION OF THIS PRINCIPLE CONFIRM YOUR READING OF THE LOCAL COMPETITION ORDER?

A. Yes, it confirms my analysis. FCC Rule 51.711(a) provides as follows:

> Rates for transport and termination of local telecommunications traffic shall be symmetrical, except as provided in paragraphs (b) and (c) of this section. [These exceptions do not apply here.]
>
> (1) For purposes of this subpart, symmetrical rates are rates that a carrier other than an incumbent LEC assesses upon an

> incumbent LEC for transport and termination of local telecommunications traffic equal to those that the incumbent LEC assesses upon the other carrier for the same services.
>
> (2) In cases where both parties are incumbent LECs, or neither party is an incumbent LEC, a state commission shall establish the symmetrical rates for transport and termination based on the larger carrier's forward-looking costs.
>
> (3) *Where the switch of a carrier other than an incumbent LEC serves a geographic area comparable to the area served by the incumbent LEC's tandem switch, the appropriate rate for the carrier other than an incumbent LEC is the incumbent LEC's tandem interconnection rate.*
>
> (Emphasis added)

The FCC could not have been more clear. The geographic comparability rule was adopted without exception or qualification.

Q. HAS THE FCC RECENTLY READDRESSED THIS ISSUE?

A. Yes. In Paragraph 105 of the Intercarrier Compensation NPRM released on April 24, 2001, the FCC put to rest claims by carriers such as BellSouth that Rule 51.711 applies a two-prong "both-and" test for entitlement to compensation at the tandem interconnection rate:

> In addition, section 51.711(a)(3) of the Commission's rules requires only that the comparable geographic area test be met before carriers are entitled to the tandem interconnection rate for local call termination. *Although there has been some confusion stemming from additional language in the text of the Local Competition Order regarding functional equivalency* [¶1090], section 51.711(3) is clear in requiring only a geographic area test. Therefore we confirm that a carrier demonstrating that its switch serves "a geographic area comparable to that served by the incumbent LEC's tandem switch" is entitled to the tandem interconnection rate to terminate local telecommunications traffic on its network.

Intercarrier Compensation NPRM, ¶ 105.

In addition, the Ninth Circuit Court of Appeals reached the same conclusion in an opinion issued on July 3 of this year. *U.S. West Communications, Inc. v. Washington Utilities and Transportation Commission*, ___ F.3d ___ (9th Cir. July 3, 2001).

Q. HAS BELLSOUTH'S POSITION CHANGED IN LIGHT OF THE RECENT REAFFIRMATION BY THE FCC THAT ITS RULE ESTABLISHES AN "EITHER-OR" TEST?

A. It appears that it has. If I correctly understood Mr. Ruscilli's updated testimony in Phase II of Docket No. 000075-TP, BellSouth now concedes that the FCC rule requires BellSouth to compensate ALECs at the tandem interconnection rate upon demonstration by the ALEC that its switch serves a geographic area comparable to that served by BellSouth's tandem. The issue will now become what constitutes a comparable geographic area. To date, however, BellSouth has not amended its interconnection agreements or its Statement of Generally Available Terms and Conditions to reflect its obligation to pay compensation at the tandem rate based on geographic comparability. Unless and until it does so, BellSouth will not satisfy the requirements of checklist item (xiii), and will not be entitled to Section 271 relief.

<u>FX ISSUE</u>

Q. PLEASE BRIEFLY DESCRIBE WHAT THE FX ISSUE INVOLVES.

A. The FX issue has also been characterized as an issue relating to an ALEC's right to assign NPA/NXX codes to end users located outside the rate center in which the NPA/NXX is homed. The fundamental issues have been framed in Phase II of Docket No. 000075-TP as:

> 15. (a) Under what conditions, if any, should carriers be permitted to assign NPA/NXX codes to end users outside the rate center in which the NPA/NXX is homed?
>
> (b) Should the intercarrier compensation mechanism for calls to these NPA/NXXs be based on the physical location of the customer, the rate center to which the NPA/NXX is home, or some other criterion.

Q. IF THE COMMISSION IS ADDRESSING THESE ISSUES IN PHASE II OF DOCKET NO. 000075-TP, WHY IS WORLDCOM RAISING THEM AGAIN IN THIS 271 PROCEEDING?

A. WorldCom is raising the FX issue in this proceeding because BellSouth is clearly required by the Act and FCC Rules to pay reciprocal compensation for the termination of local calls, including local calls made to NPA/NXXs that the ALEC may have assigned to non-ISP customers who may be physically located outside the rate center to which the NPA/NXX is homed. Unless and until that obligation is reflected in BellSouth's Interconnection Agreements and SGAT, it will not satisfy checklist item (xiii).

Q. WHY DID YOU QUALIFY THE PRIOR ANSWER BY LIMITING IT TO CALLS TO "NON-ISP" CUSTOMERS?

A. I limited the response because the FCC recently ruled that calls to ISPs are "information access services" which are not subject to the reciprocal compensation provisions of the Act and has established an interim compensation mechanism for such calls. That compensation mechanism will become effective on June 14, 2001, and will continue for thirty-six months, or until further FCC action, whichever is later. *In the Matters of Implementation of the Local Competition Provisions in the Telecommunications Act of 1999 and Intercarrier Compensation for ISP-Bound Traffic,* CC Docket Nos. 96-98 and 99-68, *Order on Remand and Report and Order*, FCC 01-131, ¶¶ 3-8 (ISP Remand Order). The issue of a permanent compensation mechanism for such ISP-bound traffic will be considered as part of the rulemaking the FCC initiated on April 27, 2001 regarding development of a unified intercarrier compensation regime. *See*, Intercarrier Compensation NPRM.

Q. RECOGNIZING THAT THE AMOUNT OF TRAFFIC AFFECTED BY THIS ISSUE HAS BEEN NARROWED BY THE FCC'S RECENT RULING RELATED TO ISP-BOUND TRAFFIC, PLEASE SUMMARIZE WORLDCOM'S POSITION ON THIS ISSUE.

A. WorldCom's position is that (a) ALECs should be permitted to offer competitive FX service by assigning NPA/NXXs to end users who may be physically located outside the rate center in which the NPA/NXX is homed, and (b) ALECs are entitled to receive reciprocal compensation for local calls originated by BellSouth and terminated to such (non-ISP) end users.

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

A. As I understand BellSouth witness Ruscilli's testimony in Docket No. 000075-TP, BellSouth's current position is that it does not object to ALECs assigning NPA/NXXs and providing FX service in the manner I described. However, BellSouth (a) would require the ALEC to identify NPA/NXXs which are assigned to customers located outside of the rate center in which they are homed, (b) would refuse to pay reciprocal compensation for local calls to such numbers, and (c) would bill the ALEC for originating switched access charges as if such calls were toll calls.

Q. DO BELLSOUTH'S OWN ACTIONS INDICATE THAT THE TRUE NATURE OF FX TRAFFIC IS THAT OF LOCAL AND NOT TOLL?

A. Yes. As discussed below, this traffic has historically been treated by the industry as local. This includes BellSouth's own treatment of this traffic. Mr. Ruscilli noted in Docket No. 000075-TP that BellSouth has recently built a database "of all existing BellSouth FX numbers" and intends to use this database to "prevent billing of reciprocal compensation." Thus, over the many years that BellSouth has been offering FX service (until this database was created on February 23, 2001), BellSouth has been quite confident that FX traffic was local and treated it as such.

BellSouth, through it database gymnastics, is attempting to turn on its head the true local nature of this traffic. This effort is an improper attempt to isolate traffic in such a manner as to prohibit competitors from encroaching on BellSouth's FX market. BellSouth's position would require ALEC's to route local traffic as toll, and to bill BellSouth originating access charges for local calls that are destined for the FX numbers contained in BellSouth's database. To date, BellSouth has not indicated that its database would be available to ALECs for such illogical purposes.

BellSouth should not be allowed to avoid its reciprocal compensation responsibilities associated with this traffic by creating its own unconventional methods and procedures and attempting to unilaterally impose them on the entire industry.

Q. HAS A COMMISSION COMMENTED ON BELLSOUTH'S CREATION OF SUCH A DATABASE?

A. Yes. The Kentucky Public Service Commission, in finding that "...foreign exchange and virtual NXX services should be considered local traffic when the customer is physically located within the same LATA as the calling area with which the telephone number is associated." (March 14, 2001 Order, Case No. 2000-404, Level 3 Communications LLC Arbitration with BellSouth Telecommunications, Inc.), addressed the issue of BellSouth's treatment of FX traffic and the need for a database. On these points the Kentucky Commission found as follows:

> BellSouth agrees that it rates such foreign exchange traffic as local traffic for retail purposes. These calls are billed to customers as local traffic. If they were treated differently here, BellSouth would be required to track all phone numbers that are foreign exchange or virtual NXX type service and remove these from what would otherwise be considered local calls for which reciprocal compensation is due. <u>This practice would be **unreasonable** given the historical treatment of foreign exchange traffic as local traffic</u>
>
> [emphasis added]

Obviously, just because BellSouth has gone to the unprecedented effort of creating a database of its FX numbers, does not mean that its position is any more appropriate or reasonable. In fact, the Kentucky Commission correctly found just the opposite.

Q. WHAT IS THE BASIS FOR WORLDCOM'S POSITION THAT

RECIPROCAL COMPENSATION IS DUE FOR THIS FX-TYPE TRAFFIC?

A. I will address this issue along the following lines:

- Foreign Exchange Service is a telecommunications service that has been available for years and is simply a response to customer demand for dial tone in an exchange separate from the customer's physical location.
- ALECs can provide FX service by assigning an NPA/NXX in the desired exchange to a customer who is physically located outside the rate center in which the NPA/NXX is homed.
- The ALECs' offering of FX service provides a competitive alternative to BellSouth's FX service.
- Treatment of FX traffic as "local" is consistent with industry precedent.
- Failure to treat ALEC-provided FX as local, consistent with the local treatment of BellSouth's FX service, will eliminate competition for FX service.

Q. WHAT IS FOREIGN EXCHANGE SERVICE?

A. Foreign exchange ("FX") service involves providing service to a customer physically located outside the rate center to which his or her NPA/NXX is assigned. For example, if an ALEC customer in Miami is assigned an NPA/NXX from the Key West rate center, that customer is receiving a foreign exchange service. Customers located in Key West may call the ALEC customer's foreign exchange number and that call will be treated as a local call. This example holds true if BellSouth assigns the Key West NPA/NXX to the

Miami customer.

Q. WHY DO SUBSCRIBERS WANT FX SERVICE?

A. Generally, users of FX service want to establish a local business presence in an area beyond their physical location. And, because being able to be reached via a local telephone call is an integral part of a business' "presence," this typically corresponds with that FX subscriber's desire to serve its customers that are located beyond the local calling area where the business is located. For example, a floral shop located in Miami may desire a local presence in Key West. While that floral shop may have the ability to accept and fulfill orders for the delivery of flowers in Key West, it may not have the ability to actually open a store in Key West. However, customers in Key West are more likely to call a florist with a local Key West telephone number, not just because it is a local call, but also because there may be an expectation on the part of the caller that a "local" florist would best be able to fulfill the need for a delivery of flowers in Key West.

Q. IN YOUR EXAMPLE, COULDN'T THAT FLORAL SHOP SIMPLY SUBSCRIBE TO AN 800 NUMBER TO EXTEND ITS PRESENCE?

A. No. First, as I mentioned, there is the calling party's perception as to the local nature of the service being offered. When dialing a Key West FX telephone number the calling party may not even be aware that the shop is actually located in Miami. Second, while the 800 number would expand the "reach" of the Miami floral shop it would expand it well beyond the Key West calling area and most likely beyond the capabilities of the floral shop to provide service. Use of an FX service only allows local calling from the Key West local calling area whereas an 800 number would provide local calling from a much larger area such as the entire LATA or state of Florida.

Q. GIVEN THIS DEMAND FOR FX SERVICE, HOW HAS THE MARKET RESPONDED?

A. Both ALECs and ILECs have made FX service offerings available and actively compete for customers for FX service. Of course ILECs, as the monopoly local providers, were "first" to offer FX service. BellSouth's traditional FX offering is described in its General Subscriber Service Tariff for Florida at A9.1.1 (A) as follows:

> Foreign Exchange service is exchange service furnished to a subscriber from an exchange other than the one from which the subscriber would normally be served, allowing subscribers to have local presence and two-way communications in an exchange different from their own.

Just as with the ALECs' FX offerings, when BellSouth provides retail FX service, NPA/NXXs are assigned to end users located outside the local calling area of the rate center with which the NPA/NXX has been associated, and the jurisdiction (i.e., local vs. toll) of traffic delivered from the foreign exchange to the end user is determined as if the end user were physically located in the foreign exchange. Simply, the jurisdiction of the call is determined by comparing the called and calling party's NPA/NXXs, regardless of the physical location of the customers.

Q. HOW WOULD BELLSOUTH'S POSITION ON THE ALECS OFFERING OF FX SERVICES AFFECT THE COMPETITION YOU DESCRIBE?

A. BellSouth has proposed to classify ALECs' FX services as toll service and to impose access charges. Adoption of this position effectively would prohibit ALECs from offering FX service in competition with BellSouth. Because this proposal is anti-competitive, limits choices available to consumers, and is inconsistent with the notion of parity, the benefits of competition would be eliminated. These negative consequences would take place because adoption of BellSouth's position would raise the ALECs cost of providing a competitive service to a level that would effectively eliminate the ALEC's ability to offer a competing FX service.

Q. PLEASE EXPLAIN.

A. If BellSouth were permitted to apply switched access charges to ALECs' FX traffic, such above-cost pricing ultimately would make the offering of competitive alternatives by ALECs infeasible. This would limit BellSouth's end users to BellSouth's FX service. The California Commission has recognized the anti-competitive effects of applying access charges to a ALEC's FX service:

> The rating of a call, therefore, should be consistently determined based upon the designated NXX prefix. Abandoning the linkage between NXX prefix and rate center designation could undermine the ability of customers to discern whether a given NXX prefix will result in toll charges or not. Likewise, the service expectations of the called party (i.e., ISPs) would be undermined by imposing toll charges on such calls since customers of the ISPs would be precluded from reaching them through a local call. Consequently, the billing of toll charges for Internet access, which is designed to be local, could render an ISP's service prohibitively expensive, thus limiting the competitive choices for Internet access, particularly in rural areas.

Order Instituting Rulemaking on the Commission's Own Motion Into Competition for Local Exchange Service, Rulemaking 95-04-043 at 26

(California PUC, Sept. 2, 1999) ("California Order"). As the California Commission recognized, the retail offering of FX service and its associated rating (as a local call) based on the rate centers associated with the assigned NXXs must be applied to FX offerings from ALECs. Failure to do so distorts the way in which a ALEC can make a competitive FX offering available and, as described above, would in fact eliminate competition for this increasingly important service.

Q. HOW CAN THE BENEFITS OF A COMPETITIVE MARKET FOR FX SERVICE BE MAINTAINED?

A. For ALECs to be able to offer a competitive alternative to the BellSouth FX service offerings, the traffic associated with FX service must be classified as "local" just as BellSouth classifies its own FX traffic as local.

Q. IS THERE AN INDUSTRY STANDARD PRACTICE THAT, APPLIED TO FX TRAFFIC, WOULD RESULT IN THE CLASSIFICATION OF FX TRAFFIC AS LOCAL?

A. Yes. As indicated above relative to BellSouth's treatment of its own FX traffic, whether a call is local or not depends on the NPA/NXX dialed, not the physical location of the customer. Jurisdiction of traffic is properly determined by comparing the rate centers associated with the originating and terminating NPA/NXXs for any given call, not the physical location of the end-users. Comparison of the rate centers associated with the calling and called NPA/NXXs is consistent with how the jurisdiction of traffic and the applicability of toll charges are determined within the industry today.

Q. SHOULD RECIPROCAL COMPENSATION APPLY TO FOREIGN EXCHANGE TRAFFIC?

A. Yes. As discussed above, this traffic is appropriately classified as local. Therefore, reciprocal compensation should be applicable. This is consistent with the purpose of reciprocal compensation, to compensate the terminating carrier for the costs associated with the termination of local traffic that originates on another carrier's network.

On this point the Michigan Public Service Commission in its Order on the application of reciprocal compensation to foreign exchange service made this finding:

> The Commission rejects the proposal to reclassify FX calls as non-local for reciprocal compensation purposes. Ameritech Michigan has not explained whether, or how, the means of routing a call placed by one LEC's customer to another LEC's point of interconnection affects the costs that the second LEC necessarily incurs to terminate the call.

Michigan Order at 10. (In the matter of the Application of Ameritech Michigan to revise its reciprocal compensation rates and rate structure and to exempt foreign exchange service from payment of reciprocal compensation, Case No. U-12696, Opinion and Order dated January 23, 2001) Just as the method for determining the jurisdiction of FX traffic must be applied equally and consistently between ILECs and ALECs, so too must the obligation remain with the originating carrier to compensate the terminating carrier for the termination of FX traffic.

Q. IS AN ALEC'S OFFERING OF FX SERVICE CONSISTENT WITH THE FCC'S RULES REGARDING POINTS OF INTERCONNECTION AND

RESPONSIBILITY FOR TRANSPORT?

A. Yes. As discussed above, the FCC has made clear that an ALEC is allowed to select the point of interconnection and may establish one or more such POIs in a single LATA. Additionally, each carrier is responsible for delivering local traffic to the designated POI(s). An ALEC's offering of FX service does not place any additional burdens on the ILEC. The costs to the ILEC for transporting traffic to the POI are the same whether or not the call is an FX call. The ALEC's FX offerings do not require the ILEC to perform any additional functions or meet any additional obligations other than those called for in the FCC's rules with regard to POI and transport requirements.

Q. WHAT SHOULD THIS COMMISSION DO WITH REGARD TO THE FX ISSUE?

A. Hopefully, based on the record in Docket No. 000075-TP, the Commission will determine that no restrictions should be placed on a carrier's ability to assign NPA/NXXs to customers physically located outside the rate center in which the number is homed and will further determine that reciprocal compensation is payable on local calls to such numbers (other than ISP-bound traffic). Regardless of the Commission's ruling, however, BellSouth will not satisfy the requirements of checklist item (xiii), and will not be entitled to Section 271 relief, unless and until it accepts its obligation to pay reciprocal compensation on such calls and incorporates that obligation into its Interconnection Agreements and its Statement of Generally Available Terms and Conditions (SGAT).

SUMMARY - CHECKLIST ITEM (xiii)

Q. WHAT ACTION SHOULD THE COMMISSION TAKE WITH RESPECT TO CHECKLIST ITEM (xiii)?

A. For the reasons stated above, the Commission should find that BellSouth has failed to satisfy its obligation to provide reciprocal compensation unless and until BellSouth accepts its obligations with respect to payment of the tandem interconnection rate and payment of reciprocal compensation on calls to "FX" numbers.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.