permitted to function as a substitute for certain aspects of regulation in determining the variety, quality and price of telecommunications services. It is clear that the General Assembly did not intend to limit the benefits of competition to business customers only. The Commission agrees with AT&T, LDDS, CUB and others who argue that residential resale is essential to the development of residential competition and is the quickest way for residential customers to benefit from increased competition.

The Commission also believes that Illinois Bell's concerns regarding the possibility that resellers will resell residential services to business customers are valid. The possibility of arbitrage is a powerful incentive which encourages abuse. The Commission believes that there should be sufficient safeguards in place to minimize these possibilities. As an interim measure during the pendency of the aforementioned proceeding, the Commission will authorize a restriction in Illinois Bell's tariffs that limits resale of residential services to a telecommunications carrier who has been granted a certificate of Exchange Service Authority pursuant to Section 5/13-405. Thus, only those telecommunications carriers who have been issued a Certificate of Exchange Service Authority by the Commission may, pursuant to the tariff to be filed, resell residential services, with the restriction that residential services can only be resold to residential customers. Restricting resale of residential services to carriers certificated under 5/13-405 will ease the administrative costs of monitoring and enforcing the requirement that the residential loops, ports and NAL can only be resold to residential customers. Such telecommunications carriers have already demonstrated that the exercise of their authority would not adversely affect prices, network design, or the financial viability of the principal provider of local exchange telecommunications services. The Commission has the authority to initiate investigations in this matter to monitor compliance and to prosecute those who violate the prohibition.

IV. STATUS OF NEW LECS

Positions of the Parties

Illinois Bell

Illinois Bell claims that the issue of co-carrier status for new LECs is "entirely new," and requires careful consideration. It claims that nothing in the Act addresses this issue, or requires that new LECs are "entitled to unique rights (or have unique obligations) in their relationships with other carriers, as compared to other certificated providers." It also claims that there is virtually no regulatory precedent on this issue. Illinois Bell Opening Brief, at 37-39.

Illinois Bell further asserts that all exchange carriers, incumbent LECs and new LECs alike, should have similar obligations, including providing "core" exchange functions, equal access, funding social subsidies and providing emergency services. Illinois Bell further contends that new LECs should be subject to similar service standards, interconnection requirements and resale obligations as incumbent LECs. IBT Ex. 1.0 at 17-20.

<u>Staff</u>

Staff cautions that the Commission cannot now predict the level and ubiquity of service of new LECs. It warns that a regulatory strategy that treats new LECs only as fringe providers could be self-fulfilling:

> If regulation and the network structure are based on this view, it could become self-fulfilling, with the new LECs relegated to second-class status by virtue of the basic physical and regulatory structures within which they must operate.

Staff Ex. 1.00 at 9.

Staff fully supports the concept of co-carrier status for new LECs. It emphasizes the need for uniform, nondiscriminatory rights to the PSTN through its third and fourth market principles. Under these principles, Staff argues that all willing purchasers should be able to purchase on an unbundled basis the services, elements and functionalities of the PSTN on equal terms. Staff explains that this right of purchase should include access to rights of way and other pathways to customers. Similarly, Staff contends that all "shared network and administrative functions" should be available to all qualified purchasers and should be administered on a nondiscriminatory basis. Staff Ex. 1.00 at 19-20.

<u>MCI</u>

MCI states that one model for co-carrier arrangements is the historic relationship between monopoly LECs serving adjacent territories. These LECs enter into various interconnection and compensation arrangements on an equal basis, where neither LEC is treated as a "customer" or "subordinate" of the other, and neither is treated as a "provider" or "seller" to the other. MCI states that if competition is to develop in the local exchange market, new entrants cannot be subject to an unequal, customer-supplier relationship by the incumbent LEC. Instead, MCI recommends that certification of a carrier to operate as a facilities-based new LEC must act as a trigger to obligate all other carriers to relate to the new entrant as a co-carrier. MCI Ex. 2.0 at 1-3.

MFS

MFS argues that the regulatory rules governing inter-carrier connections and inter-operability should be premised on at least three criteria. First, the arrangements should be competitively and technologically neutral to the extent feasible. Telecommunications and information technologies are evolving rapidly. Services and applications that once were provided using a "standard" and well understood combination of available technologies now can be provided using different mixtures of technology.

Second, regulatory requirements should create incentives to foster the most economically efficient use of each carrier's own network and other resources. MFS Ex. 1.0 at 5-6. All carriers should be free to configure a robust, high quality, least-cost, efficient network and to take responsibility for the costs of such network. MFS Ex. 2.0 at 7-8.

Third, the regulatory requirements regarding network connection should be consistent with the appropriate role for telecommunications regulation generally.

MFS states that the appropriate regulatory role is undergoing change partly because the traditional ways of regulating incumbent LECs' pricing structures and terms of service are becoming less effective; the incumbent LECs still control bottleneck facilities with which new entrants must connect in order to do business.

MFS asserts that new entrants must have access to certain administrative functions and services to give customers seamless service. These services include operator interfaces (for inbound operator services such as busy line verification); reciprocal billing and collection agreements; 911 and E-911 systems; directory listings and delivery, directory assistance services, and yellow page listings). MFS Ex. 2.0 at 41-12. MFS asserts that these are necessary to facilitate the flow of certain types of calls or information between LECs; therefore, the Commission should require that equitable and reasonable terms be established to ensure their availability. MFS Ex. 2.0 at 42.

GTE

GTE's position regarding "co-carrier" status for new entrants was presented by Dr. Beauvais. He testified that new entrants, such as MFS, currently hold themselves out as "niche player[s]" in the local exchange market, focusing on certain customers (in MFS' case, primarily smaller and medium sized businesses) in limited geographic areas. He recognized that limited entry was economically rational. Nonetheless, Dr. Beauvais concludes that the Commission should establish some minimum geographic service area or customer base that new entrants must serve to be considered co-carriers. GTE Ex. 1.00 at 12-15; GTE Ex. 8.00 at 8-9.

GTE contends that, unless the Commission imposes a full-service obligation on new entrants, virtually all service providers (and potentially even customers) could seek such status and demand compensation from the incumbent LEC for receiving traffic. Dr. Beauvais suggested that if MFS were considered a co-carrier, then under the same logic, cellular carriers, shared tenant service providers, shopping mall owners, and even individual residential customers would have to be considered eligible for co-carrier status. GTE Ex. 1.00 at 17-18. All of these parties, GTE contends, could claim a right to reciprocal compensation from LECs, creating an "administrative nightmare" of dealing with numerous certified local service providers. GTE Ex. 1.00 at 17-19. To avoid this problem, GTE argues that the Commission must "draw the line" on the issue of compensation and, although Dr. Beauvais states that he "can't state with any certainty" where the line should be drawn, GTE recommends that it be drawn at full service obligations. GTE Ex. 1.00 at 17-19. In any event, whatever the obligations placed on new entrants, GTE argues, the exact same obligations, should be imposed on the incumbent LECs. GTE Ex. 1.00 at 31-32.

GTE argues that incumbent LECs should not have carrier of last resort obligations in areas where new entrants have begun providing service. It argues that, to the extent that regulators want to rely on market incentives to discipline competitors' behavior, they should be willing to modify carrier of last resort obligations in areas served by more than one carrier, so that the incumbent LEC does not have the responsibility of "immediately" taking over and providing service. GTE Ex. 1.00 at 29-30; GTE Ex. 8.00 at 6. Moreover, GTE argues that competitive entry will have other regulatory impacts, including pricing flexibility for local exchange services. GTE Ex. 1.00 at 32. In any event, it argues that the Commission should consider carefully how it can guarantee a last resort carrier to customers, permit pricing equality, and address other regulatory rules for a competitive marketplace. GTE Ex. 1.00 at 31.

AT&T

AT&T argues that there is little likelihood that competition in the local exchange market will develop to the extent feasible if new entrants must comply with all the requirements currently imposed on incumbent LECs. The current obligations borne by incumbent LECs have been developed over time in response to the need to regulate monopoly carriers that exercise extensive market power. New entrants, in contrast, are unlikely to resemble the incumbents in either size or scope of operation and undoubtedly will lack the incumbents' ability to influence the market. Consequently, imposing all current service and administrative obligations on new entrants is both inappropriate and unnecessary. AT&T further contends that such an approach seriously could undermine any test of the potential for competition in the local exchange market by making market entry unreasonably difficult and burdensome for new entrants. In deciding which existing service administrative requirements should be imposed on new entrants, and which should be waived, the Commission should focus on a definition of the core functions that should be provided by all exchange carriers. If and when effective competition develops for exchange services, the discipline of the marketplace should make it possible to reduce significantly or even to eliminate the service and administrative requirements imposed on all exchange providers, including the incumbent LEC. AT&T Ex. 5.0 at 4-7.

TCG

It is TCG's position that new entrants can become certified to provide local exchange services in Illinois because the Act does not grant an exclusive franchise to any one carrier. TCG agrees with AT&T, however, that the Act protects the incumbent monopoly LECs by prohibiting certification of a competitor if it will affect the prices, network design or financial viability of the incumbent LEC adversely. TCG states that it is unclear whether the certification of a new entrant ever will affect the incumbent adversely. More importantly, TCG asserts that the "adverse effect" standard is the wrong standard by which to evaluate requests for certification of new entrants who could provide lower prices and enhance network design by developing new infrastructures and services.

The territory the new provider will be legally obligated to serve also is an issue. TCG fully supports AT&T's recommendation that the Commission not impose ubiquitous service obligations on new entrants. AT&T Ex. 5.0 at 6-7. It is not possible for a new entrant to provide all services immediately to all customers, and any such requirement placed upon a new entrant would foreclose local exchange competition. New entrants face a tremendous upfront investment for building networks. The "from scratch" building process includes obtaining rights of way, purchasing and installing fiber and electronics in space obtained by the incumbent, and gaining access to customers' buildings. TCG agrees with AT&T that it needs access to unbundled facilities of the incumbent LEC on reasonable terms and conditions.

TCG supports AT&T's Petition as a means of determining under what conditions local exchange competition can emerge in Illinois. TCG also supports Staff Witness Rettle's recommendation for a market test to evaluate the level of effective competition. TCG asserts that symmetrical regulation is appropriate only for symmetrical circumstances and that asymmetrical circumstances justify and require asymmetrical regulation.

TCG asserts that it also needs access to the administrative systems operated by the incumbent LEC such as order processing systems, billing systems, and customer service systems. These administrative processes are not operational elements of the network; rather, they are systems operated by the incumbent LEC which new entrants need.

Analysis and Conclusions

Numerous parties have urged the Commission to grant the new LECs "co-carrier" status. That term is not found in the Act. To the extent that the term signifies that the Commission must be careful to avoid establishing or permitting inappropriate distinctions between new LECs and incumbent LECs, the Commission is in complete agreement. Neither Section 5/13-405 nor any other provision of the Act contemplate differing treatment of new LECs and incumbent LECs. Indeed, the statute has many provisions intended to prevent unreasonable discrimination against carriers as well as customers. Furthermore, we already have endorsed Staff's market principle (1), which states that the physical structure of the PSTN should not distinguish among carriers except where necessary based on technologies used. This is a particularly important consideration as we consider the appropriate terms for physical interconnection and compensation arrangements between carriers.

The Commission believes that establishing a general policy of equal status for all LECs is an essential means to develop an effectively competitive local exchange marketplace. Otherwise, as Staff has warned, distinctions based on a presumption that new entrants somehow constitute a "second-tier" of local exchange providers could become a self-fulfilling prophecy that prevents new LECs from ever becoming effective competitors to the incumbent LECs.

This does not mean that regulatory distinctions between incumbent and new LECs never will be drawn. Illinois Bell correctly notes that the new LECs occupy a very new and different place in the industry structure. The new LECs differ in terms of market power, history, service obligations, network responsibilities and many other factors. Creating the regulatory policies which appropriately integrate this new category of service provider into the public switched telephone network will pose challenging questions for many years.

V. INTERCONNECTION

Positions of Parties

Illinois Bell

Illinois Bell presented its position on physical interconnection arrangements in the context of its Customers First plan and its comments on the Staff's proposed line-side and reciprocal interconnection rules. In its plan, Illinois Bell proposed Ameritech End Office Integration Service ("AEOIS"), a new service included in Illinois Bell's access tariff. (Ill. C.C. No. 15.). AEOIS is "a reciprocal joint traffic arrangement concept where both parties involved are providing their end-user customers access to the other's network in a like fashion." IBT Ex. 1.0 at 17 AEOIS proposes to integrate the networks of competing local exchange carriers into the Ameritech network by connecting both companies' "end offices."

AEOIS consists primarily of two distinct arrangements. First, it includes details regarding the physical connections and arrangements which will be necessary in order to facilitate technically the transfer of traffic from one end office to another. Second, AEOIS includes Ameritech's proposal regarding the way in which carriers would be reimbursed for the traffic which is transferred over the physical AEOIS connection.

AEOIS provides basic network-to-network capabilities for the exchange of most types of traffic between LECs. AEOIS provides two ways to transport traffic between Illinois Bell and new LEC switches. First, the new LEC may have Illinois Bell provide the transport from the end office or tandem trunk termination on its switch to the new LEC's premises. Alternatively, the new LEC may provide the transport facilities itself or use a third party to provide the transport facilities and have Illinois Bell connect those facilities to the end office or tandem trunk termination on its switch. Illinois Bell states that the transport alternatives for AEOIS are identical to the options available today for the transport of switched access calls between its switches and the interexchange networks of IXCs. Therefore, no new rates are established in the AEOIS tariff.

In response to a request by MFS, Illinois Bell has agreed to amend the tariff to clarify that AEOIS may be used for connections to new LEC tandem offices.

Illinois Bell opposes other parties who requested "meet point" arrangements. Its witness Panfil explained that in a "meet point" arrangement one LEC will compensate the other LEC for the price of the jointly-provided transport facility which it does not own. IBT

Ex. 7.22. This compensation, which is made on a per minute basis, is not paid under the AEOIS arrangement. Under AEOIS, the new LEC pays various tariffed charges for facilities which are dedicated to its use. Illinois Bell argues that while there are different types of charges for transport under a "meet point" arrangement and under AEOIS, the charges are essentially the same because they are set to recover the costs of the same underlying transmission facilities. IBT Reply Brief at 24.

Illinois Bell maintains that there will be no added expense for interconnectors under AEOIS because they will have to establish virtual collocation arrangements anyway for special access and switched access transport interconnection under Rule 790 and for loop unbundling interconnection under the Staff's proposed line side rules. Id. at 25.

Staff

Staff argues that interconnection service between Illinois Bell and new LECs should be identical to existing arrangements between it and other LECs. Otherwise, the arrangements would be discriminatory in violation of Staff principle 1. Staff Ex. 2.00 at 39-40.

MCI

MCI disagrees with Illinois Bell's "end office integration service" proposal to require new LECs either to obtain switched access from Illinois Bell for the transport of traffic between Illinois Bell and a new LEC, or connect with it under the terms of its collocation tariffs, on the ground that these forms of interconnection impose unnecessary costs on new LECs. MCI Ex. 2.0. at 20. According to MCI, where the purpose is simply for two LECs to exchange traffic, collocation is unnecessary; rather, all that is needed is a transmission link between the two carriers, which may be terminated in each carrier's switching office in the same way as any other interoffice transmission facility. MCI points out that such "meet-points" are the way contiguous LEC co-carriers exchange local traffic today. *Id.* at 20-21. Further, MCI observes that the costs incurred by each carrier in terminating the transmission facility and providing trunk-side switching ports are compensated for by an "in-kind" facility termination function performed by the other carrier. *Id.* at 22.

MCI recommends that ownership and maintenance of the transmission link should be negotiated between the carriers, subject to Commission intervention should the parties be unable to reach agreement. One carrier could own and maintain the interconnection facility, or ownership and maintenance could be shared among the carriers. Each carrier should provide and maintain the fiber optic or electric termination equipment in its switching office. MCI acknowledges that new entrants would bear the responsibility for ensuring that equipment used in its switching office is compatible with the transmission equipment used by the incumbent LEC, and cooperative testing procedures would need to be established. *Id.* at 21.

AT&T

AT&T argues that for competition to have a chance to develop, LECs must be required to permit comprehensive interconnection with their exchange networks as a whole. AT&T Ex. 5.0 at 8. This would enable all end users to communicate with each other seamlessly, regardless of provider. Absent such a requirement, new entrants would face an insurmountable hurdle, because their end users would be unable to communicate with other customers that use the incumbent LEC's network. AT&T Ex. 6.0 at 19.

AT&T contends that the Commission should be guided by several key principles when developing a framework for comprehensive interconnection: (1) interconnection must be permitted at every logical and reasonable point dictated by unbundling and by carriers' potential for creating marketable offerings; (2) interconnection must be made available to new carriers under the same rates, terms, and conditions as those which apply to the LEC's own interconnection; (3) no restriction should be placed on interconnection standards which would limit these requirements to the existing inventory of LEC network functions; and (4) regulatory safeguards minimizing the risk of discrimination must be designed and implemented for interconnection to each LEC component. AT&T Ex. 5.0 at 9-10.

AT&T further argued that currently there are two different arrangements for compensation between incumbent LEC providers, both of which are based on intrastate switched access for rates, but on contracts for terms and conditions. AT&T Ex. 5.0 at 11-12. Carriers should be compensated on a cost basis for all functions and services they provide to complete an end user call. This principle, which now underlies the existing contractual agreements between LECs, should be converted to a tariffed schedule of terms, conditions, and rates which would provide non-discriminatory interconnection as well as compensation between all exchange carriers, both incumbent LECs and new entrants. Id.

AT&T argues that interconnection arrangements between incumbent LECs and other service providers, including adjacent LECs, new entrants, IXCs, PTCs, and CAPs should be equal. AT&T Ex. 1.0 at 19.

MFS

MFS disagrees with Illinois Bell's end office integration proposal because it is inefficient, would tie a new entrant's network design to the overall historic embedded design of the incumbent LEC and would impose unnecessary costs on the new entrant. MFS Ex. 2.0 at 20-21; MFS Ex. 1.0 at 14-15. MFS argues that Illinois Bell's proposed "AEOIS" treats new entrants as if they were merely operating another end office on its network, which clearly limits the deployment of the network. MFS Ex. 2.0 at 20; *See also* MFS Ex. 1.0 at 5.

As an alternative, MFS recommends that traffic exchange districts ("TEDs") and traffic exchange meet points ("TEMs") be established based upon geographic and calling pattern considerations in each LATA where competitive LECs are authorized to provide service. All affected carriers should agree mutually upon the boundaries of the TEDs, if possible. Within each TED, the incumbent LECs and new LECs should establish jointly a minimum of two mutually acceptable geographic locations as traffic exchange meet-points. A TEM may, for example, be located at an incumbent LEC's access tandem or at a new LEC's switch site if these locations are mutually acceptable, or it could be located elsewhere. These TEMS would be the geographic locations at which trunks would be connected. Each carrier would be responsible for establishing the necessary traffic exchange trunk facilities from its switch or switches to the designated TEMs in sufficient quantity and capacity to deliver traffic to and receive traffic from other carriers. Carriers also would be free to exchange traffic at other points within or between their respective networks (specialized TEMs). Generally applicable baseline engineering standards should be employed to determine appropriate trunking configurations between any two carriers, including tandem-to-tandem, tandem-to-end office, end office-to-tandem and end office-to-end office connections. MFS Ex. 2.0 at 21-24, 31.

In the event that the affected carriers cannot agree on mutually acceptable definitions for the TEDs and TEMs, MFS recommends, as a default proposal, that TEMs initially be defined as the LECs' wire centers housing access tandems and the TEDs initially be defined as the sub-tending areas of each tandem. Additionally, any new LEC should be able to establish unilaterally a specialized TEM at any incumbent LEC wire center that is listed as an end office rating point in National Exchange Carrier Association FCC Tariff 4. MFS Ex. 2.2 at 14-18.

MFS maintains that the TED/TEM concept is competitively neutral and would allow carriers maximum flexibility, enabling them to connect their networks most efficiently, while preserving the ability of each carrier to make and implement its own network design and architecture. In contrast to Illinois Bell's end office integration proposal, MFS' proposal would not force new entrants to replicate the historic network design and architecture of the incumbent LECs. MFS Ex. 2.0 at 31-32; MFS Ex. 2.2 at 11-12.

MFS also argues that LECs should be required to provide "tandem subtending arrangements," whereby the LEC operating a tandem serving an area where new entrants are located provides tandem switching services to all other carriers' switches. MFS argues that these arrangements are common, and the local transport revenues from the facility are divided under a standard "meet-point billing" formula. MFS Ex. 2.0 at 39-41. MFS argues that these same arrangements should be made available to new entrants.

TCG

TCG believes that physical interconnection between incumbent LECs and new LECs does not involve any unique issues that do not exist already between the incumbents and adjacent independent LECs. It argues, therefore, that the Commission must establish that new LECs have a right to physical interconnection, pursuant to their Section 13-405 certifications to provide local service, in a manner that is technically equal to the way in which existing LECs interconnect. TCG Ex. 1.00 at 15-16.

TCG advocates interconnection at the end office or tandem level of the public switched network, but also agrees with MCI and MFS that carriers should have the flexibility to interconnect with incumbent LECs in a manner consistent with their network design, which may be an established meet-point. TCG Ex. 2.02 at 29-30. TCG also recommends interconnection through existing collocation arrangements to be a useful method of interconnection for those new LECs who choose to use it, but state that it should not be the only method of interconnection available. TCG Ex. 3.00 at 7.

TCG also explained a method under which carriers can allocate costs between themselves for an established meet-point interconnection arrangement. It stated that the carriers can measure the peak busy hour traffic for each month to determine the relative traffic flows between the carriers and allocate the charges accordingly. By way of example, TCG explained that a new LEC and Illinois Bell could establish a two-way DS1 trunk group at a meet point. At the peak busy hour, the carriers determine that 75% of the traffic is flowing from the new LEC to Illinois Bell, and 25% of the traffic is flowing from Illinois Bell to the new LEC. Under this split, the new LEC would pay Illinois Bell 75% of the retail rate of the DS1 facility, and Illinois Bell would pay 25% of the retail rate of the facility. TCG Ex. 2.02 at 23.

Illinois Bell Response

Illinois Bell argues that meet point arrangements are inappropriate because each one is negotiated individually and incorporates different, non-standard terms and conditions. According to Illinois Bell, this will not move the industry toward the standardized arrangements which Staff and AT&T have advocated.

Illinois Bell also asserts that Staff's argument, in its Briefs, that it should offer the same interconnection agreements to new LECs that it has with established LECs such as Centel and GTE is a change of position. Previously, Staff argued that the AEOIS tariff should be standardized to accommodate both LEC-to-LEC and incumbent LEC-to-new LEC interconnection.

Illinois Bell also believes that it will be difficult to decide where to locate the meet points which MCI and MFS envision. Traditional meet point arrangements developed because the service territories of adjacent LECs did not overlap; in that environment, it made sense to establish meet points at exchange boundaries. it argues that this is not an appropriate model to carry forward in the evolving telecommunications marketplace because there are no exchange boundaries between LECs and new LECs. It says this is inappropriate in an environment where LECs and new LECs compete in the same geographic territory, and where universal service and carrier of last resort obligations do not apply equally.

Illinois Bell also points out that the MFS proposal would require Illinois Bell to restructure its existing network physically around the arbitrary TED/TEM boundaries.

Illinois Bell maintains that MCI wants the same physical interconnection arrangements but is unwilling to accept the same switched access reciprocal compensation arrangements which Centel and Illinois Bell have. It asserts that AEOIS is a reasonable, standardized arrangement which is technically identical to LEC-to-LEC interconnection, and is financially comparable to LEC-to-LEC interconnection.

Analysis and Conclusions

Technically and economically efficient interconnection of incumbent LEC and new LEC networks is an essential predicate to the emergence of a competitive local exchange market in Illinois. As MCI notes, denial of efficient interconnection arrangements creates an "insurmountable barrier to entry" for new LECs because telephone service would have little value to new LEC subscribers if they could call only other new LEC customers. MCI Ex. 2.0 at 31.

Fo: .nately, the present arrangements prevailing among incumbent LECs provide a sound model of the physical interconnection arrangements that reasonably can be mandated for interconnection between competing carriers. As Staff points out,

> [T]he integration arrangements which are in place today [between contiguous LECs] have been utilized for many years. The longevity and effectiveness of these arrangements makes them likely candidates for workable integration arrangements between all carriers.

Staff Ex. 2.0 at 39.

Based on this record, it does not appear that physical interconnection between incumbent LECs and new LECs involves any unique technological issues that are not present for interconnection between contiguous LECs. Therefore, we concur with Staff's recommendation that ultimately, all carriers interconnecting with Illinois Bell should be offered service from the same tariff and under the same physical interconnection conditions. Current contractual agreements are more appropriately converted to tariffed arrangements. For this reason we agree that the AEOIS tariff should be modified as proposed by Staff and serve as a basis for a Uniform Interconnection Tariff. Designations on the tariff which limit its application to "AECs" should, therefore, be removed and replaced with a suitable term such as "integrating carrier".

Staff notes that LECs integrating and interconnecting with Illinois Bell today do not utilize, or pay for, either virtual or physical collocation arrangements for interconnection. Staff maintains that either these requirements should be removed from the AEOIS tariff or they should be included for all interconnection arrangements, even those between Illinois Bell and independent telephone companies. Staff Ex. 2.00 at 40 footnote 12. The Commission agrees with Staff to the extent that these requirements should be removed from the AEOIS tariff, pending a clear demonstration by Illinois Bell, in some future proceeding, that such collocation arrangements and associated charges are necessary and appropriate for interconnections with new LECs and/or independent telephone companies and are not being imposed in an unreasonably discriminatory manner. This is consistent with our view that the incumbent LECs should not be permitted to force new LECs to purchase functionalities which they do not require, and that existing arrangements between contiguous LECs are an appropriate model for interconnection.

The Commission agrees with MFS that arrangements regarding the interconnection of new LECs subtending an Illinois Bell tandem could be more appropriately identified within Illinois Bell's AEOIS tariff. The Commission concurs with Staff that the most reasonable mechanism to facilitate this type of interconnection is the existing tandem subtending arrangements offered by Illinois Bell to independent telephone companies. For this reason, the Commission directs that Illinois Bell offer tandem subtending interconnection arrangements to new LECs in the same manner in which it offers those arrangements to existing independent telephone companies. We direct that the tariffs be modified accordingly.

The Commission otherwise views the end-office to end-office model in the AEOIS tariff to be a suitable basis for initiating interconnection between competing LECs. With respect to the issue of "meet points" for traffic exchange outside of end offices, the Commission agrees that this is an option which should be considered seriously. A new LEC should have considerable flexibility to configure its networks in a manner it deems suitable. This is also consistent with our views regarding unbundling. However, there are some issues which need to be addressed. Existing meet point arrangements are the result of contracts. The record is vague regarding the precise terms of those contracts. It is quite likely that it will take some time to reconcile existing agreements with the uniform interconnection tariff. We reject the suggestion that we merely require Illinois Bell to include an option in the AEOIS tariff for meet point arrangements "by agreement of the parties." We agree with Illinois Bell that this could invite litigation and potentially could defeat the purpose of standardizing the physical interconnection arrangements.

We reject MFS' TED/TEM proposal. Local exchange competition is in its infancy and we do not wish to establish geographic boundaries which would reflect the interests of only the current subset of market entrants. In addition, the substantial reconfiguration of Illinois Bell's network which the proposal would require is a serious drawback.

The Commission believes that it would be appropriate for interested parties to hold workshop discussions concerning meet point interconnection. One possible solution would be to establish a rule regarding meet points which is similar to Staff's proposals in Docket 94-0049 regarding unbundling. Perhaps it could establish criteria for evaluating a request for a new meet point. In the interim we shall direct Illinois Bell to modify its AEOIS tariff as directed above and to begin integrating existing interconnection arrangements into a uniform tariff.

The AEOIS arrangements should not apply to independent telephone companies except on a voluntary basis until the Commission has concluded its investigation, ordered herein, of the termination of PTC arrangements. The Commission also adopts Illinois Bell's suggestion, set forth in its Exceptions, that independent telephone companies not be permitted to take advantage of the terminating rate for local traffic in the AEOIS tariff unless they implement corresponding changes in their access tariffs applicable to local traffic they terminate for Illinois Bell, or upon further direction from the Commission.

Additional Tariff Issues

Tariff Exclusions

While Illinois Bell proposes to make AEOIS available throughout the state, the tariff states that the service is not available in MSAs where it is not the primary toll carrier; where it is the PTC but not the dial tone provider; and in exchanges where its customers are served by central offices located outside of Illinois (this includes the exchanges of South Beloit, West Dana, Kaskaskia and McClure). (See Section 19.1 of the proposed AEOIS tariff). Staff proposes to delete these exclusions from the tariff because, in Staff's view, AEOIS should be available throughout the state.

Conclusion

We agree with Illinois Bell that the tariff properly excludes exchanges where it is the PTC, but not the dial tone provider. Since Illinois Bell has no end offices or tandem offices in these areas there are no Company facilities to interconnect with under the AEOIS tariff. This exclusion merely emphasizes that the AEOIS service does not apply to Independent Telephone Companies just because they use Illinois Bell as PTC. We also conclude that the tariff should exclude the exchanges of South Beloit, West Dana, Kaskaskia and McClure because they are not served by central offices which are owned or operated by Illinois Bell. However, we do not agree that AEOIS service should be unavailable in areas where Illinois Bell is not the PTC but does provide dial tone service. Because Illinois Bell owns end office facilities in these exchanges which could provide interconnection opportunities, excluding AEOIS from these exchanges simply because Illinois Bell is not the PTC would be inappropriate. We therefore direct that Illinois Bell modify its tariff language to restrict AEOIS service only in areas where it does not own end office facilities and does not provide dial tone service.

Finally, we agree with Staff that the reference to Section 13-405 should be eliminated because the AEOIS tariff is the base for a Uniform Interconnection Tariff.

Physical Collocation

Illinois Bell's initial AEOIS tariff included a physical collocation option. After the tariff was filed, the U.S. Court of

Appeals for the District of Columbia overturned the FCC's order which required Illinois Bell to provide physical collocation for special access and switched access interconnection. Thereafter, the Illinois Appellate Court entered a stay of the Commission's physical collocation requirement currently contained in Illinois Administrative Code Part 790. We have opened a docket to consider this matter. Given these changed circumstances, the Commission believes it is reasonable for Illinois Bell to withdraw the physical collocation option in the pending AEOIS tariff.

VI. RECIPROCAL COMPENSATION

Positions of the Parties

Illinois Bell

In its Customers First plan, Illinois Bell proposes a reciprocal compensation arrangement that requires each carrier to pay terminating access to other carriers for its originating traffic that terminates on other carriers' networks. It argues that this arrangement is advantageous because it is technically feasible, efficient to administer, compensatory to the terminating carrier, and "minimizes arbitrage opportunities." IBT Ex. 1.0 at 27.

Illinois Bell states that four principles should govern reciprocal compensation arrangements:

> (1) Each party should set a price which results in it being compensated based on its own costs, including a reasonable contribution towards shared and common overhead costs;
>
> (2) Fixed costs should be recovered from fixed charges and variable costs should be recovered from variable charges to avoid deliberate or inadvertent cross-subsidization, so far as possible;
>
> (3) The rate design rules should be sustainable; and
>
> (4) Compensation principles should be entirely symmetric.

IBT Ex. 4.0 at 12-15. It argues that its reciprocal compensation proposal satisfies these criteria. *Id.* at 15.

Illinois Bell proposes the of use existing switched access rates as a basis for reciprocal compensation. It claims the criticisms of the use of access charges boils down to how narrowly or broadly to view the local exchange marketplace. It says that its business case analysis demonstrates that a new LEC can enter and compete in the local exchange marketplace profitably by offering a broad array of services.

Illinois Bell's analysis makes two alternative assumptions. Under the first, it assumes that a new LEC's average costs for a NAL is equal to its tariffed rate at the most expensive, individual loop rate. Under the second alternative, its analysis assumes that the new LEC's costs for a loop are equal to Illinois Bell's average LRSIC for a loop. Its analysis includes all intraMSA calling (Bands A-D and MTS), originating and terminating switched access from an end user to ITCs, directory assistance, terminating access compensation, and various custom calling services. Illinois Bell claims that its analysis shows that a new LEC can earn a substantial profit competing with the Company under either scenario. IBT Reply Brief at 32-33.

Illinois Bell contends that if the Commission finds that its proposal to use switched access rates for compensation creates a price squeeze, the Commission should increase business usage rates for local calling. It proposes that the Commission could increase its Band A rates and decrease its longer call rates to allow a greater margin on Band A calls, as opposed to lowering or removing access charges for new LECs. IBT Ex. 1.20 at 14-16.

Illinois Bell also asserts that its reciprocal compensation rate must include some contribution; that is, it must not be set equal to incremental cost. It contends that prices must exceed LRSIC to permit it to cover its joint and common costs. IBT Ex. 4.10 at 9-10.

Staff

Staff observes that the reciprocal compensation mechanism adopted by the Commission "will most likely be the biggest factor in determining the effectiveness and sustainability of local competitive entry." Staff Ex. 2.01 at 32. It contends that using switched access rates would not be an effective mechanism for a competitive market, because those charges are substantially higher than local usage rates, making it unlikely that sustainable local exchange competition would develop. Staff witness Starkey emphasized that applying current switched access rates as a basis for reciprocal compensation would place new LECs in an anticompetitive price squeeze.

> [I]t is almost a given utilizing Illinois Bell's compensation proposal that the profit of the competitor will be significantly less than that of Illinois Bell. Because of the contribution levels built into Illinois Bell's current switched access rates, Illinois Bell would retain large levels of contribution even when losing customers' local usage to competing carriers. This, coupled with the almost indisputable fact that at least initially the vast majority of calls will continue to either originate or terminate on the Illinois Bell network, nearly ensures Illinois Bell a competitive advantage.

Staff Ex. 2.01 at 33-36.

Staff strenuously disputes the contention of Illinois Bell witness Panfil that new LECs could pay switched access charges to Illinois Bell and still be profitable. It argues that the simple fact is that under Illinois Bell's compensation proposal, Illinois Bell will charge competing carriers more in compensation rates than it will charge its local customers for completion of local traffic. Staff states that this is a classic example of a price squeeze. Staff Ex. 2.02 at 11-12.

Staff thus concludes that a separate compensation mechanism for competing local traffic is necessary, at least initially. Staff recommended a compensation mechanism and rate which would accomplish two stated goals. First, the framework and rates would be based on Illinois Bell's costs of terminating traffic so that the rates would remain compensatory and avoid any potential for Illinois Bell to subsidize its competitors. Staff Ex. 2.01 at 40. Second, the rates and framework would allow Illinois Bell to pass an imputation test for local traffic so as to avoid the classic "price squeeze" scenario and allow for local competition. With these two goals in mind, Staff recommended a new compensation mechanism.

Specifically, Staff contends that Illinois Bell should be required to offer a new compensation mechanism for the termination of "local" traffic. This compensation mechanism would be available to any purchaser of Illinois Bell's AEOIS service which originates or terminates "local" traffic utilizing the AEOIS interconnection. Staff proposes that the rate for this new service be based on the LRSIC of tandem switching, end office switching, and local transport. Staff Ex. 2.01 at Schedule 3. This rate would be cost-based, and would not include, a residual interconnection charge ("RIC"). Staff Ex. 2.01 at 40. Staff's proposal would also provide that purchasers of the new AEOIS termination service would charge Illinois Bell no more than Illinois Bell's current AEOIS compensation rate for termination of Illinois Bell traffic terminated on their networks through the AEOIS interconnection. Staff states that its proposal incorporates many of the ideas regarding reciprocal compensation suggested by MCI, MFS and TCG, and that their proposals provide "much of the underlying theory" for its proposal. *Id.* At the same time, Staff disagrees with these new LECs on whether the charge should include contribution, suggesting that "an identifiable contribution level may be appropriate." Staff Ex. 2.01 at 42.

In calculating its compensation arrangement and rates, Staff utilized Illinois Bell's LRSICs which were provided in response to Staff Data Request OPP 40, which was introduced as Staff Cross Ex. 3P. Consistent with Staff's second stated goal of establishing a rate which allows for the effective entry of local competitors, Staff requested that Illinois Bell perform imputation tests utilizing a number of possible termination rates which included a number of different contribution levels.

Staff asked Illinois Bell to determine whether Usage Sensitive Service traffic within Bands A and B, generates sufficient revenues to cover total imputed costs. Under one scenario, Illinois Bell performed a preliminary test that included all residential and business traffic including timed and untimed calling for business and residence services. Total revenues did not exceed total imputed costs. Under a second scenario, Illinois Bell performed an imputation test which included only intra- and interexchange traffic that is rated and charged on a timed basis in Bands A and B, thus excluding untimed calling. The preliminary results of this test showed total revenues exceed total imputed costs. In analyzing this information (ICC Staff Cross Ex. 2) it became clear that only two of the rates which were suggested by Staff allowed Illinois Bell to pass an imputation test. Staff then developed the way in which the rates for the tandem switched termination and end office switched termination charges should be set. Staff Ex. 2.02 at Schedule 3. Included in Staff's recommended rate structure is an element for recovering "contribution" over and above the LRSICs directly attributable to termination.

In Staff's opinion these are the rates which Illinois Bell should charge to competing carriers for termination of traffic on its network:

Tandem Switched Termination:	$0.0075 per minute of use
End Office Switched Termination:	$0.005 per minute of use

The Staff proposal includes language mandating that integrated carriers provide to Illinois Bell the total number of calls and/or minutes of use terminated on the Illinois Bell network through the integration arrangement. The integrated carrier must also provide a percentage of those calls and/or minutes of use which are "local" calls. These calls will be the only calls which are charged the new compensation rates. All other calls/and or minutes of use would continue to be charged at Illinois Bell's current switched access rates.

Staff acknowledges that reciprocal compensation rates and access rates ultimately should migrate to the same level, and this complies with its market principles. In other words, the two tier structure would eventually be compressed into one, substantially lower structure, with rates for all carriers likely falling to or near the discounted rate level being proposed. Staff observes that LEC switched access rates are in the process of both technical and rate restructuring, and suggests that access rates should be reviewed in Docket 94-0047. Staff Ex. 2.01 at 36-38, 43-44.

Staff disagrees with Illinois Bell that the solution to the difference between access and local usage rates is to raise local usage rates. It contends that raising local rates further above cost is "exactly what Staff wishes to avoid."

> Mr. Kolb's suggested increase in local usage rates which are already above cost is not a result of either a competitive marketplace or rates realigning in preparation for local competition. Mr. Kolb's suggestion merely would raise the rates of local users (and the profits of Illinois Bell) while still allowing Illinois Bell to garner additional revenues through imposition of switched access charges (which are set significantly above LRSICs) to competing carriers. This is a win-win situation for Illinois Bell while customers and competitors end up paying the bill. It is exactly for these reasons that Staff has not suggested that Illinois Bell's local usage rates be raised any further above cost. Instead, Staff has proposed a compensation mechanism less burdened with contribution than Illinois Bell's current switched access rates and more truly aligned to underlying costs.

Staff Ex. 2.02 at 7-8.

Staff agrees with Illinois Bell and others that MFS's proposed "in kind" compensation essentially would be a subsidy to new LECs. Staff Ex. 2.02 at 2-3. It contends that this criticism does not apply to its proposal because it's proposed compensation rates are sufficient to cover Illinois Bell's LRSIC. Staff Ex. 2.02 at 3-5.

GTE

As discussed above, GTE contends that reciprocal compensation should be limited strictly to carriers that serve the entire service area of the incumbent LEC. GTE proposes that the Commission impose additional conditions on reciprocal compensation arrangements: (i) "the payment of terminating access charges by an incumbent LEC must be considered a legitimate component of the incremental costs of completing the call on an ongoing basis," (ii) "the incumbent LEC must have a customer to bill for that cost, so that measured services must at least be available and preferably be in effect for end user customers in a particular area for reciprocal compensation issues to be discussed." GTE Ex. 1.00 at 20. GTE also recommends that, in the long run, any reciprocal compensation proposal should not depend on the identity of the interconnected entity. If that were the case, GTE argues that carriers would have incentives to misreport their traffic to receive the cheapest form of interconnection. GTE Ex. 1.00 at 22-23.

GTE, like Illinois Bell, argues that reciprocal compensation rates should be based on access charges. GTE Ex. 1.00 at 24; GTE Ex. 5.00 at 7-8. It opposes MFS's "bill and keep" proposal, arguing that it amounts to "no compensation," and could be applied to all access customers, including IXCs. GTE Ex. 1.00 at 21-22.

Centel

Centel argues that no basis has been advanced to justify developing a different compensation arrangement for interchange of local traffic between new and incumbent LECs. It argues that to mandate different structures is discriminatory. Centel Ex. 5.0 at 4-7.

Centel maintains that it and the new LECs may be in competition for the provision of service to customers presently served by Centel who make substantial numbers of calls to areas served by Illinois Bell. If new LECs are permitted to pay for termination of traffic at a lower rate than Centel, then Centel will be facing a price squeeze when competing for those customers. Centel Initial Brief at 29.

If a new compensation mechanism needs to be developed, it must be applied to all carriers involved in the completion of local calls and not simply with the competing carriers. Centel Ex. 1.0 at 21.

MCI

MCI proposes that compensation be based on a flat, per-minute rate at a level sufficient to cover the incumbent LEC's average switching and transport costs in terminating the traffic of new entrants. This rate would be applied to the terminating portion of: (1) all traffic originating on new entrants' networks and terminating on the incumbent's network; and (2) all traffic originating on the incumbent's network and terminating on each new entrant's network. Traffic flow between each pair of carriers would be monitored, and where the traffic exchanged between any two carriers is more or less in balance -- in other words, the minutes of local traffic are approximately equal, plus or minus five percent -- then billing for the traffic will not be required at all. MCI Ex. 2.0 at 25-26. MCI also proposes that the threshold for actual payment of compensation be raised to 150% until true number portability is implemented.

MCI proposes three goals for an economic reciprocal compensation proposal. First, MCI asserts that the reciprocal compensation rate should permit all LECs to recover the economic costs which they incur in exchanging traffic with other carriers' networks. MCI Opening Brief at 64. MCI recommends that the proper approach to developing a compensation rate that accurately reflects the incumbent LEC's costs of terminating competitors' traffic would require the LEC to identify the necessary building blocks, determine the appropriate costs using LRSIC, and establish a rate that equals the LEC's incremental costs. MCI Ex. 2.0 at 28. MCI warns that allowing an incumbent LEC to recover more than its economic cost of terminating local access would reduce competition by: (i) artificially raising the floor below which competitors cannot offer local exchange service; and (ii) creating a price squeeze for new LECs, so long as there is not an effective imputation requirement for the incumbent LEC's local exchange services. *Id.* at 29. MCI points to the analysis of Staff witness Starkey as evidence that new entrants would indeed face such a price squeeze if the access charge rates recommended by Illinois Bell for reciprocal compensation were adopted. *Id.* at 30. MCI also agrees with Staff that, ideally, LEC charges for all forms of access would be equal; however, it agrees with Staff that access charges currently do not meet this requirement, and that a new compensation mechanism for new LECs is necessary until access rates are brought into line with costs. MCI Ex. 2.00 at 44-45.

MCI's second goal for an economic reciprocal compensation rate is that only the incumbent LEC's rate should be established based on cost and subject to regulatory review. MCI recommends that the incumbent LEC's rate then should be used as the "reciprocal" rate for the exchange of traffic among all local exchange service providers. *Id.* at 30-31. MCI explains that this allows the more efficient carrier to reflect its greater efficiency in lower rates to its end-user customers or in network expansion, rather than "passing on" its greater efficiency to its competitor. MCI Ex. 2.0 at 32-35.

MCI's third goal is that the reciprocal rate must be structured as a flat charge that does not reflect the incumbent LEC's network design choices unfairly. MCI explains that Illinois Bell's proposed access charge rate structure for reciprocal compensation is based primarily on transport and switching rate components and may not permit new entrants to recover their termination costs where their networks do not reflect the same relative amounts of transport and switching as are inherent in Illinois Bell's network. MCI Ex. 2.00 at 37-42. As a result, MCI recommends that reciprocal compensation rate structures not distinguish between switching and transport, and not be based on the specific "transport" distance for any particular call.

MFS

MFS urges the Commission to reject Illinois Bell's reciprocal compensation proposal because it is inappropriately based on switched access charges. MFS agrees with Staff's assessment that because Illinois Bell's switched access rates generally exceed its retail local usage rates, requiring new LECs to pay switched access to terminate local traffic would create a price squeeze, making it impossible for new entrants to offer competitive prices for their services. Over time, MFS expects there to be a natural evolution toward a single compensation plan between all connecting carriers, including IXCs. For the present, however, MFS agrees with Staff that a separate compensation arrangement must be developed for the exchange of local traffic. MFS Ex. 1.0 at 15-25; MFS Ex. 2.0 at 26; MFS Ex. 2.1 at 11-12.

MFS recommends that reciprocal termination be offered on terms that allow each carrier a reasonable opportunity to recover its own costs and that do not subvert the basic local rate structure for end users or create disincentives to connectivity. Any charges associated with a reciprocal compensation arrangement should be set at levels that are consistent with the prevailing rates for end user services and should not be used by a carrier to preclude the development of competition. MFS Ex. 2.0 at 25. It proposes a three-part compensation structure: (1) facility termination charges; (2) query charges; and (3) exchanged minute-of-use charges. Under this proposal, a facility termination charge would be applied to each trunk that a carrier terminates to a meet point. Facility termination charges are intended to compensate a carrier for the switch port terminations it must engineer in its network to accommodate the traffic exchange trunk facilities extended to it by each other carrier. MFS Ex. 2.0 at 27, 32.

A single rate structure and set of rates should be established for all facility termination charges. On a one-way trunk connection, the charge would be paid by the carrier originating the traffic to the carrier terminating the traffic. On a two-way trunk connection, the charge would be pro-rated between the two carriers in proportion to the carrier's respective billed traffic carried over the trunk each month. The facility termination charge should be set uniformly at Illinois Bell's LRSIC for a DS1-level port and cross connect on a digital switch. MFS Ex. 2.0 at 32-33; MFS Ex. 2.2 at 19.

A query charge would apply to any call that requires an LIDB query. The charge should be assessed only for calls that require special SS7 processing or database access, but not for standard call set-up and routing. The query charge would be paid by the querying carrier to the queried carrier and would be set at a rate equivalent to the rate currently listed for LIDB queries in the incumbent carrier's intrastate switched access tariff. MFS Ex. 2.0 at 28; MFS Ex. 2.2 at 19.

Until true local number portability is implemented and incumbent LECs are required to impute any exchanged minute-of-use charges into their end user rates, no per minute or other usage sensitive charges should apply for the completion of local calls within the boundaries of a traffic exchange district. Instead, carriers should be required to terminate each other's local intra-district calls on an in-kind exchange (bill and keep) basis. Under this model, each carrier would be responsible for the billing and costs of message unit or other usage charges for intra-district calls originating on its own network, regardless of the point of termination. In the long term, exchanged minute-of-use charges would apply per each minute of use carried between the networks of two carriers via a traffic exchange facility. For every exchanged minute of use, the originating carrier would pay the terminating carrier a standard, uniform charge. The charges should be set at levels that are consistent with the prevailing rates for the end user services that will be provided over the traffic exchange arrangements. For this to occur, each carrier should be required to impute any exchange minute-of-use charges and query charges (where applicable) into its end user rates, such that the end user rate is equal to (or greater than) two times the exchanged minute-of-use charge, plus any applicable query charge. MFS argues that imputation is necessary to protect against anticompetitive pricing or subsidization. MFS Ex. 2.0 at 27-28, 33-34; MFS Ex. 2.1 at 7-8; MFS Ex. 2.2 at 19-20.

For intraLATA traffic between traffic exchange districts, MFS recommends that competing LECs should pay each other the same local switching access charge that applies to IXCs, treating the TEM as the point of termination for switched access service. No local transport charges should apply for traffic delivered to the TEM. New LECs and incumbent LECs should negotiate an appropriate method of assuring that traffic is reported and measured accurately so that charges can be assessed correctly. MFS Ex. 2.0 at 28.

MFS contends that its interim compensation proposal has the advantages of not affecting end user rates, eliminating a short-run requirement for imputation, alleviating somewhat the problems caused by the lack of true local number portability, and offering simplified billing and administration. Its in-kind compensation proposal would not require incumbent LECs to subsidize new LECs because the incumbents would receive value each time a new LEC terminated a call for its customers. Moreover, the facility termination and query charges would allow the incumbent LECs to recover the incremental costs of terminating a new LEC's trunk and the costs associated with complex SS7 database queries. MFS Ex. 2.2 at 21-22.

TCG

Dr. August H. Ankum, an economist for TCG, states that the following principles should guide the Commission when establishing a compensation arrangement:

Economic Viability -- Compensation arrangements must provide for economically viable local calling. Rates that competing LECs charge one another must be below the rates that both LECs offer their end users. Otherwise, Competition then would be, by definition, imperiled because the new LEC would pay higher rates than the rates paid by the customers for which it is competing. This type of a pricing scheme, in which a monopolist sets wholesale rates close to or in excess of retail rates, thus stifling competition, is often referred to as a "price squeeze."

Imputation -- Retail rates charged to end users must exceed the total wholesale rates charged to competitors which purchase piece parts of the identical service. A price floor, based upon imputation must be developed for intraexchange calling services.

Administrative Efficiency -- Compensation arrangements should be made simple to implement and administer, both technically and administratively, by simplifying the billing and monitoring requirements of such an arrangement.

Unbundling -- Compensation arrangements must be consistent with the concept of unbundling the network into discrete service elements that represent network functions, including transport, switching, loops, and signaling.

Infrastructure development -- A compensation arrangement which provides for handing off calls at a LEC end office encourages carriers to build networks to more end offices as opposed to only tandem offices, thereby increasing the diversity and reliability of the "network of networks."

Nondiscriminatory -- Compensation arrangements must be non-discriminatory. The incumbent LEC should allow all carriers to