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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas
Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington DC 20554

Ex Parte presentation regarding reciprocal compensation for local calls to Internet Service Providers; CC Docket No. 96-98; CCB/CPD No. 97-30; CC Docket Nos. 98-79; 98-103; 98-168.

Dear Ms. Salas:

On October 20, 1998, Rick Frisbie of Battery Ventures, Ted Mocarski of Fleet Equity Partners, Andrew Sinwell of Madison Dearborn Partners, Peter Claudy of M/C Partners, and Ruth Milkman of The Lawler Group, representing ALTS, met with Commissioner Susan Ness, Jim Casserly, Kyle Dixon, Kevin Martin, Tom Power, Paul Gallant, Kathryn Brown, James Schlichting, Rich Cameron, Tamara Preiss, Ed Krachmer, and Rich Lerner, to discuss issues of concern to competitive local exchange carriers, including reciprocal compensation.

In those presentations, we made the following points. The Telecommunications Act of 1996 is working at the grassroots level, primarily because of new entrants, the CLECs, which are offering innovative services that customers find attractive. The continued growth of these CLECs depends on their access to capital, and the flow of capital depends in part on investors' level of comfort that the rules will not change in the middle of the game.

The reciprocal compensation levels were negotiated between ILECs and CLECs. Once these agreements were in place, new entrants made business plans based on these

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contracts, and investors based their investments on the contracts and state commission decisions. For some CLECs, terminating compensation generates a cash flow that gives them access to lower cost capital at a crucial stage of development, and enables them to build out their systems and offer service in new geographic areas. Internet service providers are easy first customers for many CLECs because they crave new lines, and CLECs can deliver new lines in a matter of days, whereas ILEC provisioning times are generally measured in months. In addition, the lack of number portability, and the inadequacy of interim portability substitutes, have meant that some CLECs have focused their attention not on existing lines (because most customers want to keep their phone numbers) but on new lines.

The bulk of interconnection agreements, including terms for reciprocal compensation, will be renegotiated in 1999. Leaving the current system of terminating compensation in place will create ILEC incentives to lower the compensation rate across the board, resulting in compensation rates that are closer to the cost-based rates that are the goal of the Act. The combination of reduced termination charges and the availability of true local number portability will give CLECs additional incentives to focus on originating traffic. As the market matures, market-based, negotiated contracts will address any imbalance in compensation payments. Consequently, Commission action that interferes with current state interpretations of the reciprocal compensation arrangements is unnecessary.

Sincerely,

Ruth Milkman

Ruth Milkman