

bill-and-keep is an appropriate compensation mechanism only where traffic is in balance.⁷⁴ Here, however, reversing the position they took when interconnection agreements were first negotiated, ILECs urge the adoption of bill-and-keep precisely because the traffic is out of balance – a result that is designed to assure that carriers with ISPs as customers do not receive fair compensation. Under the Commission's own rules, this is an unacceptable result, one that would assure that carriers are not compensated for their costs.

VI. The ILECs Fail To Provide Any Additional Support For The Commission's Claim That Calls To ISPs Are Interstate In Nature

The D.C. Circuit charged the Commission with the task of either uncovering additional legal support for its conclusion that calls to ISPs are interstate in nature, or adopting a new approach to asserting jurisdiction over calls to ISPs. Verizon has taken a novel approach in this remand proceeding by essentially arguing that the FCC should disregard the D.C. Circuit and the governing statute, and instead focus on the claimed public policy detriments of reciprocal compensation for local ISP traffic.⁷⁵

A. Verizon Has Failed To Set Forth Sufficient Policy Justification For The Elimination Of Reciprocal Compensation

For starters, Verizon's current arguments railing against reciprocal compensation for local calls to ISPs conveniently fail to recognize its past statements insisting upon reciprocal compensation for the very same traffic. In May of 1996, Bell Atlantic (now Verizon) acknowledged that CLECs must pay reciprocal compensation for these calls, and recognized that "the market" would prevent reciprocal compensation rates from being set too high, because CLECs would react by seeking out

⁷⁴ 11 F.C.C.R. at 16054-58 (¶¶ 1111-18).

⁷⁵ Verizon Comments at 5. 11-20.

ISP customers.⁷⁶ Verizon was correct in predicting the future, because the market has driven reciprocal compensation rates downward dramatically, reflecting a significant decrease over the initial rate demanded by the ILECs. It does not, however, justify the elimination of reciprocal compensation altogether. This is nothing more than a thinly veiled attempt at regulatory intervention into a contractual issue between carriers.

Even more preposterous is Verizon's attempt to portray all calls to ISPs as interstate in nature. The reality of the situation is a stark contrast to Verizon's recent claims. Verizon itself has recently recognized the very limited number of calls to ISPs that are interstate:

About 80 million Americans connect regularly to the Internet. Americans connect from homes (30%), their workplace, schools, or libraries and community centers. Over a phone line, home users can choose from a dozen or more Internet Service Providers (ISPs) reachable by a local call (for only 2% of all Americans it is a toll call).⁷⁷ (emphasis added).

Two percent! The picture Verizon paints in its Comments is nothing like reality.⁷⁸ Moreover, WorldCom has not requested reciprocal compensation for interstate calls - simply for the customers that make local calls to their ISPs, as required by statute. Surely, it is instructive that one of the most vociferous proponents for the elimination of reciprocal compensation admits that 98% of such traffic is local.

⁷⁶ Reply Comments of Bell Atlantic, CC Docket No. 96-98, May 30, 1996, at 20-21 (Bell Atlantic Reply Comments).

⁷⁷ Bell Atlantic, "Improving the Internet - A Critical Economic Initiative," dated June 19, 2000, at 2. Bell Atlantic also recognizes that ISPs are entitled to "non-discriminatory treatment" in the provision of local services to customers.

⁷⁸ As Verizon noted in its "Improving the Internet" white paper, distributed to state legislators and industry representatives, the overwhelming majority of calls to ISPs are local in nature, and not the converse, as Verizon would lead the Commission to conclude.

1. Reciprocal Compensation Does Not Have Adverse “Societal Consequences” And Verizon Has Failed To Provide Any New Justification For Finding That Calls To ISPs Are Interstate In Nature

Verizon attempts to argue that reciprocal compensation should be eliminated because it has “numerous societal consequences.”⁷⁹ In its comments and supporting declarations, Verizon claims that reciprocal compensation will discourage residential local competition and investment, discourage investment in new technology and services, lead to per-minute access charges, and, most interestingly, “encourages bad behavior.”⁸⁰ Nothing could be further from the truth.

a. There Is No Evidence That Reciprocal Compensation Discourages Residential Competition And Investment

Verizon has failed to provide any support to justify the elimination of reciprocal compensation because of any alleged effect on residential competition and investment. Its claims are completely unfounded. In his declaration, Taylor argues ILECs have not increased their rates to customers who place a high volume of long holding time calls because it benefits the customer.⁸¹ This is again a distortion of the reality of local competition and the nature of calls to ISPs. The fact that ILECs still can average the costs of high volume users over all its users simply demonstrates that the local market is not yet competitive. If the market were competitive, the ILEC would have to better match costs to the cost causer.

Indeed, if the ILEC were to increase its charges to the high volume callers, those callers would be motivated to act in one of four ways: (1) high volume callers might pay the higher price and end the cross subsidy that now flows from lower volume users to more intense users; (2) these

⁷⁹ Verizon Comments, at 11.

⁸⁰ See Verizon Comments.

⁸¹ Verizon Comments, Declaration of William E. Taylor at 11-12 (Taylor Declaration).

high volume users might reduce their usage and reduce the costs incurred by the ILECs; (3) the users might now represent a high enough revenue source for which new entrants (CLECs) might compete to win their business; and (4) the high volume user might switch to a new technology like cable modems or DSL, and cease using the switched network. Each of these outcomes - all in the public interest - is stimulated by continued reciprocal compensation payments for local calls destined for ISPs served by CLECs.⁸²

b. Verizon Has Failed To Offer Any Support For Its Claim That Reciprocal Compensation Discourages Investment in New Technologies and Services

Verizon's claim that reciprocal compensation discourages CLECs from investing in new technologies is pure speculation, and entirely unfounded. In his affidavit, Taylor complains that CLECs are investing in new specialized switches to reduce their costs. Clearly, reciprocal compensation has not discouraged this investment. This new switching equipment will allow local traffic to some customers to terminate more economically than the circuit switches employed today. However, while the costs of terminating calls for CLECs may be reduced, there is no evidence that those termination costs are (or will be) lower than the ILEC's termination costs. Moreover, this same technology is available to the ILECs.

Further, ILECs typically have far higher scale economies and can overcome theoretical cost disadvantages with significantly higher utilization. ILECs typically offer additional services (like caller ID and call waiting) to terminating customers, which have very low costs yet relatively high

⁸² Verizon's assertion that "per minute Internet charges are the last thing anyone wants to see" is fraudulent, considering the source. Verizon Comments at 3. Of course, Verizon and other ILECs have spent the last 13 years attempting to impose per-minute access charges on all ISPs and their customers. This latest attempt by Verizon to cast itself as a friend of the Internet and ISPs would be laughable if the issue were not so serious. See, e.g., Bruce Kushnick, "ISP Survey Rings Bells," Boardwatch Magazine, August, 2000, at 62.

prices. Thus, the ILEC can use its allegedly more expensive switch to provide more services with very high margins than the CLEC typically provides to its ISP customers.

Moreover, reciprocal compensation incents ILECs' deployment of advanced services. To the extent ILECs are unhappy about the payment of reciprocal compensation to CLECs, they have every venue to persuade their residential customers to switch from dial-up to DSL.

c. Verizon's Claim That Reciprocal Compensation Encourages Bad Behavior Is Both Legally Insufficient And Irrelevant

Verizon makes much of alleged instances of fraud in which carriers have unlawfully fabricated minutes-of-use to benefit from reciprocal compensation.⁸³ But such fraudulent schemes - to the extent they actually exist - are unlawful, and have nothing at all to do with whether ISP-bound traffic should be subject to reciprocal compensation. The ILECs argue vociferously that other kinds of local traffic must be subject to reciprocal compensation, although such frauds could be just as easily be accomplished by abusing reciprocal compensation - or any usage pricing scheme - wherever it is used. However, there are also extreme and egregious examples of fraudulent ILEC behavior in the area of access charges that could, using the ILECs' logic, serve as justification for the elimination of access charges altogether.⁸⁴ Thus, the ILECs arguments about the special risk of fraud that arises because ISP-bound traffic is subject to reciprocal compensation are entirely specious.

Moreover, state commissions have shown that they are more than adequately equipped to protect the interests of the public in the event that fraudulent conduct is discovered. The instances of fraudulent conduct are not legion, and the states have acted quickly in addressing these anomalies.

⁸³ See Verizon Comments at 16-20; see also SBC Comments at 43.

⁸⁴ See, e.g., In the Matter of Beehive Telephone Co., Inc., Beehive Telephone, Inc. Nevada, 13 F.C.C.R. 2736, ¶ 25 (1998) (FCC imposes a significantly lower local switching rate on Beehive Telephone Company, and orders a refund, because its filed rates were unjustified and unreasonable).

Accordingly, Verizon's claim that "bad behavior" is sufficient justification for the elimination of reciprocal compensation is ridiculous on its face.

B. Verizon Presents No New Technical Evidence To Support Its Claim That Calls To ISPs Are Interstate In Nature

Verizon attempts to cloud the very real distinction between ISPs and Interexchange carriers (IXCs) when it asserts that calls to ISPs are interstate in nature. The Commission has already ruled that ISPs are end users, not common carriers.⁸⁵ Calls to ISPs are just like calls to any other end-user⁸⁶ – if the calls originate and terminate in the same local calling area, they are local calls.

In Verizon's supporting affidavit, Jackson asserts that calls to an ISP are extended from an ISP to distant locations.⁸⁷ This is a mischaracterization of the functions performed by an ISP.⁸⁸ The ISP provides a wide variety of information and tools to its customer, including search engines that help identify where the desired information might reside. The ISP uses information gathered from its customer to determine what information the caller seeks. The ISP then provides that information if it is available locally. If the information is at a distant source, the ISP launches a request for the

⁸⁵ 47 C.F.R. § 64.702(a).

⁸⁶ These local calls may be delivered via intra-office trunks (when the calling party and ISP are served in the same central office); via end-office to end-office trunks when calling volumes are sufficient to justify direct trunk groups; or via tandem switched trunks. These same arrangements are used regardless of ownership of the various switches.

⁸⁷ Verizon Comments, Declaration of Charles L. Jackson at 6 (Jackson Declaration).

⁸⁸ Unlike carriers who collaborate to deliver a call from one party to another and who together provide a telecom service, ISPs provide an entirely different service – an information service. An information service is not a telecom service although the ISP provides its service using telecom services. Nonetheless, Jackson asserts incorrectly that the functions an ISP performs are just the same as the functions carriers perform. This is wrong because carriers do not perform the functions of ISPs and ISPs do not act as carriers. The concept is simple but seemingly beyond Jackson's comprehension – ISPs and IXCs are in different businesses.

information to that source. Finally, the local ISP gathers the data and presents it to the caller. The requests for information launched by the originating ISP and the responses of the distant ISPs are communications separate from each other, and separate from the original call. While an ISP may strive to return the requested information as quickly as possible, there frequently are significant time intervals between the request and the response. Further, both ISPs use their facilities to respond to other requests while each customer receives, reads, and decided what to request next. The ISP most often uses broadband private lines to connect itself to other ISPs and to the Internet backbone providers of its choice. The end user is not involved in this process, and is not likely to know the intermediate sources of the information he or she receives. These private lines when provided by common carriers may be subject to state or federal regulatory jurisdiction, but the information content is no more subject to regulatory jurisdiction than is the content of any other telephone call.

Taylor's declaration in support of Verizon's comments also fail to provide new support for the Commission's claim that calls to ISPs are interstate in nature. First, Taylor acknowledges that both ILECs and CLECs incur some cost when it terminates a call.⁸⁹ The originating ILEC avoids that cost when the CLEC terminates a call from the ILEC's customer. There is no economic loss to the ILEC because the ILEC does not incur the cost to terminate traffic destined for a CLEC customer. The CLEC incurs termination costs, however, and should be compensated for incurring that cost to complete a call for the ILEC.

⁸⁹ Parenthetically, if ILECs incur no cost for call termination, they should receive no terminating access charges. Either they have been lying about their costs for seventeen years, or there is a cost to terminate calls.

Jackson's declaration also attempts to suggest there is some difference between calls initiated using a telephone and those initiated using a computer and modem.⁹⁰ However, telephones and modems serve the same function – they convert signals from the end-user into a format suitable for transmission across ILEC facilities. In the case of dial access to an ISP, the call uses exactly the same LEC facilities as does a voice call. The modems at either end of an ISP call serve exactly the same functions as telephones for voice calls. Both modems and telephones are customer premises equipment (CPE) that interface with LEC networks in exactly the same way – most even use the same jacks and plugs to connect to the network; both operate within the same frequency band on local loops; both may be converted from analog to digital (or digital to analog) signals within the LEC network; and both transit LEC switch and interoffice facilities in the same manner. In neither case, however, is the content of the information (whether voice or data) altered by the LEC(s) in the transmission and switching processes. Thus, Verizon's attempt to draw a technical distinction between local calls originated by phone and those originated by computer is entirely without merit.⁹¹

The rule within the industry has been that any carrier that participates in the transmission or switching of a call should be compensated for performing those functions by the carrier whose customer pays for the call. The carrier serving the ISP is due compensation from the originating carrier, whose customer both originates and pays for the call. Jackson's references to Feature Group

⁹⁰ Jackson Declaration at 1-10.

⁹¹ Jackson also mistakenly attempts to analogize calls to ISPs as no different than calling card calls. The examples he offers of telephone calls that are established using calling cards or 800 calls, demonstrate processes that are utilized to gather billing information from the calling party. The FCC has long ago ruled that such transactions are incidental to provision of the telecom service – they are not information services because they do not act on the content of the message the end-user wishes to transmit. ISPs provide a separate service, and act on the content of the message, not just call setup. See 47 C.F.R. 64.702(a).

A (FG A) access or to calling through a PBX also are not dispositive of the local nature of calls to ISPs.⁹² In the PBX and FG A examples, industry practice has been that the incoming call terminates when it reaches the IXC purchasing FG A or the PBX (or calling card/800 platform). Billing begins for the call to the IXC or PBX when it answers, regardless of whether a second call is launched from those platforms. Accordingly, Jackson's analogy does not provide any additional support for the claim that calls to ISPs are anything but local in nature.

C. The Economic Arguments Offered By The ILECs Fail To Support A Claim That CLECs Are Not Entitled To Reciprocal Compensation Or That Calls To ISPs Are Interstate In Nature

Verizon spends considerable efforts in its Comments to argue that UNE pricing and reciprocal compensation pricing should not be linked.⁹³ This is plainly nothing more than an effort to have it both ways: enjoying the benefits of cost-based pricing (or no price at all) when it has to pay CLECs for using their networks in the context of reciprocal compensation, while at the same time enjoying the benefits of monopoly pricing when CLECs need to use its elements to provide local service. Unsurprisingly, the case Verizon makes for having its cake and eating it too does not withstand analysis.

1. Reciprocal Compensation Does Not Hamper CLEC Growth Or Limit Services Available To Consumers

Verizon argues that the existence of reciprocal compensation harms competition and customers, because it gives CLECs the incentive to serve only ISPs, to the exclusion of serving

⁹² In fact, this is precisely the way FG D access works as well – the LEC serving the originating caller begins charging access when the IXC accepts the call regardless of whether the IXC can complete the call.

⁹³ See also Verizon Comments at 11-13; BellSouth Comments at 14-15; SBC Comments at 55-56.

residential customers.⁹⁴ This is untrue, and entirely without support. First, it ignores the manner in which every network provider, including the ILECs, have historically built up their networks. The ILECs did not instantaneously build a network capable of serving every household in the country. Just as the CLECs are doing today, the ILECs initially offered service to a limited area, where they determined that it would be profitable for them to do so. They then added further areas and customers where they could make a profit, as their ability to generate or attract capital allowed.

The ILECs have not proven that serving ISPs is more profitable for CLECs than serving residential customers. They have only claimed that the combination of reciprocal compensation and CLEC charges to ISPs may exceed the cost of serving the ISP. If this is true, it is because either the rates charged to the ISP or the reciprocal compensation rate has not been set at an efficient, *i.e.*, cost-based, level. The fix for this problem is not to eliminate reciprocal compensation, but to ensure that it is based on the costs of providing the connection.

In addition, CLECs will serve residential customers as long as ILECs allow competition in the local market that allows CLECs to profit, as ILECs seldom have done. The rates charged to end users will have to be based on cost of providing them service. In Verizon's example purporting to show why CLECs will not serve residential customers, the ILEC's rate for serving the customer is assumed to be below the cost (to the ILEC) of serving that customer.⁹⁵ The CLEC in Verizon's example cannot then make a profit serving that customer, even though it is assumed to have a lower cost of serving that customer. However, Verizon's example has assumed an unprofitable situation - Verizon posits a market price for residential service of \$15, \$9 in reciprocal compensation for this customer's

⁹⁴ See, e.g., Verizon Comments at 12-14.

⁹⁵ See *id.* at 13.

calls to the ISP, and \$13 in "real costs" for serving the residential customer, by which Verizon appears to mean only the costs of the loop to the customers premises.⁹⁶ That a CLEC will never serve this customer is due solely to the assumption that the rate does not cover the cost. The economic cost of serving the customer is the costs of providing the loop, switching and transport on the originating side, plus the costs of providing transport and termination on the terminating side of the customer's calls, whether the transport and termination is paid to another carrier or is part of the CLECs' own network. A CLECs' economic cost of serving the customer in Verizon's example is \$13 plus \$9 or \$22.⁹⁷ Since the retail price for serving that customer is only \$15, the CLEC is not the most efficient provider of service to this customer, and thus should not be providing the service.⁹⁸

2. Verizon's Claims That The Costs of Internet Bound Traffic Are Inevitably Lower Than Voice Traffic Are Incorrect

Verizon claims that, if reciprocal compensation is required, the forward-looking costs of an efficient supplier of Internet-bound traffic are lower than the costs of average voice traffic.⁹⁹ This is due to a number of factors, according to Verizon, including greater call duration, dedicated switch capacity, lack of originating switch features for the use of ISPs, and the off-peak nature of Internet calls. These claims are either incorrect or overstated, and even if true ignore other costs differences that may tend to increase the costs of Internet-bound traffic.

⁹⁶ Verizon Comments at 13.

⁹⁷ Id.

⁹⁸ Of course, if the market price is below the ILEC's cost of providing service, this introduces a distortion in the market. However, the problem in that case is the below-cost price, not the existence of reciprocal compensation.

⁹⁹ See Taylor Declaration at 13.

First, as Verizon acknowledges, there are actual economic costs involved in terminating traffic to an ISP. If the ILEC provided service to the ISP itself it would incur its own network costs for terminating that traffic; that a CLEC provides the service to the ISP saves the ILEC from incurring the cost itself, but does not make the cost disappear.¹⁰⁰ Thus, the CLEC providing service to an ISP has costs for which it must be compensated.

Second, Verizon's claim that the allegedly longer duration of Internet-bound calls implies that the reciprocal compensation rate should be lower ignores the fact that it is the duration, and not the destination, of the call that is driving the ILECs' complaints. If the cost of a switch has both a traffic sensitive and a non-traffic sensitive component, and if switch charges are set based on the average length of call, then calls that are longer than the average will be paying less than their total cost. However, it is not the fact that the calls are to an ISP, but that they are of above average length that leads to this result.¹⁰¹ Voice calls to a customer service line are likely to be of longer than average duration as well, but they too will be charge based on average holding times. It is primarily a rate structure, rather than a rate level, problem that leads to any imbalance. The solution is not to eliminate charges for termination to ISPs, but to allow the market to enable participants to establish

¹⁰⁰ Because the ILEC avoids the network costs of providing service to the ISP, its total cost of the connection between a dial-up customer and the ISP may be no different (and may be even lower, if the CLEC is more efficient than the ILEC) if a CLEC serves the ISP. Thus, the ILECs' claims that their payment of reciprocal compensation to CLECs will inevitably require higher charges to their own end users is incorrect.

¹⁰¹ Verizon claims that reciprocal compensation gives "artificial" economic incentive to ISPs to encourage their customers to stay on-line longer. The fact that a customer who remained on-line "full time" would generate a reciprocal compensation charge of \$216, while mathematically possible, is highly unlikely.

a rate structure that reflects the manner in which costs are incurred and that is appropriate for a particular business relationship.¹⁰²

Finally, Verizon's claim that Internet traffic is typically off-peak, and therefore lower in cost, is also incorrect. There is no support to Verizon's contention that Internet traffic is primarily in the ILEC's off-peak period. The CLEC serving the ISP may have a different peak period than the ILEC, and the ISP may fall solidly within that time period. Thus, ISP traffic will not necessarily be off-peak. Accordingly, this too fails as a ground for the Commission to justify any claim that CLECs are generally not entitled to reciprocal compensation for local calls to ISPs.

In summary, it is undeniable that there are costs associated with the transport and termination of traffic to ISPs. As required by statute, local carriers must compensate each other for the transport and termination of such traffic.

3. SBC's Assertion That Predominantly Inbound Traffic Is Non-Compensible Defies The 1996 Act, FCC Policy, And Common Sense

SBC asserts that reciprocal compensation does not apply to ISP-bound traffic because CLECs fully recover the costs of delivering calls to ISPs from the ISPs themselves; this is true, SBC maintains, because the traffic is inherently one-way.¹⁰³ This argument is without merit for a number of reasons.

¹⁰² That cost causation should determine the rate structure applies as well to Verizon's claim that there is dedicated switch capacity used in serving some customers, such as ISPs, that is not used in providing service to other customers, such as typical voice customers. If this is true, that fact can be recognized in the rate structure for switching, with a charge for dedicated capacity, in all cases where dedicated capacity is used. Similarly, if originating and terminating switching employ different features with different costs, the rates for terminating and originating switching should reflect that difference. However, this difference, if it exists, does not justify the elimination of terminating switching charges.

¹⁰³ See SBC Comments at 28-39.

As a threshold matter, the Commission itself already has recognized that LECs incur costs, when they deliver calls to ISPs, and that those costs require some form of inter-carrier compensation. The very purpose of the NPRM the Commission had issued in connection with the now-vacated Declaratory Ruling was to address the need for such inter-carrier compensation to address those costs and to create an appropriate regime (consistent with the Commission's then-conclusion that ISP-bound traffic was not subject to section 251(b)(5)). As the Commission stated: "We acknowledge that, no matter what the payment arrangement, LECs incur a cost when delivering traffic to an ISP that originates on another LEC's network."¹⁰⁴ Whether these costs are addressed through "reciprocal compensation" – as the statute recognizes – or some other form of inter-carrier compensation, the Commission recognized that LECs incur costs in delivering calls to ISPs *above and beyond* what ISPs pay (like all phone customers) for their connections to the network. The federal courts have similarly recognized the existence of these costs.¹⁰⁵

SBC further claims that "[t]he fact that ISP traffic is one-way traffic is, in itself, dispositive of whether reciprocal compensation is warranted."¹⁰⁶ But the Ninth Circuit in Cook Telecom squarely rejected this argument, holding that paging providers must receive reciprocal compensation despite the one-way nature of paging traffic.¹⁰⁷ As WorldCom has demonstrated throughout its comments, the Commission must focus its analysis on the Act's requirements and dispositive judicial decisions construing those requirements. Section 252(d)(2)(A)(i) *requires* that reciprocal

¹⁰⁴ Declaratory Ruling, 14 F.C.C.R. at 3707 (¶ 29).

¹⁰⁵ See id. at 3707-14 (¶¶ 28-52).

¹⁰⁶ SBC Comments at 29.

¹⁰⁷ Pacific Bell v. Cook Telecom, Inc., 197 F.3d 1236, 1244-46 (9th Cir. 1999).

compensation arrangements "provide for the mutual and reciprocal recovery by each carrier of the 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."¹⁰⁸ There is no exception for specific types of customers, or specific forms of traffic. The statutory term "reciprocal" does not mean, as SBC claims, that no obligation to pay arises absent an equal balance of traffic. Rather, as the Ninth Circuit held in Cook Telecom, "reciprocal" means that "when traffic originates with one carrier and terminates with another, the terminating carrier *must receive* reciprocal compensation."¹⁰⁹ As the Ninth Circuit further explained, "arrangements under which a carrier receives no compensation for the traffic that it terminates [such as SBC suggests should be the rule here] are not 'reciprocal.'"¹¹⁰

Even if SBC's proposal was legal, which it certainly is not, it ignores that the Commission's rules dictate that ISPs purchase their services out of regular intrastate tariffs, like any other end user. At the same time, the end-user that calls an ISP is calling over a line also purchased out of a regular intrastate tariff. Those tariffed rates are designed to compensate the caller's carrier for originating calls, and the called party's carrier for terminating calls. SBC offers no discount to its retail customers when they make calls to ISPs. As such, its proposal would have the effect of leaving it with a windfall to the extent its customers call ISPs. By claiming that CLECs ought to recover their termination costs solely from the ISPs, SBC ignores that it does not hesitate to charge its own originating customers when they call ISPs who use SBC's network. If SBC's comments had merit, it would have recovered fully the costs of delivering calls to ISPs from the ISPs themselves, and

¹⁰⁸ 47 U.S.C. § 252(d)(2)(A)(i).

¹⁰⁹ Cook Telecom, 197 F.3d at 1246 (emphasis added).

¹¹⁰ Id.

would have no basis to charge its originating customers the full standard local rate for making calls to ISPs.

All that aside, if the Commission were to adopt SBC's latest suggestion and require CLECs to recover termination costs from the ISPs themselves, the end result would be that ISPs would pay higher rates for their connections to the local network – and ultimately pass those costs on to consumers.¹¹¹ Even if it could, the Commission should not adopt a policy that drives up the cost of using the Internet. This is especially true when the increased charges would be necessary to make up for a shortfall created by the ILECs, which in turn would be doubly compensated for use of their local loops. Indeed, in the end, SBC's argument is a thinly-veiled reiteration of the consistently-rejected ILEC claim that ISPs ought to pay carrier access charges.

¹¹¹ As SBC has argued previously, “[T]he Bill and Keep approach will not result in fair mutual compensation and should not be adopted by the Commission.” Prefiled Direct Testimony of Jon Loehman, Public Utility Commission of Texas, Docket Nos. 16189, et al, dated September 6, 1996, at 48.

VII. CONCLUSION

In light of the foregoing, WorldCom, Inc. respectfully requests that the Commission declare that calls to ISPs constitute local, telephone exchange service under the requisite provisions of the 1996 Act, and the Commission's prior and existing rules, and that reciprocal compensation under § 251(b)(5) is mandated for calls to ISPs. Moreover, the Commission should let stand its prior determination that state commissions have authority to interpret and enforce the terms of interconnection agreements to require reciprocal compensation for ISP-bound traffic.

Respectfully submitted,

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I, Denise E. Akoto, hereby certify that I have this 4th day of August, 2000, sent a copy of the foregoing " Reply Comments of WorldCom, Inc. (Corrected) " by hand delivery, to the following:

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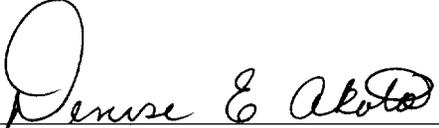
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