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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

October 5, 2000

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: **Ex Parte Presentation**
CC Docket No. 96-98 Implementation of the Local Competition Provisions in the Telecommunications Act of 1996
CC Docket No. 99-68 Inter-Carrier Compensation for ISP-Bound Traffic

Dear Ms. Salas:

On October 5, 2000, David Hostetter and I met with Anna Gomez of Chairman Kennard's Office to discuss the above referenced proceeding. The attached served as the basis of the discussion.

Respectfully Submitted,

G. Phillips
AK

Attachment

cc: A. Gomez

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List A B C D E

Local Competition Order Established Reciprocal Compensation Principles

Commission relied upon a call compensation analysis in its *Local Competition Order* to determine whether reciprocal compensation applied to local calls or to long distance calls.

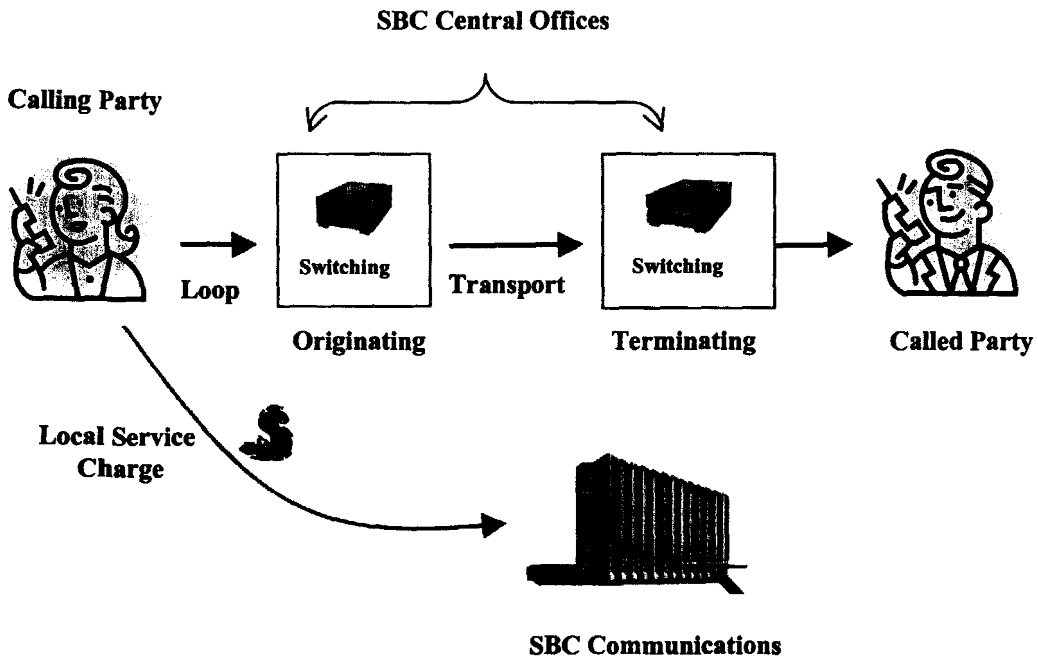
The compensation mechanisms for local calls and long distance calls rely upon a sent paid model. This means the calling party has paid its serving carrier for call completion (originating and terminating functions). The called party typically does not pay to receive calls.

1. In the case of local traffic, the calling party pays its serving LEC for call completion. (Diagram 1) When two LECs are involved in completing a local call, the LEC that serves the calling party pays the other LEC reciprocal compensation for the use of its network in call completion. (Diagram 2)

2. In the case of interexchange traffic, the calling party pays its serving long distance carrier for call completion. The long distance carrier pays switched access charges to the originating and terminating LECs for the use of their networks in call completion. (Diagram 3)

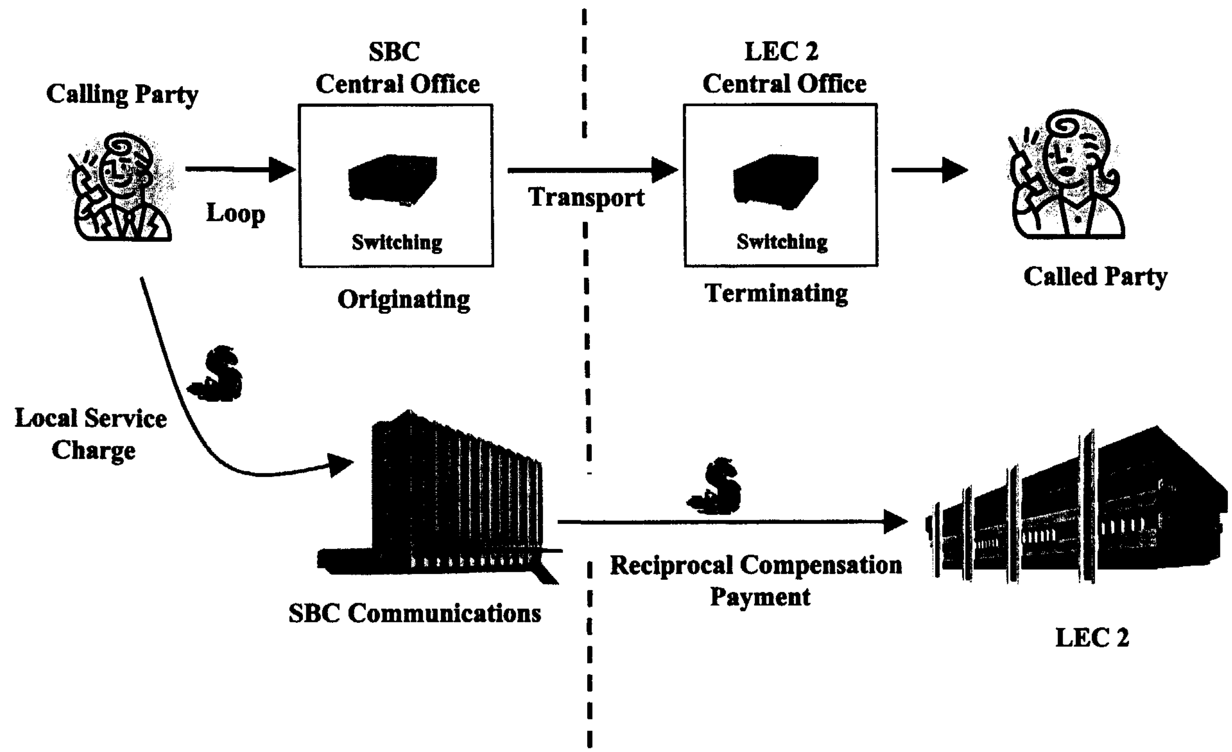
In both cases, whenever two or more carriers are involved in call completion, ***the carrier that is paid for call completion is responsible for compensating the other involved carriers***. For a local call, the LEC serving the calling party pays reciprocal compensation to the terminating LEC. For an interexchange call, the long distance carrier serving the calling party pays switched access charges to the LECs involved in call completion.

Diagram 1 - Local Call Compensation Model



1. Calling party pays SBC a local service charge for call completion.
2. Call completion includes originating functions and terminating functions.
3. Called party typically does not pay to receive local calls.

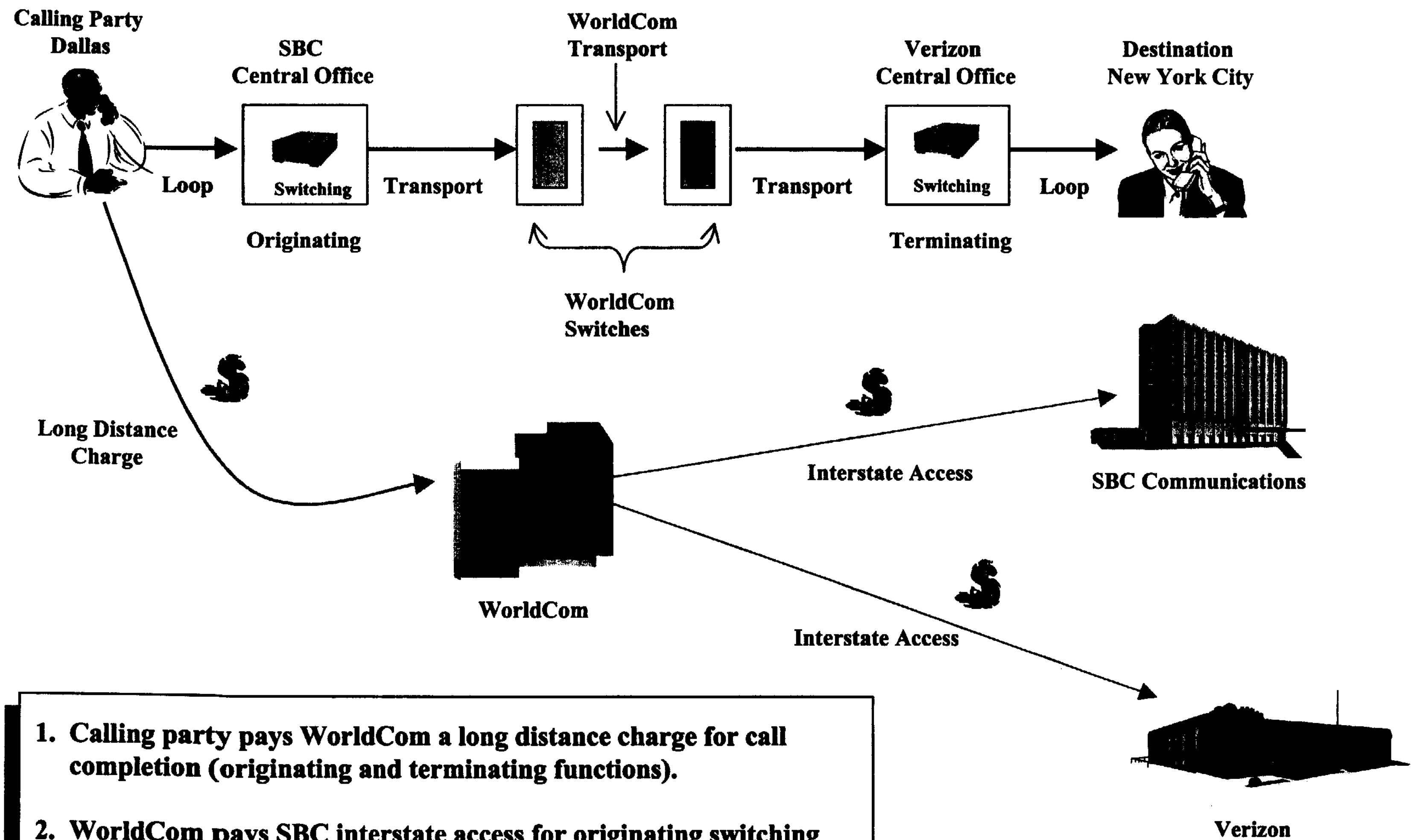
Diagram 2 - Local Call Compensation Model
Multiple Carriers



1. Calling party pays SBC a local service charge for call completion (originating and terminating functions).

2. SBC pays LEC 2 reciprocal compensation for the terminating functions it performs.

Diagram 3 - Interexchange Call Compensation Model



1. Calling party pays WorldCom a long distance charge for call completion (originating and terminating functions).

2. WorldCom pays SBC interstate access for originating switching and transport functions and pays Verizon interstate access for terminating switching and transport functions.

Compensation for Internet-Bound Traffic Follows the Interexchange Model

The ISP's subscriber pays the ISP for Internet access service. The ISP pays for the interstate access needed for the delivery of Internet-bound traffic. The calling party (ISP's subscriber) does not pay its serving LEC for Internet-bound call completion.

The access charge regime permits an ISP to pay for interstate access through ESP exemption charges which include intrastate business line charges, the subscriber line charge and the special access surcharge. (Diagram 4)

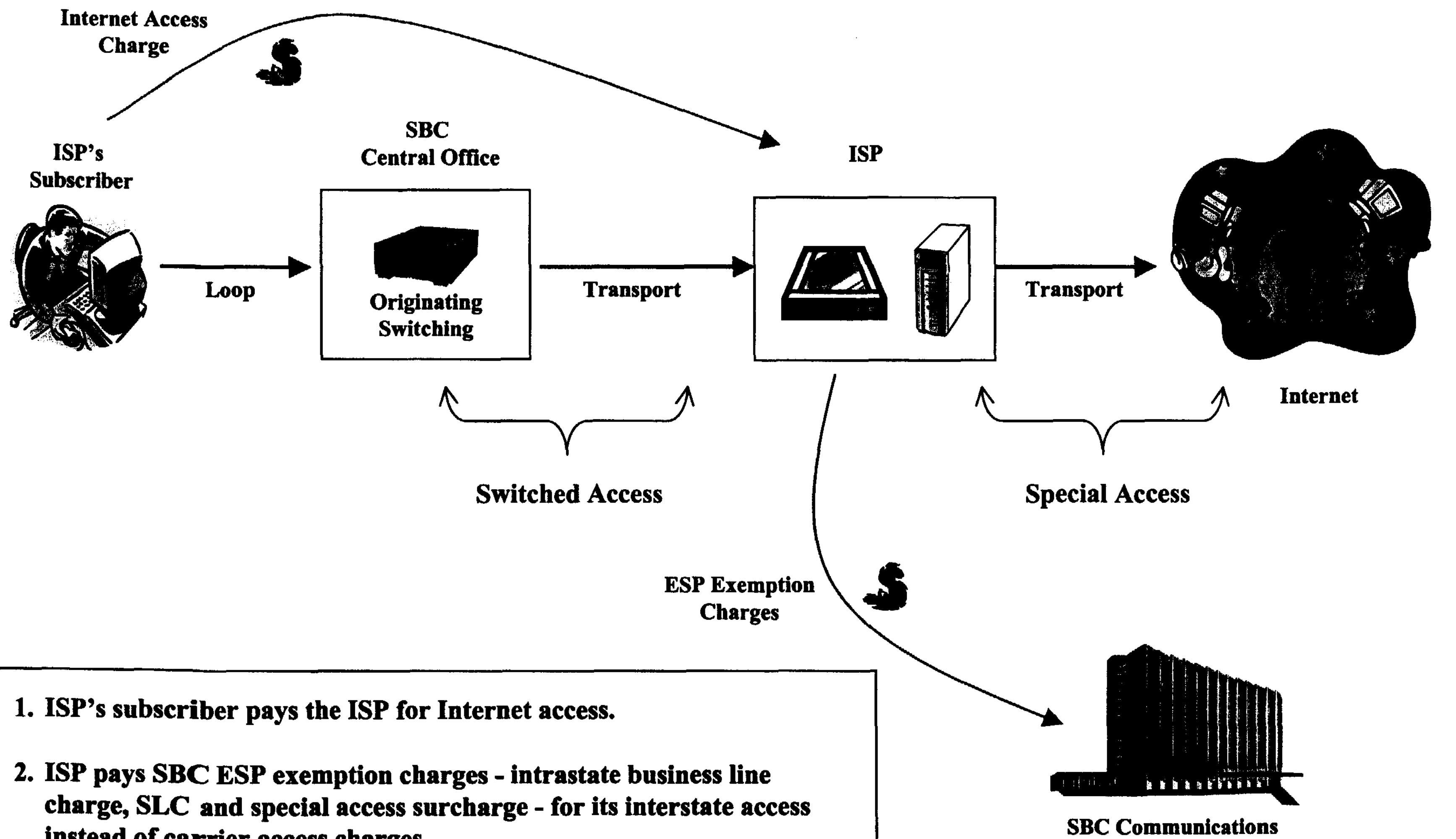
ESP exemption charges are substitute charges for carrier access switching and transport charges. ***Carrier access charges and ESP exemption charges are simply pricing mechanisms that pay for the same network components.***

1. The connection between the ISP's premises and the end office switch is paid for through the SLC and the local business line charge. Carriers pay switched transport charges.

2. The FCC has stated "all switching charges will continue to be subsumed under the local business rate" paid by ISPs. Carriers pay end office switching charges.

3. Special access surcharge pays for the interstate use of common lines, end office facilities and transport facilities.

Diagram 4 - ESP Exemption Compensation Model



1. ISP's subscriber pays the ISP for Internet access.

2. ISP pays SBC ESP exemption charges - intrastate business line charge, SLC and special access surcharge - for its interstate access instead of carrier access charges.

3. ISP has paid for interstate access - transport and switching - used in the delivery of Internet-bound traffic.

The ESP Exemption Was Never Modified to Accommodate Multiple Carriers Providing Interstate Access to an ISP

When two or more carriers jointly provide an ISP with interstate access, the ISP pays only its serving LEC for the interstate access it receives. (Diagram 5)

When a CLEC wins an ISP as a customer, the following three things occur under the current rules:

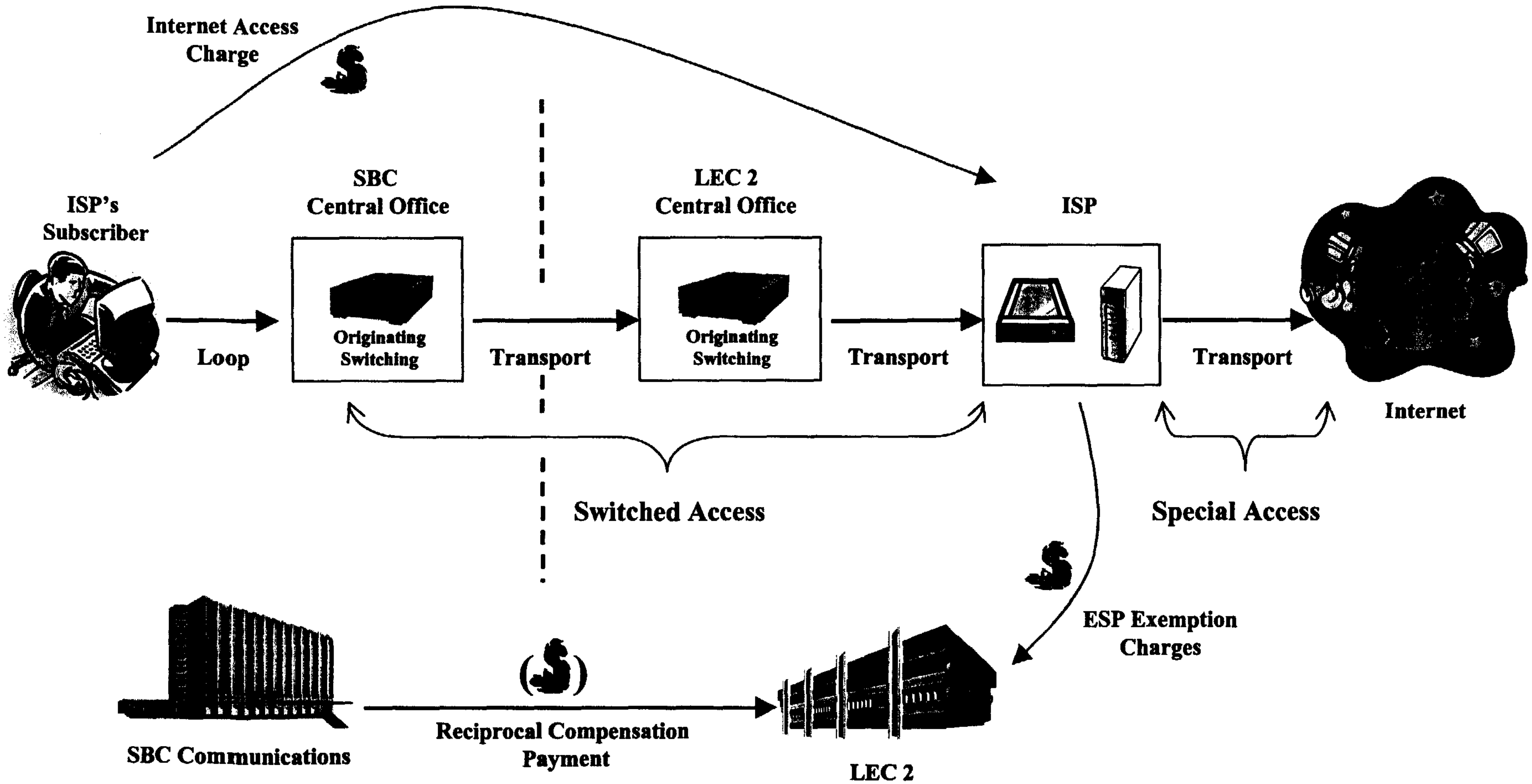
1. The ISP no longer pays SBC the ESP exemption charges even though SBC's switching and transport are used by the ISP's subscriber to originate Internet-bound calls.

2. The ISP pays the CLEC for the interstate access necessary to receive Internet-bound calls from its subscribers, but the CLEC does not compensate SBC for the Internet-bound calls originated by the ISP's subscriber.

3. SBC is required to pay reciprocal compensation to the CLEC even though SBC has not been paid by the ISP's subscriber for Internet-bound call completion.

The charges ISPs pay to CLECs for interstate access recover the same transport and switching functions for which CLECs seek reciprocal compensation. ***Reciprocal compensation payments for Internet-bound traffic represent double recovery.***

Diagram 5 - ESP Exemption Compensation Model
Multiple Carriers



1. ISP pays only LEC 2 for the interstate access it receives. ISP no longer pays ESP exemption charges to SBC, nor does the LEC 2 compensate SBC for Internet-bound calls originated by the ISP's subscriber.

2. Charges paid to LEC 2 for interstate access recover the transport and switching functions used to deliver Internet-bound traffic. SBC should not be required to pay LEC 2 reciprocal compensation.

Reciprocal Compensation Should Not Apply to Internet-Bound Traffic

The Commission should conduct the same compensation analysis for Internet-bound calls that it conducted on local calls and long distance calls in the *Local Competition Order*.

The Commission should conclude that the ISP's subscriber has not paid its serving LEC for call completion of Internet-bound traffic.

The Commission should conclude that the ISP pays its serving carrier for the delivery of Internet-bound traffic.

The Commission should conclude that reciprocal compensation should not be paid for Internet-bound traffic.

The Commission should conclude that a bill and keep compensation arrangement is appropriate when two or more carriers jointly provide an ISP with interstate access.