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March 1, 2001

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Ex Parte: Intercarrier Compensation for ISP-Bound Traffic – CC Docket No. 99-68

Dear Ms. Salas,

On Thursday, March 1, 2001, Susanne Guyer, Don Evans, and Ed Shakin, representing Verizon, met with Deena Shetler of Commissioner Tristani's office to discuss inter-carrier compensation for ISP-bound traffic. The attached outline was used in the discussions.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceeding indicated above.

If you have any questions regarding this matter, please call me at (202) 463-5293.

Sincerely,

W. Scott Randolph

W. Scott Randolph

Attachment

cc: Deena Shetler

- **Any transition plan adopted by the FCC should significantly reduce current payment levels on Internet traffic in order to wean carriers from their dependency on uneconomic arbitrage.**

    - Any transitional rate should decrease over the life of the transition plan to avoid encouraging carriers to continue gaming the system and to break their dependency on a perceived entitlement.

    - Any declining transitional rate should take into account the unique nature of Internet traffic.

        - Through their recent contracts, carriers have acknowledged that their costs for Internet traffic are negligible. The costs are undoubtedly lower than their contracted-for rate of .07 cents; other estimates peg their costs at less than .05 cents.

        - Carriers have a second source of revenues for this traffic from the services they sell to their own customers.

- **Any transition plan should be structured to prevent carriers from perpetuating the uneconomic arbitrage through gaming.**

    - Any transitional rate should apply only to traffic imbalances above some fixed threshold on a carrier by carrier basis in a given state, and should apply only up to a fixed cap.

        - The Commission should presume that traffic above certain imbalance levels is internet-bound. CLECs would still be free to offer proof to state regulators that traffic above the threshold is not internet-bound. Likewise, ILECs would be free to offer proof that traffic below the threshold is internet-bound.

    - Any obligation imposed on the ILEC to accept reduced reciprocal compensation rates should apply only to traffic imbalances that are the same as those for other carriers.

    - Carriers should not be permitted to game the system by shifting traffic between affiliates or by creating "new" carriers in order to inflate the payments they receive on Internet traffic.

    - Carriers should not be permitted to avoid the transition rules by adopting other carriers' contracts that have no change of law provision.

        - The Commission should make clear that, because Internet traffic is not subject to the reciprocal compensation requirements of section 251 and 252, the requirements of section 252(i) do not apply to provisions dealing with such traffic.

- **Any transition plan should not upset orders by state commissions that already have gone further than the transition plan in moving toward bill and keep.**

  - Some states have already moved to fix the reciprocal compensation problem, for example by adopting bill and keep or by adopting lower rates or more aggressive limitations than those being considered by the Commission.

  - To avoid undercutting these state decisions, and thereby require an increase in reciprocal compensation payments from the ILECs, the Commission should provide that its transition rules apply only in those states that have not already gone further to move toward bill and keep.

  - The Commission should also reaffirm its prior conclusion (relied on by many of these states) that Internet-bound traffic is interstate and interexchange.