Issue No.	Statement of Issue	Petitioners' Proposed Contract Language	Petitioners' Rationale	Verizon's Proposed Contract Language	Verizon Rationale
			the context of an arbitration or generic proceeding, it has approved the Verizon FX service offering which is found in the Verizon Virginia, Inc. Local Exchange Services Tariff, S.C.C. VA. No. 202, at Section 4.a. Here Verizon defines its own FX service as "exchange service furnished from one exchange to a location in another exchange..." Verizon's FX service is not found in Verizon's access or long distance tariffs. **Accordingly, with regard to FX service in Virginia, the Commission has approved Verizon's offering and provisioning of that service as local service. (Grieco/Ball Rebuttal, 8/17, at 27).** **Contrary to Verizon's statement that "To date, no state has agreed with the CLEC's position," many states have done just that.** **As previously noted, the California PUC, in <u>Order Instituting Rulemaking on the Commission's Own Motion Into Competition for Local Exchange Service</u>, Rulemaking 95-04-043 (Decision 99-09-029, September 2, 1999), has addressed this issue and found in favor of the CLEC's position as follows: Carriers should not be prohibited from designating different rating and routing points for call destinations since such a prohibition could undermine the incentives for carriers to develop innovative service alternatives in the most economically and technologically efficient manner.** *** * * *** **As discussed below, we conclude that the rating of calls as toll or local should be based upon the designated rate center of the NXX prefix of the calling and called parties' numbers. Even if the called party may be physically located in a different exchange from where the call is rated, the relevant**		

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			rating point is the rate center of the NXX prefix." *** * * *** **For purposes of considering the issue of call rating, it is not necessary to deliberate at length over whether Pac-West's service conforms to some particular definition of 'foreign exchange service' based upon specific provisioning arrangements. Although the Pac West form of service differs from certain other forms of foreign exchange service in how it is provisioned, the ultimate end-user expectation remains the same, namely to achieve a local presence within an exchange other than where the customer resides. From the end-use customer's perspective, Pac-West's service is a competitive alternative to other forms of foreign exchange service."** **The Kentucky Commission, in Case No. 2000-404, dated March 14, 2001, an arbitration decision regarding BellSouth and Level 3, has similarly found in favor of the CLEC as follows:** **"Both utilities offer a local telephone number to a person residing outside the local calling area. BellSouth's service is called foreign exchange ("FX") service and Level 3's service is called virtual NXX service. The traffic in question is dialed as a local call by the calling party. BellSouth agrees that it rates such foreign exchange traffic as local traffic for retail purposes. These calls are billed to customers as local traffic for retail purposes. These calls are billed to customers as local traffic. If they were treated differently here, BellSouth would be required to track all phone numbers that are foreign exchange or virtual NXX type service and remove these from what would otherwise be considered local calls for which reciprocal compensation is due. This practice would be unreasonable given the historical treatment**		

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			of foreign exchange traffic as local traffic. **Accordingly, the Commission finds that foreign exchange and virtual NXX services should be considered local traffic when the customer is physically located within the same LATA as the calling area with which the telephone number is associated."** **The Michigan Commission, in its response to Ameritech Michigan's request to, among other things, exempt foreign exchange service from payment of reciprocal compensation (Case No. U-12696, January 23, 2001), also found in favor of the CLEC position as follows:** **"The Commission rejects the proposal to reclassify FX calls as non-local for reciprocal compensation purposes. Ameritech Michigan has not explained whether, or how, the means of routing a call placed by one LEC's customer to another LEC's point of interconnection affects the costs that the second LEC necessarily incurs to terminate the call. As a matter of historical convention, the routing of that call, i.e., whether or not it crosses exchange boundaries, has not been equated with its rating, i.e., whether local or toll. Moreover, the discretion that CLECs exercise in designing their local calling areas is a competitive innovation that enables them to provide valuable alternatives to an ILEC's traditional service. The Commission finds no reason to change these standards, particularly if the end result would be an unnecessary restriction on the services that customers want and need. Moreover, the application does not address how the carriers would make the necessary changes to their billing systems or whether the changes would be technically feasible at an**		

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			affordable cost for both Ameritech Michigan and the CLECs." **While the Verizon witness cites a North Carolina decision in a BellSouth / AT&T arbitration, that decision appears to deal with transport of traffic to the POI generally, rather than in the context of FX traffic specifically. Verizon fails to mention the North Carolina decision in the BellSouth / MCImetro arbitration (Docket No. P-474, Sub 10) which addresses the provision of FX service. Again, finding in favor of the MCImetro position, the Commission stated:** **"The Commission notes that NPA/NXX codes were developed to rate calls and, therefore, MCIm's assertion that whether a call is local or not depends on the NPA/NXX dialed, <u>not</u> the physical location of the customer, is reasonable and appropriate."** **In sum, there are many state commissions that have supported the position being advanced by WorldCom in this proceeding to the benefit of the competitive markets in their respective states. The Commission's decision in this proceeding should convey those same benefits to the state of Virginia. (Grieco/Ball Rebuttal, 8/17, at 33-36).** **Reciprocal Compensation should apply to foreign exchange traffic. As discussed above, this traffic is appropriately classified as local. Therefore, reciprocal compensation should be applicable. This is consistent with the purpose of reciprocal compensation, to compensate the terminating carrier for the costs associated with the termination of local traffic that originates on another carrier's network. (Grieco/Ball Direct, 7/31, at 56-57).**		

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			The Michigan Public Service Commission in its Order on the application of reciprocal compensation to foreign exchange service made this finding: **"The Commission rejects the proposal to reclassify FX calls as non-local for reciprocal compensation purposes. Ameritech Michigan has not explained whether, or how, the means of routing a call placed by one LEC's customer to another LEC's point of interconnection affects the costs that the second LEC necessarily incurs to terminate the call."** ***In re: Application of Ameritech Michigan to revise its reciprocal compensation rates and rate structure and to exempt foreign exchange service from payment of reciprocal compensation*, Case No. U-12696, Opinion and Order at 10 (Jan. 23, 2001).** **Just as the method for determining the jurisdiction of FX traffic must be applied equally and consistently between ILECs and CLECs, so too must the obligation remain with the originating carrier to compensate the terminating Carrier for the termination of FX traffic.(Id. At 57).** **It is also important to note that a CLEC's offering of FX service is consistent with the Commission's rules regarding points of interconnection and an originating carrier's responsibility for transport of its traffic. As discussed in Issue I-1, the FCC has made clear that a CLEC is allowed to select the point of interconnection and may establish one or more such POIs in a single LATA. Additionally, each carrier is responsible for delivering local traffic to the designated POI(s). A CLEC's offering of FX service does not place any additional burdens on the ILEC. The costs to the ILEC for transporting traffic**		

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			to the POI are the same whether or not the call is an FX call. The CLEC's FX offerings do not require the ILEC to perform any additional functions or meet any additional obligations other than those called for in the FCC's rules with regard to POI and transport requirements. (Id. At 57). **Contrary to Verizon's assertions, a CLECs offering of FX service does not force Verizon to bear the costs of transporting the traffic to the CLEC switches.** **Verizon's responsibility is to deliver traffic originating on its network to the point of interconnection (POI) with the CLEC network, not with the CLEC's switch. A CLEC must establish at least one POI per LATA, regardless of where the CLEC's switch is located. With FX service, Verizon's responsibility is no different, and does not burden Verizon with any additional costs than are involved with the delivery of any other local traffic to the POI(s). Verizon also wrongly portrays its network as the only one involved in providing transport for FX traffic. (Grieco/Ball Rebuttal, 8/17, at 29).** **The WorldCom local network in Virginia is served by two switches. One is located in Washington, D.C. and the other in Reston, VA. WorldCom has established two POIs in Virginia to which Verizon delivers traffic destined for the WorldCom local switches. One POI is located in Arlington, Virginia, and the other in Winchester, Virginia. The switch in Washington, D.C. is interconnected with both of these POIs, and the Reston switch is interconnected with the Arlington POI.(Grieco/Ball Rebuttal, 8/17, at 29-30).**		

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			Take as an example, a customer located in the same rate center as the Washington, D.C. switch that wants a foreign presence in the Leesburg rate center. In this instance WorldCom would provide the customer a telephone number from an NPA-NXX that is assigned to the Leesburg rate center. Once established, a call placed by a Verizon customer located in the Leesburg rate center to the FX telephone number would be routed by Verizon to the Winchester POI. The distance, based on the aforementioned V & H coordinates, from the Leesburg rate center to the Winchester POI would be approximately 36 miles. Once Verizon delivers the call to the Winchester POI, its network responsibility is over and the call is then routed onto the WorldCom transport network. The distance from the Winchester POI to the Washington, D.C. switch is approximately 69 miles. WorldCom is transporting this call almost twice the distance as Verizon. It should also be noted that if this were not an FX call and the called party was actually located in the Leesburg rate center, Verizon would deliver that call to the same Winchester POI and incur the same transport costs. Verizon has not supported its assertion that it is incurring excessive transport costs and, as this example makes clear, there is no such "additional" burden. (Grieco/Ball Rebuttal, 8/17, at 30). **Based on July 2001 traffic and the current points of interconnection that have been established between the Verizon and WorldCom networks for exchange of Virginia local traffic, on average Verizon is transporting traffic approximately 10 miles. This was calculated based on the V&H coordinates associated with each of the rate centers from which Verizon customers originate local calls to WorldCom**		

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			customers and the V&H coordinates of the two points of interconnection in Virginia. (Grieco/Ball Rebuttal, 8/17, at 30-31). **Because WorldCom's proposal is to maintain the current method of determining jurisdiction by comparison of the NPA-NXXs associated with the call, the average transport distance being experienced by Verizon will not change. Verizon's unsubstantiated claim of a tremendous "transport burden" entirely lacks merit. (Grieco/Ball Rebuttal, 8/17, at 31).** **FX calls should also be subject to reciprocal compensation because they are not subject to access charges. As the Commission's recent ISP Order made clear, Section 251(b)(5) literally requires reciprocal compensation for the transport and termination of all telecommunications, not just local traffic. See 47 U.S.C. § 251(b)(5). In the ISP Remand Order, the Commission ruled that 251(g) excluded certain traffic from the reach of (b)(5). FX traffic was not excluded, and so plainly is covered by reciprocal compensation. (Grieco/Ball Direct, 7/31, at 58).** **The commission has identified the differences in circumstances when reciprocal compensation applies and when access charges would apply.** **At paragraph 1034 of the Local Competition Order the Commission stated as follows:** **"Access charges were developed to address a situation in which three carriers – typically, the originating LEC, the IXC, and the terminating LEC – collaborate to complete a long-distance call. As a**		

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			general matter, in the access charge regime, the long-distance caller pays long-distance charges to the IXC, and the IXC must pay both LECs for originating and terminating access service. By contrast, reciprocal compensation for transport and termination of calls is intended for a situation in which two carriers collaborate to complete a local call. In this case, the local caller pays charges to the originating carrier, and the originating carrier must compensate the terminating carrier for completing the call." **The FX service of such concern to Verizon is clearly a circumstance where two carriers are collaborating to complete a local call and not where three carriers, two LECs and an IXC, are collaborating to complete a long-distance call. As Verizon describes, FX traffic involves calls originating on the local network of one LEC and terminating on the local network of another LEC. There is no IXC involved. (Grieco/Ball Rebuttal, 8/17, at 25).** **The definitions of local, or exchange service, and toll service found in Title 47 of USC provide further support that FX traffic is not toll traffic.** **47 U.S.C. § 153 (47) defines telephone exchange services as follows:** **The term "telephone exchange service" means (A) service within a telephone exchange, or within a connected system of telephone exchanges within the same exchange area operated to furnish to subscribers intercommunicating service of the character ordinarily furnished by a single exchange, and which is covered by the exchange service charge, or (B) comparable service provided through a system of switches, transmission equipment, or other**		

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			facilities (or combination thereof) by which a subscriber can originate and terminate a telecommunications service." **On the other hand toll service, at 47 U.S.C. § 153 (48) is defined as follows:** **The term "telephone toll service" means telephone service between stations in different exchange areas for which there is made a separate charge not included in contracts with subscribers for exchange service.** **Under these definitions FX traffic cannot be placed in the jurisdiction of toll service. The Verizon local service subscriber placing a call to a Verizon assigned FX number does not incur a separate charge beyond the charges for the local exchange service. In fact, consistent with the definition of telephone exchange service, the ability to originate calls to FX numbers is included in the local exchange service charge. Verizon appears intent on punishing its own end users for calling a subscriber to a *competitive* FX offering based on its incorrect assertion that this is toll traffic. At page 8 of the testimony Verizon complains that it is "unable to bill these toll charges to the originating customer...." Again, this would not be Verizon's intention if the originating customer were calling a subscriber to Verizon's FX offering. (Grieco/Ball Rebuttal, 8/17, at 26-27).** **Contrary to Verizon's claims, it does not lose toll revenue by not being able to bill its originating customers for calls to FX numbers. The very point of this service is to provide end users a local calling number for a particular business. Verizon**		

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			incorrectly assumes that this same traffic would exist even if it required a toll call. But if the originating caller is looking to call a local number for the service he seeks, it is highly unlikely that he would instead dial a toll number (which would allow Verizon to bill its toll charges). Far more likely, the customer would simply find a vendor with a local number and place that call instead. Verizon is not losing toll revenues. (Grieco/Ball Rebuttal, 8/17, at 31). **Verizon's alleged concern with the use of numbering resources in conjunction with FX service is disingenuous. Verizon, consistent with its desire to eliminate competition with its own FX service, suggests that because CLECs utilize NPA-NXX assignments in the provision of FX service, CLECs should be prohibited from making such a competitive offering available. Verizon ignores that its own use of numbering resources for the provision of FX service raises the same concerns. (Grieco/Ball Rebuttal, 8/17, at 31-32).** **Obviously, numbering resources must be conserved and utilized efficiently. Implementation of conservation measures for numbers and efficient management practices must be adopted by all parties. However, elimination of a competitive offering is an unacceptable and counter productive method of conserving numbers. Taken to its logical conclusion, the best way to conserve numbers would be to prohibit ALL local competition. But the Telecommunications Act of 1996 requires Verizon to make available to competitors the same capabilities that it makes use of itself. (Grieco/Ball Rebuttal, 8/17, at 31-32).** **The Maine PUC order cited by Verizon does not**		

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			provide results that should be copied by this Commission. **The Maine Commission identified a pressing problem with number exhaust in the state of Maine. The decision it reached was driven by that concern, at the expense of the competitive market in Maine. While determining that the FX service being offered by Brooks Fiber was not local, the Commission realized that competition was important to allow customers to reach their Internet Service Providers. Having a statutory obligation to ensure that end users across the state of Maine had affordable access to the Internet, the Maine Commission directed Verizon to create a service offering for ISPs that would replace the service being offered by Brooks.** **As of this date (some two and a half years since the investigation was opened) Brooks, with the authority of the Maine Commission, continues to provide its FX service to its existing customers on a grandfathered basis during the pendency of Verizon's continuing efforts to develop and implement an acceptable substitute service.** **The impact on the competitive market is best expressed by one of the Brooks FX customers in its recent filing with the Maine Commission for an investigation into Verizon's implementation of its substitute service. In its filing, Great Works Internet concludes:** **"GWI is concerned that the cost of this service will be much more costly than promised and that GWI will not be able to maintain its commitment to quality, which it has long enjoyed while using Brooks for its dialup infrastructure. And most troublesome**		

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			of all, is the fact that GWI was forced into a position where it has only one choice for its dialup infrastructure. By action of the MPUC under 98-758, there is no longer any competition for VZ-ME in the ISP service arena. GWI is quite confident that VZ-ME's commitment to quality and customer service will further erode." **The negative impacts on the competitive market associated with Verizon's proposal are accurately portrayed by GWI. The Maine decision, instead of supporting Verizon's position, is illustrative of how a refusal to permit competitive FX services eliminates competition in the local service market. (Grieco/Ball Rebuttal, 8/17, at 32-33).** **In sum, the Commission should adopt WorldCom's language with regard to assigning NXXs within the LATA in a manner that provides for rating points different from routing points and should conclude that the appropriate method for determining the jurisdiction of this traffic is to compare the rate centers associated with the calling and called NXXs. This resolution will permit WorldCom to offer competitive FX service to their customers on non-discriminatory terms.** **Verizon should be required to pay reciprocal compensation to WorldCom for transport and termination of this traffic.** **Verizon's proposed resolution of this matter, on the other hand, would not allow CLECs to assign NXXs in such a manner as to provide local FX service. Verizon refuses to recognize this as local traffic and insists on applying originating access charges as well as refusing to pay reciprocal compensation to WorldCom. Verizon proposes to treat CLECs FX service differently than Verizon treats its own retail**		

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			FX service. The Commission should reject this discrimination. (Grieco/Ball Rebuttal, 8/17, at 37). POSITION: • Verizon proposes that the parties use an infeasible method i.e., a comparison would be made between the originating and terminating "points" of the call, to determine whether a given call exchanged between the parties is local or toll. Cox Petition at 16. • Cox proposes to differentiate between local and toll traffic by comparing the originating and terminating NXX codes. Cox Petition at 16; Collins Direct Testimony at 24. • Cox's approach is the only means currently available for determining the jurisdiction of calls for billing purposes. It accordingly is standard practice throughout the telecommunications industry. Cox Petition at 16; Collins Direct Testimony at 24; Collins Rebuttal Testimony at 34. • Verizon's own billing systems are programmed to compare the originating and terminating NPA-NXXs on a call in order to determine its proper jurisdiction. Cox Petition at 16; Collins Rebuttal Testimony at 32, 33-34. • Cox is unaware of any billing systems in use today that could make Verizon's proposed 'point' comparison. Cox Petition at 16; Collins Direct Testimony at 24. • Verizon's proposal would require parties to make call-by-call determinations of "actual" origination and termination points and there is no current technology		

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			that would permit carriers to do so. Collins Direct Testimony at 24-25. • Verizon's proposal would treat much ISP-bound traffic as toll traffic, contrary to the requirements of the *ISP-Bound Traffic Order*. Collins Direct Testimony at 24. • Verizon offers a variety of services that do not match the geographic location of the called party with the assigned location of the party's NXX code, and wireless service also frequently involves such mismatches. Moreover, nothing prevents Verizon from offering its own "virtual FX" service. Collins Rebuttal Testimony at 32, 34-35. • Verizon's proposal would force carriers and customers to waste resources to comply with a regulatory fiction. Collins Rebuttal Testimony at 35. • Cox's practices flow from its efficient network design. Collins Rebuttal Testimony at 36. • Verizon does not lose any revenue it reasonably could expect to collect as a result of Cox's practices, and it incurs similar costs for FX calls routed on its network without imposing toll charges on the parties making those calls. Collins Rebuttal Testimony at 36-37. • Virginia case law holds that the proper method of determining whether a call is local is by reference to the telephone number. Cox Petition, Exhibit 6 at 10. • Verizon has other remedies available to it under state law if it believes calls are being rated improperly. Collins Direct Testimony at 25; Collins Rebuttal		

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			Testimony at 38. DISPUTED ISSUES OF FACT: All facts asserted in Cox's Petition and in the Direct and Rebuttal Testimony of Cox's witness, Dr. Francis Collins, that are not listed below as admissions are deemed by Cox to be disputed. ADMISSIONS PURSUANT TO ARBITRATION PROCEDURES NOTICE: Pursuant to the *Arbitration Procedures Notice,* Procedures Established for Arbitration of Interconnection Agreements Between Verizon and AT&T, Cox, and WorldCom, *Public Notice*, DA 01-270 (rel. Feb. 1, 2001), the following assertions made in Cox's Petition or in the Direct Testimony of Cox's witness, Dr. Collins, and not specifically denied in Verizon's Answer or in the testimony of Verizon's witnesses are deemed admitted: • There is no method currently available to carriers to determine the actual originating and terminating points of a call. • The software used by both Cox and Verizon uses NXX assignments to rate calls. [Admitted as to Verizon in the direct testimony of Verizon witnesses Pitterle and D'Amico at 8: "Verizon VA's switch relies on the NXX assigned the terminating user to rate calls . . . ."] *Verizon asserts that when a Verizon customer dials a number assigned to an AT&T assigned NPA-NXX in the customer's own legacy Verizon rate center, and AT&T picks up that call in the Verizon rate center and routes*		Verizon has neither stipulated to nor admitted the factual allegations set forth by Cox under the heading "Admissions Pursuant to Arbitration Procedures Notice."

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Issue No.	Statement of Issue	Petitioners' Proposed Contract Language	Petitioners' Rationale	Verizon's Proposed Contract Language	Verizon Rationale
			that call to the AT&T customer who happens to be located in a different legacy Verizon rate center, the call should be treated as a toll call and AT&T should pay Verizon originating access charges. Verizon Direct Intercarrier Compensation Testimony Non-Mediated Issues at 6-7. It is AT&T's position that the jurisdiction of the calls should be determined by the NPA-NXX of the calling and called numbers. Revised Talbott/Schell Direct Testmony Non-Mediated Issues at 88. Therefore, a call to a number in the customer's own legacy rate center, would be a local call for which Verizon would pay AT&T reciprocal compensation. Verizon claims that such calls should be treated as toll calls because under its Tariff such calls would be toll calls, and because, in the absence of AT&T's network, Verizon would collect toll revenues if it handled the call, or originating access charges if another carrier handled the call. Id. *Verizon's position on this issue is inconsistent with the way Verizon treats its calls to its FX customers. Traditional FX service, offered by Verizon, involves the provision of local dial tone to a customer from a remote local switch; that is, a switch other than the switch from which the customer would ordinarily receive local dial tone. Verizon offers FX service as an exchange service in its Local Exchange Service Tariff. In the tariff, Verizon provides the following definition: Foreign Exchange Service is exchange service furnished from one exchange to a location in another exchange by use of Series 2000, type 2006A, Channels. Verizon's Tariff goes on to state: "The long distance and local message charges and the extent of local service applicable, are the same as apply to other Local Exchange Services provided from the same foreign exchange." Id. at 90. Thus, when a Verizon customer dials a number assigned to the customer's own legacy rate center and Verizon*		

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			routes that call to a Verizon [FX] customer who happens to be located in a different legacy Verizon rate center, Verizon treats this call as a local call, not as a toll call and the Verizon end user that originated the call pays Verizon local charges for that call. Therefore, Verizon is rating its FX calls as local or toll based on the customer's selected (foreign) rate center NPA-NXX, not on the physical locations of the customer, the precise rating practice that it claims AT&T should not be allowed to implement. *An FX arrangement allows a customer to be assigned a telephone number and to receive calls as if he or she was located in a given exchange, regardless of the physical location of the customer. In the Verizon network, this is accomplished via the provision of remote dial tone – that is - dial tone from the foreign switch (i.e., in a distant or foreign rate center) connected to the native serving wire center (i.e., in the home rate center) via an interoffice private line facility. The FX customer pays Verizon the cost of that interexchange transport. See Verizon Response at 63.* *Because of the differences in network architecture, it would not make sense for AT&T to provide a remote dial tone service. However, AT&T does offer its customers an FX-like local service that provides its customers with similar benefits. This local exchange service provides AT&T's customers with the ability to be assigned a telephone number in a location that is different from the customer's actual location. The service is not an FX arrangement in the traditional sense because the NPA-NXXs assigned to AT&T are resident in the same AT&T switch (wire center) that serves the customer's actual location.*[1] *Therefore, AT&T does not require private line arrangements such as those used by Verizon to connect its two separate*		

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			wire centers, the one serving the customer and the one serving the NPA-NXX. Revised Talbott/Schell Direct Testimony Non-Mediated Issues at 91-92. AT&T, unlike Verizon, offers this local service option at no additional charge to its end users. This offering is attractive to local telephone customers with a high-inbound traffic requirement that is originated over a broad geographic area. AT&T sees its service offering as a way to differentiate itself from Verizon and to take advantage of the efficiency of its different network architecture. Thus, AT&T is able to offer local telephone customers a service advantage that Verizon has thus far chosen not to match. Id. at 92. All AT&T is proposing with respect to this issue is to follow the practice that Verizon has had in place for many years, that the NPA-NXX of AT&T's FX-like customer, not the physical location of the customer, should be used to determine the rating of AT&T's calls. Id. at 95.[2] *Verizon's position on this issue is also inconsistent with the existing CPNP regime*[3] *in place in Virginia. Specifically, Verizon's position that CLECs should compensate Verizon in the form of access charges for AT&T's FX-like traffic when, in fact, Verizon is collecting the revenue for these calls, turns the current CPNP regime on its head. Id. at 96. There is simply no basis for this Commission to order that AT&T's FX-like Virtual FX traffic should be an exception to the CPNP regime. The Commission should come to the only rational conclusion, that AT&T's FX-like traffic should be compensated in the same manner as all other telecommunications traffic other than exchange access and information access traffic.* *In addition to being contrary to the CPNP regime and inconsistent with the way Verizon treats its own FX calls, Verizon's proposal would also create significant*		

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			technical and billing challenges. In order to implement Verizon's proposal that AT&T's FX-like traffic be treated as toll traffic rather than as local exchange traffic, the Commission would have to order that this traffic be segregated and somehow tracked separately from other telecommunications traffic. This would be an extremely costly endeavor with no public benefit. Id. at 96. Moreover, the industry would have to change the rules on how intercarrier traffic has been rated up to now. The current industry standard method for rating and billing calls between carriers is to measure the distance between the V & H coordinates associated with the NPA-NXX of the originating and terminating end users. This ability is built into all of the carriers' systems and the details are fleshed out in interconnection agreements. Verizon's proposal would change all of this and require carriers to somehow segregate the Virtual FX calls and rate them separately. Id. Such a change would have a major impact on all carriers' call recording and billing systems and would create numerous rating and billing problems. Revised Talbott/SchellRebuttal Testimony Non-Mediated Issues at 96. *It is also important to recognize that AT&T's proposal does not result in Verizon incurring any additional costs. Verizon asserts that if CLECs are allowed to have the jurisdiction of a call determined by the NPA NXX of the calling and called numbers, it will somehow be saddled with "the entire cost of building and operating the FX transport network." Verizon Response at 63. Such a claim is truly puzzling. AT&T is not asking Verizon to build anything to enable AT&T to provide its FX-like service. Moreover, Verizon's costs to deliver a call to AT&T do not vary depending on whether the call is destined to a customer in the calling party's native rate center or a customer in a foreign rate*		

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			center. The cost to Verizon is exactly the same. Revised Talbott/Schell Direct Testimony Non-Mediated Issues at 98. This is true because Verizon delivers all traffic bound to the same AT&T NPA-NXX to the same AT&T point of interconnection ("POI") where traffic is exchanged with Verizon's network. In other words, AT&T specifies a single POI for an NPA-NXX, regardless of the physical location of the AT&T terminating customer. Since the POI to which Verizon delivers traffic is the same, Verizon's network costs to deliver traffic to that POI are necessarily the same. Where there are any additional costs between AT&T's switch and the customer to complete such traffic, such costs are borne by AT&T. Id. Thus, from the standpoint of reciprocal compensation, Verizon should be financially indifferent as to where calls are terminated within the AT&T network, since the physical location of the customer has no effect on the rates Verizon pays for transport and termination of the calls. *However, as Verizon has pointed out in its Testimony, it could be losing toll or access revenues on such calls. Specifically, Verizon stated that in the absence of AT&T's FX-like service, under Verizon's applicable tariffs, if the called party were a Verizon customer in the foreign rate center, Verizon would collect toll charges if it handled the call, and originating access charges if another carrier handled the call. Verizon Direct Intercarrier Compensation Testimony Non-Mediated Issues at 7. Also, if the called party were a Verizon FX customer located in the foreign exchange, as Verizon acknowledged, Verizon could charge the called party the cost of interexchange access. Verizon Response at 62. Thus, we begin to see, via Verizon's own arguments, what this issue is really about. This issue is really about Verizon being made whole for competitive losses it is suffering due to AT&T providing this FX-like*		

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			calling. Verizon is attempting to cut its losses by relying on a regulatory artifice relating to its legacy local calling areas that even Verizon does not abide by when it is to its advantage. That is, when a Verizon customer in a certain rate center calls a Verizon FX number in that same rate center, which is assigned to a customer located in a foreign rate center, the call is rated as local. When an AT&T customer in a certain rate center calls a Verizon FX number in that same rate center, which is assigned to a Verizon customer located in a foreign rate center, the call is also rated as local. However, Verizon alleges that when a Verizon customer in a certain rate center calls an AT&T number in that same rate center that has been assigned to an AT&T customer located in a foreign rate center, the call now magically is rated as toll. Verizon's position is illogical and self-serving and the Commission should reject it. *Finally, Verizon's proposal exerts economic pressure on AT&T to conform to Verizon's local calling area by imposing a financial penalty on AT&T when it offers a service that does not mirror Verizon's legacy local calling areas. Verizon's legacy local calling areas are an artifact of a monopoly era and Verizon's network architecture. Implementing decisions that promote the adoption of legacy local calling areas on emerging competitors limits the flexibility of the CLEC to leverage its efficient network design for the benefit of consumers. Revised Talbott/Schell Direct Testimony Non-Mediated Issues at 90. While Verizon's revenues may well be affected by AT&T's local service offerings, that impact is a result of competition, and Verizon should respond with its own competitive offering, rather than attempting to stifle AT&T's competitive product through the application of unreasonable anticompetitive conditions.* *ENDNOTES*		

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			1/ This distinction is important since the definition of traditional FX service is the provision of dial tone from a foreign switch or exchange. In AT&T's network, dial tone is provided by the customer's native switch, not a foreign switch. Hence, there is no difference in function or cost to terminate a call in one rate center versus another, and thus AT&T can offer this service at no additional charge to the customer as part of its local service offering. This point is significant because the Act defines telephone toll service as follows: The term "telephone toll service" means telephone service between stations in different exchange areas for which there is made a separate charge not included in contracts with subscribers for exchange service . 47 U.S.C. §153(48). Thus, despite Verizon's assertions to the contrary, AT&T's FX-like service is not a toll service as defined by the Act. *2/ Id at 95. Many of the decisions cited by Verizon in support of its position on pages 9-12 of its Direct Testimony were issued prior to the FCC's finding in the ISP Remand Order that ISP traffic is subject to the FCC's jurisdiction. This is significant because a primary focus of many of these decisions was how ISP traffic should be treated for reciprocal compensation purposes. For example, the Maine Commission's orders in the dockets cited by Verizon were issued June 30, 2000, and November 14, 2000. The Connecticut DPU Draft decision in Docket No. 01-01-29 issued on March 19, 2001, was subsequently reissued on March 29, 2001, for procedural reasons and has never been finalized. After the FCC came out with the ISP Remand Order, the Connecticut DPU issued a Notice reopening the evidentiary record in light of the FCC's ISP Remand Order and that proceeding is now underway. Further, the Commission's Order in Texas PUC Docket No. 21982 dated July 13, 2000, that Verizon points to for*		

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			support for its position, is being reexamined by the Texas PUC in Docket No. 24015. Thus, the decisions relied upon by Verizon from state commissions are of limited value. Some state commissions have determined under the FCC's old rules that FX-like traffic should be treated as local traffic and the rationale for those state commission decisions is still applicable today: the rating of a call has historically been based on the NPA-NXX and not the routing of the call, i.e., whether a call in fact crosses exchange boundaries; and there is no cost basis for treating FX-like traffic differently from other traffic. For example, the Michigan Public Service Commission in the past few years has repeatedly found that FX calls should be treated as local for reciprocal compensation purposes. Opinion and Order, In the Matter of the Application of Ameritech Michigan to revise its reciprocal compensation rates and rate structure and to exempt foreign exchange service from payment of reciprocal compensation, Michigan Public Service Commission, Case No. U-12969, at pages 10-11 (January 23, 2001). Also, in the MCImetro Arbitration proceeding, the North Carolina Commission found that calls within a LATA originated by BellSouth customers to MCIm FX customers are to be considered local and, therefore, subject to reciprocal compensation. Recommended Arbitration Order, In the Matter of Petition of MCImetro Access Transmission Services, LLC for Arbitration of Certain Terms and Conditions of Proposed Agreement with BellSouth Telecommunications, Inc. Concerning Interconnection and Resale Under the Telecommunications Act of 1996, North Carolina Utilities Commission, Docket No. P-474 Sub 10, at 66-74 (April 3, 2001). *3/ The fundamental principle of the CPNP regime is that the party collecting the revenue for a call (i.e., the originating party in the case of local exchange service)*		

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			compensates the other party for the use of its network. AT&T is lawfully entitled to recover its costs to terminate local exchange traffic originating on Verizon's network. Revised Talbott/Schell Direct Testimony Non-Mediated Issues at 95.		
III-5	**Should the Interconnection Agreement include terms specifying that rates for transport and termination of Local Traffic must be symmetrical; specifying the transport and termination rates to be applied, including rates for tandem switching, transport to an end office, and end office switching; and specifying that where WorldCom's switch serves a geographic area comparable to the area served by Verizon's tandem switch, WorldCom shall charge for tandem switching?** *Tandem Rate Where the geographic coverage of an AT&T switch is comparable to that of a Verizon tandem, should AT&T and Verizon receive comparable reciprocal compensation for terminating the other parties' traffic?*	**Attachment I, Sections 4.2.1.3-4.2.1.4.2.1:** **4.2.1.3 Rates for transport and termination of Local Traffic must be symmetrical. For the purposes of this Section [4.2], symmetrical means that the rates MCIm charges Verizon for the transport and termination of Local Traffic equals the rates Verizon charges MCIm for the same services.** **4.2.1.4 The Parties shall bill each other the following rates for the transport and termination of Local Traffic.** **4.2.1.4.1 Transport (where used) – compensation for the transmission and any necessary tandem switching of Local Traffic.** **4.2.1.4.1.1 The rate for common transport is set forth in Table 1 of this Attachment I. For the purposes of this Section [4.2], both Parties shall**	**WorldCom has proposed contract terms that accurately reflect the rights and responsibilities of the parties with respect to reciprocal compensation as set forth in the Act and FCC regulations. Rates for reciprocal compensation must be symmetrical. 47 C.F.R. § 51.711(a). Moreover, where the switch of a carrier other than an incumbent LEC serves a geographic area comparable to the area served by the incumbent LEC's tandem switch, the rate to be charged by the CLEC is the incumbent LEC's tandem rate. 47 C.F.R. § 51.711(a)(3).** **Verizon is required to pay reciprocal compensation at the tandem interconnection rate to WorldCom because WorldCom's switches providing service in Virginia serve a geographic area comparable to that served by Verizon tandem switches. (Grieco/Ball Direct, 7/31, at 71).** **Section 251(b)(5) of the Act imposes on each local exchange carrier "[t]he duty to establish reciprocal compensation arrangements for the transport and termination of telecommunications.** **The FCC has addressed the level of compensation to be applied several times. After establishing how reciprocal compensation rates would be determined for ILECs, the FCC turned to the question of what rates should apply to CLECs. The FCC concluded in Paragraph 1085 of the Local Competition Order that the ILECs' reciprocal compensation rates should be**	**WorldCom: See Pricing Schedule** *AT&T: § 5.7* *5.7 Reciprocal Compensation Arrangements ?? Section 251(b)(5)* *5.7.1 Reciprocal Compensation arrangements address the transport and termination of Local Traffic over the terminating carrier's switch in accordance with Section 251 (b)(5) of the Act. Verizon's delivery of Local Traffic to AT&T that originates with a third party carrier is addressed in Section 7.2. Where AT&T delivers any traffic originating with a third party carrier to Verizon, except as may be set forth herein or subsequently agreed to by the Parties, AT&T shall pay Verizon the same amount that such third party carrier would have paid Verizon for termination of that traffic at the location the traffic is delivered to Verizon by AT&T. Compensation for the transport and termination of traffic not*	With respect to each switch for which Petitioners seek tandem rates, Petitioners should bear the burden of proof to demonstrate tandem functionality and actual geographic comparability. Further, in the interest of fairness, Verizon VA proposes that the CLEC charge Verizon VA the average rate charged by Verizon VA to the CLEC for call termination during the previous calendar quarter. For example, if AT&T sends half of its traffic to the Verizon VA tandem and half to Verizon VA end offices, then AT&T would charge Verizon VA at a rate which would equal the sum of 50% of the tandem rate and 50% of the end office rate. This proposal accounts for the differences in Parties' networks and allows both Parties to take advantage of the lower end office rates. See Direct Testimony of Steven J. Pitterle and Pete D'Amico, dated July 31, 2001, at pp. 25-30; and Rebuttal Testimony of Steven J. Pitterle and Pete D'Amico, dated

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