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October 15, 1999

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

In Re: Petition of ICG Telecom Group, Inc. for Arbitration with Bellsouth Telecommunications, Inc. Pursuant to Section 252 of the Telecommunications Act of 1996
Docket No. 99-00377
and
Petition for Arbitration of ITC Delta^com Communications, Inc. with Bellsouth Telecommunications, Inc. Pursuant to the Telecommunications Act of 1996
Docket No. 99-00430

This Docket File Only

One Issue Consolidated for Hearing only

Dear David:

Please find enclosed an original and thirteen copies of the Testimony of Cindy Schonhaut and Michael Starkey on behalf of ICG Telecom in the above captioned proceeding.

Thank you for your assistance in this matter.

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By: _____
Henry Walker, attorney for ICG

HW/nl
cc: Guy Hicks, attorney for BellSouth

FILE

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BEFORE THE TENNESSEE REGULATORY AUTHORITY
Nashville, Tennessee

IN RE: **PETITION OF ICG TELECOM GROUP, INC. FOR ARBITRATION WITH BELLSOUTH TELECOMMUNICATIONS, INC. PURSUANT TO SECTION 252 OF THE TELECOMMUNICATIONS ACT OF 1996**

DOCKET NO. 99-00377

and

IN RE: **PETITION FOR ARBITRATION OF ITC DELTA^COM COMMUNICATIONS, INC. WITH BELLSOUTH TELECOMMUNICATIONS, INC. PURSUANT TO THE TELECOMMUNICATIONS ACT OF 1996**

DOCKET NO. 99-00430

DIRECT TESTIMONY OF CINDY Z. SCHONHAUT
ON BEHALF OF
ICG TELECOM GROUP, INC.

OCTOBER 15, 1999

ICG TELECOM GROUP, INC.

DIRECT TESTIMONY OF CINDY Z. SCHONHAUT

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NOVEMBER 1-3, 1999

Q. PLEASE STATE YOUR NAME, ADDRESS, AND EMPLOYMENT.

A. My name is Cindy Zara Schonhaut. I am Executive Vice President for Government and Corporate Affairs for ICG Communications, Inc., the parent company of ICG Telecom Group, Inc. ("ICG"). My office is at 161 Inverness Drive West, Englewood, Colorado 80112.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received my J.D. from the University of Miami School of Law, where I graduated with honors and was an editor of the Law Review. Previous to that, I received an undergraduate degree in social work from Syracuse University.

I have worked in the telecommunications industry for 19 years, particularly in the area of regulatory and legal affairs. As Executive Vice President, I handle all public policy issues for ICG at the federal, state, and local levels. I am also responsible for ICG's implementation of the Telecommunications Act of 1996 and parallel state laws, and negotiation of ICG's interconnection agreements with the incumbent local exchange carriers ("ILECs"). I joined ICG in February 1996 as a Vice President of the newly created Government Affairs department. I was promoted in December 1996 to Senior Vice President, and was again promoted in November 1998 to my current position.

Previous to my work with ICG, I held positions at MFS Communications Company, Inc.

("MFS") and the Federal Communications Commission ("FCC"). At MFS in Washington, D.C., I served for more than four years as Vice President of Government Affairs. In that role, I represented the company before the U.S. Congress, state legislatures, and regulatory agencies. I often served as an expert witness for MFS in state regulatory proceedings. In particular, I represented MFS before Congress in the period leading up to the passage of the Telecommunications Act of 1996.

Prior to my tenure with MFS, I served for 11 years as an attorney with the FCC. I was Legal Advisor for a commissioner and two Bureaus: the Common Carrier Bureau and the Mass Media Bureau. While at the FCC, I was a member of the task force that implemented the original access charges system and the divestiture of the Bell system. Following that, I was Special Counsel for joint board matters in the Common Carrier Bureau. I also served as a member of the Communications Staff Subcommittee of the National Association of Regulatory Utility Commissioners and acted as the FCC's liaison to all state regulatory agencies.

Currently, I serve as Vice Chair of the Board of Directors of the Competitive Telecommunications Association ("CompTel"), the leading trade association representing competitive telecommunications interests. I also chair CompTel's Regulatory Affairs Committee, a committee designed to provide a forum for competitive local providers. In addition to my work with CompTel, I am a member of the board of directors of the Association for Local Telecommunications Services ("ALTS").

Q. HAVE YOU TESTIFIED BEFORE STATE PUBLIC SERVICE COMMISSIONS IN THE PAST?

A. Yes, at various points in my career I have testified before a number of state commissions including Tennessee, Alabama, Colorado, Florida, Kentucky, North Carolina, Texas, Maryland,

Ohio, California, Colorado, and Missouri.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My purpose in testifying is to address Issue 1 in the ICG arbitration proceeding. That issue is as follows: "For the purpose of this agreement, should dial-up calls to Internet service providers (ISPs) be treated as if they were local calls for purposes of reciprocal compensation?"

I will outline the potential consequences of this issue on the availability of a wide array of telecommunications options for the people and businesses of Tennessee. Ultimately, much of the disagreement of the parties about reciprocal compensation is fundamentally policy-oriented, rather than factual in nature. The resolution of this dispute, however, will have significant public policy implications for the development of local exchange competition throughout Tennessee. In some respects, the outcome of the reciprocal compensation disputes will be a primary factor in determining whether competition in local exchange service moves forward.

My testimony focuses on the compelling public policy justifications for providing reciprocal compensation for calls to ISPs. Another ICG witness, Michael Starkey, discusses the responsibility of the state commissions with regard to providing for reciprocal compensation for ISP bound traffic from an economics and regulatory perspective.

Q. DOES ICG PROVIDE SERVICE TO ISP CUSTOMERS?

A. Yes. ICG serves ISPs in many of the markets in which it currently operates, including Tennessee.

Q. HOW HAS ICG WON ITS ISP CUSTOMERS?

A. ICG has simply stepped in to provide the new and innovative services necessary to serve a market the ILECs were ignoring. Before competitive local exchange carriers ("CLECs") began to

offer local exchange service, ISPs and other end users with specific service needs were dependent exclusively on the ILECs – the monopolist providers of such services. Without competitive pressures, the ILECs offered "one size fits all" service at high rates. Often the "size" offered to ISPs was one that barely fit their operations.

Compared to the ILECs, ICG has frequently been able to offer ISPs service packages that are carefully tailored to the ISPs' operations. For example, ICG has led the way in offering volume and term discounts to ISPs. ICG has gone beyond offering simple delivery to the ISP's demarcation point and has provided turn-key solutions to ISP needs. ISPs have also been attracted by ICG's superior network, which consists entirely of digital switching and fiber optic transport facilities, as opposed to the analog/digital switching and a hybrid of fiber, microwave, and copper network transport facilities offered by the typical incumbent. In addition, ICG offers ISPs the option of collocating ISP equipment alongside ICG equipment in ICG's central office.

Before the advent of local competition, high bandwidth options were expensive and there were few users. Without the arrival of ICG and other CLECs, there is no reason to believe that the ILECs would have been spurred to develop their own new technology and service offerings, such as ISDN lines, digital subscriber lines, and packet-switching capabilities. Today, ICG continues to be at the forefront of serving ISPs as well as other businesses that have specific or advanced telecommunications needs.

Q. HOW WOULD THE LACK OF RECIPROCAL COMPENSATION FOR CALLS TO ISPs HARM ICG?

A. The impact of no reciprocal compensation for a significant amount of BellSouth traffic that ICG delivers to ICG's local customers would be felt across ICG's operations. Without reciprocal

compensation for delivering traffic to ISPs, ICG and other CLECs would be left to raise their rates or absorb their costs – either of which would be destructive to their ability to attract and keep customers. The remaining option would be to decline to provide service to ISPs. All of these possible responses would endanger the competition that is critical to fostering an advanced public switched telephone network and a menu of service offerings that would meet the needs of all end users – whether business end users or individuals.

In addition, with reciprocal compensation for calls to ISPs precluded as a source of revenue, ICG would find it necessary to weigh whether it would be a wise business decision to provide service in Tennessee. Consequently, the improvements in rates and services that would result from CLEC competition for all customers, including other customers ICG (and additional CLECs) might serve.

Precluding reciprocal compensation for calls to ISPs that ICG delivers on behalf of BellSouth would deny ICG payment for the service it provides. ICG would incur a cost for which it would never be compensated, not even when the FCC adopts its rules on compensation for ISP traffic, which will be prospective in application. BellSouth, for its part, would avoid the cost of delivering the call to the ISP and would therefore come out ahead. Without receiving fair compensation for the service it provides its competitors, ICG would be significantly handicapped in the competitive marketplace and would likely reassess its plans for business in this state. In this regard, ICG is not requesting special treatment, but only that it be allowed to recoup its costs incurred on behalf of other carriers, as ICG would for any other local calls ICG terminates.

Q, WHAT ABOUT THE EFFECT ON ISPs?

A. If CLECs are forced to raise their rates to ISPs because the CLECs are not recovering the cost

of delivering the traffic, it could result in increased costs to end users of ISP services. There is no way of knowing how ISPs would handle rate increases, and whether ISP rate increases would artificially suppress demand for services in such a way that the growth of the Internet in this state would not reach the levels it otherwise would have. If, as I have discussed above, CLECs reassessed their willingness to provide service to ISPs, ISPs would be left without any bargaining leverage to negotiate more favorable rates and necessary services, and all ISP customers would suffer as a consequence.

Q. DOES BELLSOUTH HAVE A PARTICULAR INCENTIVE TO RESIST PAYING ICG RECIPROCAL COMPENSATION FOR ISP TRAFFIC?

A. Yes. Another witness, Michael Starkey, discusses BellSouth's incentives at length in his testimony. In brief, BellSouth apparently recognizes that any carrier that can avoid paying compensation to other carriers for the completion of local calls originated by its end user customers will have a competitive advantage. As an established ILEC with a diversified customer base, BellSouth seeks to limit its exposure to reciprocal compensation for local calls delivered to end user ISPs who may be targeted by its competitors. While its incentive may be natural, however, the consequences of the Authority allowing BellSouth to avoid such payments would be competitively disastrous, as I have outlined above with regard to ICG's options if faced with such an outcome.

Q. WHAT IS THE ROLE OF THE AUTHORITY IN RESOLVING THE DISPUTE ABOUT RECIPROCAL COMPENSATION FOR ISPs?

A. The role of the Authority is to make a policy decision that will have a fundamental impact on the development of the Internet in this state. The Authority's decision will help determine whether competitors enter the local market in the first place and, if they choose to do so, whether one

whole category of customers -- Internet service providers and high tech customers who bring the benefits of the information age to end users -- will be without the benefit of competition, thus reducing competition for access to the Internet.

Q. WHAT IS THE ROLE OF THIS COMMISSION WITH REGARD TO RECIPROCAL COMPENSATION FOR ISP-BOUND TRAFFIC IN LIGHT OF THE FCC's RECENT RULING?

A. Although the FCC's Declaratory Ruling and Notice of Proposed Rulemaking in CC Docket 96-98, released on February 26, 1999 ("FCC Ruling"), found that calls to ISPs when exchanged between two carriers within the same local calling area in a state are "jurisdictionally mixed and appear to be largely interstate[,]" the FCC concluded that calls are to be *compensated* in accordance with the actions of the state commission unless and until the FCC adopts a further order governing compensation. Any FCC Order will have prospective application only.

The FCC Ruling makes it abundantly clear that a state commission's ordering of reciprocal compensation in an arbitration proceeding is consistent with federal policy until the FCC adopts a rule. The FCC stated repeatedly in its Ruling that "[c]urrently, the Commission has no rule governing inter-carrier compensation for ISP-bound traffic." Id. at ¶ 22. In addition, the FCC suggested in its Ruling that it was appropriate for a state to provide for reciprocal compensation as long as there continues to be no federal rule. The FCC stated further that:

> In the absence of a federal rule, state commissions that have had to fulfill their statutory obligation under Section 252 to resolve interconnection disputes between incumbent LECs and CLECs have had no choice but to establish an inter-carrier compensation mechanism and to decide whether and under what circumstances to

require payment of reciprocal compensation...

> ...*[N]either the statute nor our rules prohibit a state commission from concluding in an arbitration that reciprocal compensation is appropriate* [for traffic] not addressed by section 251(b)(5), so long as there is no conflict with federal law. *A state commission's decision to impose reciprocal compensation obligations in an arbitration proceeding ... does not conflict with any [FCC] rule regarding ISP-bound traffic.*

FCC Ruling at §26 (emphasis added). Therefore, a determination by this Authority to impose reciprocal compensation pending promulgation of a federal rule at some point in the future not only would "not conflict with any [FCC] rule regarding ISP-bound traffic," it would help to ensure equity until the FCC resolves how CLECs will get paid for calls to ISPs.

Q. WHAT WOULD BE THE CONSEQUENCES OF THIS AUTHORITY CHOOSING TO AWAIT THE COMPLETION OF THE FCC's RULEMAKING PROCEEDING ON COMPENSATION FOR ISP-BOUND TRAFFIC?

A. Without action by this Authority, ICG will not receive any compensation for calls to ISPs; until the time the FCC finally promulgates a rule, ICG will be unable to recover its costs of carrying calls to ISPs on behalf of end users served by BellSouth. The FCC has not indicated its time line for adopting a rule, which could be months or even a year away. This means that ICG would be uncompensated for a significant amount of traffic that it carries every day for the indeterminate future. In addition, because the FCC's rule will be prospective only in application in this state, ICG would *never* receive compensation for delivering calls to ISPs without a ruling by this Authority in ICG's favor. The foreclosure of this source of revenue would threaten ICG's ability both to compete

in Tennessee as well as to provide service to ISPs and their end users. Without compensation for ICG's costs in serving a significant category of its customers, ICG could be forced to re-think its options concerning its operations in this state.

Q. PLEASE SUMMARIZE YOUR TESTIMONY ON THE IMPORTANCE OF THE RELIEF SOUGHT BY ICG.

A. It would be sound public policy to grant the relief sought by ICG. If local competition is to continue to develop and expand, it is necessary to achieve efficient interconnection of competing service providers. As an integral part of this interconnection, service providers will need to terminate traffic on each other's network, making reciprocal compensation critical to recovering the costs associated with terminating a call obtained from another provider. Without action by this Authority, ICG will not receive any compensation for calls to ISPs; until the time the FCC finally promulgates a rule, ICG will be unable to recover its costs of delivering calls to ISP customers on behalf of end users served by BellSouth. The Authority's decision has significant implications for the future of the competitive market for local services and the development of Internet services in this state. Although it is by now an obvious point, it bears repeating that the resolution of this arbitration issue will ultimately have a significant impact on the people and businesses of Tennessee and the range of telecommunications options open to them.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?

A. Yes.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
Nashville, Tennessee

IN RE: **PETITION OF ICG TELECOM GROUP, INC. FOR ARBITRATION WITH BELLSOUTH TELECOMMUNICATIONS, INC. PURSUANT TO SECTION 252 OF THE TELECOMMUNICATIONS ACT OF 1996**

DOCKET NO. 99-00377

and

IN RE: **PETITION FOR ARBITRATION OF ITC DELTA^COM COMMUNICATIONS, INC. WITH BELLSOUTH TELECOMMUNICATIONS, INC. PURSUANT TO THE TELECOMMUNICATIONS ACT OF 1996**

DOCKET NO. 99-00430

DIRECT TESTIMONY OF MICHAEL STARKEY
ON BEHALF OF
ICG TELECOM GROUP, INC.

OCTOBER 15, 1999

ICG TELECOM GROUP, INC.

DIRECT TESTIMONY OF MICHAEL STARKEY

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NOVEMBER 1-3, 1999

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Michael Starkey. My business address is Quantitative Solutions, Inc., 857 N. LaSalle Drive, Suite 3, Chicago, Illinois 60610.

Q. WHAT IS QUANTITATIVE SOLUTIONS, INC. AND WHAT IS YOUR POSITION WITH THE FIRM?

A. Quantitative Solutions, Inc. (QSI) is a consulting firm specializing in the areas of telecommunications policy, econometric analysis and computer aided modeling. I currently serve as the firm's President.

Q. PLEASE DESCRIBE YOUR EXPERIENCE WITH TELECOMMUNICATIONS POLICY ISSUES AND YOUR RELEVANT WORK HISTORY.

A. Prior to founding QSI I was a founding partner and Senior Vice President of Telecommunications Services at Competitive Strategies Group, Ltd. (CSG). Like QSI, CSG is a consulting firm providing consulting services to international telecommunications carriers, consumer advocates and policy makers. During my tenure at CSG I represented a number of clients in regulatory proceedings across the country, including numerous arbitrations held pursuant to Section 252 of the Federal Telecommunications Act of 1996 (TA96).

Prior to joining CSG I was most recently employed by the Maryland Public Service Commission as Director of the Commission's Telecommunications Division. In my role as the

Commission's Telecommunications Director I was responsible for managing the Commission's Telecommunications Staff. My staff and I were responsible for providing the Commission with telecommunications policy, economic, and technical expertise. During my tenure with the Maryland Commission, I managed the Commission's transition to a competitive local telecommunications regulatory framework, headed the Commission's Industry Consortium on Local Number Portability and represented the Commission in an industry effort aimed at replenishing the supply of usable telephone numbers.

Prior to joining the Maryland Commission Staff I was employed by the Illinois Commerce Commission as Senior Telecommunications Policy Analyst within the Commission's Office of Policy and Planning (OPP). As a member of the Commission's OPP Staff I was a primary witness in the Commission's "Customers First" proceedings. In that capacity, I authored revisions to Commission Code Part 790 to incorporate "Line Side Interconnection" allowing, for the first time, interconnection to unbundled network elements. I also represented the Commission Staff at the Ameritech Regional Regulatory Conference (ARRC). I participated with the ARRC staff in preparing a report submitted to the FCC and the U.S. Department of Justice detailing Ameritech's proposal to participate in a trial waiver from the Modified Final Judgement for purposes of offering in-region, inter-LATA services.

Before joining the Illinois Commerce Commission Staff I began my career as an Economist with the Missouri Public Service Commission within the Commission's Utility Operations Division. My responsibilities included recommendations to the Commission with respect to the tariff filings submitted by Missouri's telecommunications companies and numerous other telecommunications issues.

A more complete description of my relevant experience can be found in Exhibit No. 1 (MS-1).

Q. DO YOU HAVE DIRECT EXPERIENCE WITH THE ISSUES IN THIS CASE?

A. Yes, I do. Over the past three years I have participated in a number of proceedings dealing with the proper application of the Federal Communications Commission's (FCC's) local competition rules and the proper implementation of TA96. I have also been active in a number of cases involving the FCC's Total Element Long Run Incremental Cost ("TELRIC") methodology by which prices for unbundled network elements and reciprocal compensation rates must be set. I have participated in arbitrations and other proceedings across the country wherein the interconnection agreements and underlying incremental cost estimates of Ameritech, Bell Atlantic, Southwestern Bell Telephone, Sprint, U.S. West, GTE, NYNEX, Bell South and Cincinnati Bell Telephone have been at issue.

Q. HAVE YOU PROVIDED TESTIMONY BEFORE STATE UTILITY COMMISSIONS IN THE PAST?

A. Yes, I have. I have over the past seven (7) years provided testimony before the FCC and state utility commissions in the following states: Georgia, Alabama, Florida, Michigan, Illinois, Maryland, Wisconsin, Indiana, Ohio, New Jersey, North Carolina, Pennsylvania, Massachusetts, Wyoming, Hawaii, Oklahoma, Kentucky, Mississippi and Missouri.

Q. WHAT ISSUE ARE YOU ADDRESSING IN THIS ARBITRATION PROCEEDING?

A. I am addressing Issue no. 1 in the ICG Telecom, Inc. arbitration proceeding. The ICG issue is as follows:

> For the purposes of this agreement, should dial-up calls to Internet service providers ("ISPs") be treated as if they were local calls for purposes of reciprocal compensation?

Q. PLEASE SUMMARIZE THE CONCLUSIONS OF YOUR TESTIMONY.

A. A multitude of complex legal and technical arguments have been made both in support of, and in opposition to, requiring reciprocal compensation payments for traffic directed to ISPs. Through this testimony, I will demonstrate that it is simply good public policy, as well as economically rational, to require payment for terminating this traffic.

PAYMENTS FOR TERMINATING TRAFFIC TO ISPs

Q. ARE THE PARTIES IN DISAGREEMENT REGARDING SPECIFIC LANGUAGE WITH RESPECT TO PAYMENTS FOR TERMINATING TRAFFIC TO ISPS?

A. Yes, they are. While there are still interconnection agreement drafts circulating among the negotiating teams, it seems clear that BST intends to include the following, or similar, language in any interconnection agreement between the parties:

> **8. Local Interconnection Compensation**
>
> 8.1 The Parties shall provide for the mutual and reciprocal recovery of the costs of transporting and terminating local calls on each other's network.
>
> 8.3 Interconnection with Enhanced Service Providers (ESPS) / Information Service Providers (ISPs). ESP/ISP traffic shall not be included in the local interconnection compensation arrangements of this Agreement. (Excerpts taken from Attachment 3, Page 11 of the 03/15/99 draft of BellSouth's proposed interconnection agreement.)

ICG does not agree that the proposed language included in Section 8.3 above should be included in the parties' interconnection agreement. Neither does it agree that calls terminated to ISP providers should be excluded from reciprocal compensation requirements. Instead, ICG requests that the

Authority approve an interconnection agreement between ICG and BST that excludes the language in 8.3 entirely and includes language that highlights the fact that calls originated on one of the carriers' networks and directed to an ISP on the others' network is subject to payments for reciprocal compensation.

Q. CAN YOU PROVIDE SOME BACKGROUND AS TO WHY THIS ISSUE IS IMPORTANT TO BOTH ICG AND TO BST?

A. This issue is of the utmost importance to ICG because, as I am informed and explain in more detail below, ICG has been notably successful in attracting ISP providers and other customers requiring advanced technological services to its network. BST's attempt to exclude these types of local customers from reciprocal compensation obligations unfairly targets ICG's customer base and threatens to leave ICG in a position of terminating a large number of BST calls without any payment from BST. In essence, ICG is being asked to carry large volumes of BST traffic without an ability to charge BST for its carriage.

While I am not attempting to speak for BST as to why it finds this issue to be of such importance, I think it is safe to say that BST is oftentimes a "net payor" of reciprocal compensation. This is due primarily to the fact that CLECs have been far more successful in attracting ISP providers to their local service offerings than BellSouth has been in retaining them. Consider that although the vast majority of services and prices included in an interconnection agreement between BST and a CLEC govern the rates, terms and conditions by which the CLEC will pay BST for service, this is one area where BST may actually, in some circumstances, be required to pay the CLEC for services the CLEC provides to BST. It is likely for that reason that BST is acutely interested in the rates that will be paid for reciprocal compensation and the terms and conditions

under which they will be assessed.

Q. HOW HAS THE FCC CHARACTERIZED CALLS TO ISPS?

A. On February 26, 1999 the FCC released its *Declaratory Ruling in CC Docket No. 96-98 and Notice of Proposed Rulemaking in CC Docket No. 96-98* (hereafter "ISP Order"). At paragraph 18 of its ISP Order, the FCC states the following:

> After reviewing the record, we conclude that, although some Internet traffic is intrastate, a substantial portion of Internet traffic involves accessing interstate or foreign websites.

Q. DOESN'T THIS FINDING BY THE FCC SUPPORT BST'S PROPOSED LANGUAGE EXCLUDING ISP TRAFFIC FROM RECIPROCAL COMPENSATION?

A. It does not. Included in the same ISP Order, at paragraph 20, the FCC includes the following language:

> Our determination that at least a substantial portion of dial-up ISP-bound traffic is interstate does not, however, alter the current ESP exemption. ESPs, including ISPs, continue to be entitled to purchase their PSTN links through intrastate (local) tariffs rather than through interstate access tariffs. Nor, as we discuss below, is it dispositive of interconnection disputes currently before state commissions. (emphasis added, footnotes removed)

The FCC also includes the following additional language at paragraph 25 meant to ensure that state commission's aren't misled into believing that the FCC has pre-empted their ability to require compensation for ISP traffic within an arbitration proceeding:

> Even where parties to interconnection agreements do not voluntarily agree on an inter-carrier compensation mechanism for ISP-bound traffic, state commissions nonetheless

may determine in their arbitration proceedings at this point that reciprocal compensation should be paid for this traffic. The passage of the 1996 Act raised the novel issue of the applicability of its local competition provisions to the issue of inter-carrier compensation for ISP-bound traffic. Section 252 imposes upon state commissions the statutory duty to approve voluntarily-negotiated interconnection agreements and to arbitrate interconnection disputes. As we observed in the Local Competition Order, state commission authority over interconnection agreements pursuant to section 252 "extends to both interstate and intrastate matters." Thus the mere fact that ISP-bound traffic is largely interstate does not necessarily remove it from the section 251/252 negotiation and arbitration process. However, any such arbitration must be consistent with governing federal law. While to date the Commission has not adopted a specific rule governing the matter, we do note that our policy of treating ISP-bound traffic as local for purposes of interstate access charges would, if applied in the separate context of reciprocal compensation, suggest that such compensation is due for that traffic. (emphasis added, footnotes removed)

Q. IF THE FCC HASN'T DECIDED THE ISSUE OF WHETHER ISP-BOUND TRAFFIC SHOULD BE SUBJECT TO RECIPROCAL COMPENSATION, AND IF IT IS THE TENNESSEE REGULATORY AUTHORITY'S RESPONSIBILITY TO DO SO, UPON WHAT BASIS SHOULD THE AUTHORITY MAKE SUCH A FINDING?

A. First, the Authority should take special note of the following excerpt taken directly from paragraph 25 of the FCC's ISP Order:

> While to date the Commission has not adopted a specific rule governing the matter, we do note that our policy of treating ISP-bound traffic as local for purposes of interstate access

charges would, if applied in the separate context of reciprocal compensation, suggest that such compensation is due for that traffic.

From this excerpt it seems obvious that the FCC is encouraging state commissions to make findings consistent with its policy of treating ISP-bound traffic as local for purposes of applying interstate access charges. That is, the FCC is encouraging state commission's to require reciprocal compensation payments for ISP bound traffic.

Second, the Authority, as always, should rely upon sound public policy and economic reasoning to find that ISP-bound traffic should be subject to reciprocal compensation obligations. The Authority should keep in mind that its decisions in this regard will have substantial impact on the internet marketplace and the investment required to realize the potential of electronic communication and commerce as a whole.

Q. PLEASE EXPLAIN WHY SOUND PUBLIC POLICY AND ECONOMIC REASONING SUPPORT RECIPROCAL COMPENSATION PAYMENTS FOR ISP-BOUND TRAFFIC.

A. The list below provides an overview of the public policy and economic rationale that support requiring payments for ISP bound traffic *via* the application of transport and termination charges (*i.e.* reciprocal compensation):

(a) ISP providers are an important market segment for CLECs and eliminating a CLEC's ability to recover its costs associated with serving them is likely to distort one of the only local exchange market segments that appears to be well on its way toward effective competition. ISPs have been drawn to CLECs like ICG because these CLECs, unlike incumbent carriers (ILECs) such as BST, have been willing to meet their unique service

needs. Allowing ILECs to direct calls to the ISPs by using the CLEC network without compensating them for its use, penalizes the CLEC for attracting customers *via* innovative and customer service focused products.

(b) Despite complex legal arguments and historical definitions, the simple fact remains that calls directed to ISPs are functionally identical to local voice calls for which BST agrees to pay termination charges. Applying different termination rates or, even worse, compensating a carrier for one type of call and not for the other, will generate inaccurate economic signals in the marketplace, the result of which will drive firms away from serving ISPs. This result could have a dire impact on the growing electronic communication and commerce markets.

(c) Requiring carriers to pay reciprocal compensation rates for the termination of ISP bound traffic is economically efficient. Indeed, because termination rates must be based upon their underlying costs, BST should be economically indifferent as to whether it itself incurs the cost to terminate the call on its own network or whether it incurs that cost through a reciprocal compensation rate paid to ICG. The fact that BST is not economically indifferent stems from its incentive to impede ICG's entry into the marketplace instead of an incentive to be as efficient as possible in terminating its traffic.

(d) Because BST is required to pay, as well as receive, symmetrical compensation for local exchange traffic based upon its own reported costs, its payments to other carriers in this regard are an important check on BST's cost studies used to establish rates for the termination of traffic. Unless BST is required to pay the costs that it itself has established *via* its own cost studies, it has every incentive to over-estimate those costs for purposes of

raising barriers to competitive entry. By removing large traffic volume categories such as ISP bound traffic from BST's obligation to pay terminating costs, the Authority would be removing an important disciplining factor associated with ensuring that BST's reported termination costs are reasonable.

Q. PLEASE EXPLAIN IN GREATER DETAIL YOUR CONTENTION THAT BECAUSE ISP PROVIDERS ARE AN IMPORTANT MARKET SEGMENT FOR CLECS, ELIMINATING AN CLEC'S ABILITY TO RECOVER ITS COSTS ASSOCIATED WITH SERVING THEM IS LIKELY TO DISTORT THE MARKET.

A. Transitionally competitive markets like the local exchange market have shown that new entrants are usually most successful in attracting customers that (1) are most disaffected by the services or quality offered by the incumbent, (2) have technological, capacity or other specific requirements that are not easily met by the incumbent's oftentimes inflexible service offerings and/or (3) don't have a long history of taking service from the incumbent. ISP providers fall directly into all three of these categories. Many of them have been unable to reach agreement with incumbent LECs in areas such as pricing for high capacity lines, provisioning intervals, collocation of their equipment in ILEC central offices or even, in some circumstances, the ability to purchase service in sufficient quantity to meet their own end-user customer demands. Likewise, most ISP organizations are fairly new and have begun their enterprise at a time when competitive alternatives for local exchange services are available. Hence, it is reasonable to expect that these types of businesses are less restricted by long term agreements, a long storied business relationship or other circumstances that often breed loyalty to the incumbent. The fact that these customers are far more likely to explore competitive opportunities than more traditional residential and/or business

customers has made them an extremely important customer base for CLECs.

Likewise, CLECs, like ICG, because of their oftentimes unproven track record and non-existent customer base in new markets, have been forced to target customers that require services specifically tailored to their strengths (*i.e.* customer service, new technology deployment and substantial spare capacity). Given these characteristics, ISP providers and CLECs are often times "made for one another." ISP's have flocked to new entrant CLECs in increasing numbers. Likewise, CLECs have worked with ISPs to design new and innovative services and have provided ISPs the capacity they need to meet their customers' increasing demands.

Q. IS THE FACT THAT CLECS SERVE ISPS IN GREATER PROPORTION THAN A MATURE INCUMBENT LIKE BST THE RESULT OF A MARKET FAILURE?

A. Not at all. The relationships between CLECs and ISPs, as described above, are the direct result of how a competitive market is meant to work. Carriers who are unwilling to meet the demands of their customers-as ILECs have shown an unwillingness to work with ISPs-lose those customers to carriers who are more accommodating. Likewise, carriers who provide customer focused services and supply the capacity required to meet their customers' demands are rewarded. The fact that relatively new customers who require specific technological support have embraced new, competitive local carriers is one of the most promising outcomes of the local exchange market's transition to competition. Indeed, ISPs and other technologically reliant customer groups are, in many cases, providing the revenue and growth potential that will fund further CLEC expansion into other more traditional residential and business markets.

Q. IF THE COMPETITIVE MARKETPLACE FOR ISP CUSTOMERS APPEARS TO BE WORKING WELL, WHY IS ICG ASKING THE AUTHORITY FOR ITS ASSISTANCE

IN THIS ARBITRATION?

A. Within the interconnection agreement at issue in this proceeding, BST is refusing to pay for traffic that originates on its network and is directed to a local ISP customer served by ICG. Simply put, BST is asking that ICG avail its facilities for the use of BST's customers without compensation for its efforts. Traffic originated on the BST network and directed to ICG's local ISP customers is no different, either from a technical or cost basis, than other types of traffic for which BST has agreed to provide reciprocal compensation (*e.g.*, calls to ICG local business and residential customers). Given this, and the fact that ICG has agreed to pay BST for traffic originating on the ICG network and directed to a BST local ISP customer, ICG believes that the Authority should require BST to compensate it for such calls.

Q. EARLIER YOU MENTIONED THAT ALLOWING BST TO REMOVE ITS OBLIGATION TO COMPENSATE ICG FOR TRAFFIC DIRECTED TO ITS LOCAL ISP CUSTOMERS WOULD DISTORT ONE OF THE ONLY LOCAL EXCHANGE MARKET SEGMENTS THAT APPEARS TO BE WELL ON ITS WAY TOWARD EFFECTIVE COMPETITION. CAN YOU EXPLAIN THIS CONCEPT IN GREATER DETAIL?

A. As I described above, CLECs have been successful in attracting a number of ISP customers because they have offered those customers innovations and reasonably priced advanced services at a level of customer care that BST was unable or unwilling to provide. As such, BST has lost a number of these customers to ICG and other CLECs resulting in this particular market segment exhibiting some of the most competitive characteristics of any segment in the local market.

It is no coincidence that BST refuses to pay reciprocal compensation for calls directed to this particular customer group. If BST can successfully remove itself from an obligation to compensate

CLECs for calls directed to their ISP customers, BST will have accomplished two goals very dangerous to the competitive marketplace.

First, BST will have been successful in branding ISP customers as "unattractive" customers from a local provider's standpoint because only ISP customers will generate costs for their local service provider without providing the reciprocal compensation revenues required to recover those costs. By branding ISP customers as unattractive customers, BST will have significantly diminished the hard-earned victories made by its competitor CLECs. This result stems from the fact that a disproportionate percentage of BST's competitors' customer base (ISPs) will immediately turn from highly valued customers to customers that are likely to be unprofitable. This will have a significant impact on the viability of many competitive carriers and may, at least in the short term, significantly impact their ability to attract capital and other resources necessary to further penetrate the BST market.

Second, without the reciprocal compensation revenues necessary to recover costs caused by BST's customers directing traffic to the ICG network, ICG and other CLECs will have no choice but to raise rates charged specifically to ISP local customers to recover their costs (*e.g.*, a DS-1 service provided to a business customer could be provided at a lower rate than the same DS-1 provided to an ISP simply because the rate charged to the ISP must recover costs of terminating traffic that originate from the BST network). At a minimum, this will disrupt the ISP marketplace and is likely to send many ISPs back to BST where BST's more mature customer base can be used to offset the costs of terminating the ISPs traffic without raising ISP local rates.

Further, because their local exchange rates are increasing, ISPs who do not return to BST will have little choice but to raise the rates charged to their individual end users. This will in turn make

BellSouth.net, BST's ISP retail service, more attractive to individual end users, further stifling competition. All of these circumstances would disrupt a competitive segment of the local exchange marketplace that seems to be operating more effectively than most other more traditional segments. The fact that each of these disruptions happens to benefit BST should not be lost on the Authority when it considers BST's rationale for refusing to pay reciprocal compensation for ISP bound traffic.

Q. PLEASE EXPLAIN IN GREATER DETAIL YOUR CONTENTION THAT CALLS DIRECTED TO ISPS ARE FUNCTIONALLY IDENTICAL TO LOCAL VOICE CALLS FOR WHICH BST HAS AGREED TO PAY TERMINATION CHARGES.

A. A ten minute call originated on the BST network and directed to the ICG network travels exactly the same path, requires the use of exactly the same facilities and generates exactly the same level of cost regardless of whether that call is dialed to an ICG local residential customer or to an ISP provider. The simplistic diagram, attached as Exhibit No. ___ (MS-2), details one scenario by which such a call might travel.

As you can see from the diagram, regardless of whether the originating customer dials either the ICG residential customer or the ICG ISP customer, the call travels from the originating customer's premises to the BST central office switch, which then routes the call to the BST/ICG interconnection point and ultimately to the ICG switch. From the ICG switch the call is then transported to either the residential customer or the ISP customer depending upon the number dialed by the BST caller. Both calls use the same path and exactly the same equipment to reach their destinations. Most importantly, the costs to terminate the calls made to the residential customer and the ISP customer are identical. As such, the rates associated with recovering those costs should be identical. To single out the ISP call and suggest that $0 compensation should be paid for purposes

of carrying that particular call and some other, non-zero rate should be applied to all other calls ignores the simple economic reality that both calls generate costs that must be recovered by the reciprocal compensation rate paid for their carriage.

Q. WOULD THERE BE NEGATIVE ECONOMIC RESULTS FROM ALLOWING BST TO PAY $0 FOR CALLS DIRECTED TO ISPS WHILE PAYING A NON-ZERO RATE FOR ALL OTHER CALLS?

A. Of course. Given the option of receiving an amount greater than zero for carrying a non-ISP call and $0 for carrying an ISP call, any reasonable carrier would fill its switch with non-ISP calls to the extent possible. Likewise, any carrier that currently served a larger proportion of ISP customers would be a less profitable network than a network that served a smaller proportion of ISP customers. In effect, allowing BST to skirt its obligation to pay for the use of an interconnecting carrier's network for purposes of terminating its local customers' calls to ISP providers will skew the supply substitutability of ISP services versus other local services, thereby making other local exchange services more attractive production alternatives. This will in turn raise ISP prices in relation to other local exchange services thereby impairing an ISP's ability to receive services at rates comparable to other local end users. Not only is this in direct conflict with the FCC's decision to treat ISP traffic as local, so as to place ISPs on a level playing field with other local customers, it also is likely, all else being equal, to suppress ISP communication demand versus other types of non-ISP communication. This price discrimination effect will mean electronic communication and commerce demand will undoubtedly grow at a slower pace than if there were no discrimination. Any difference between the unrestricted growth of electronic communication and the suppressed growth caused by the uneconomic price discrimination described above would result in a net welfare

loss due to the inefficient market consequences of BST's failure to pay reciprocal compensation rates.

Q. PLEASE EXPLAIN IN MORE DETAIL THROUGH EXHIBIT NO. ___ (MS-3) YOUR CONTENTION THAT BECAUSE TERMINATION RATES MUST BE BASED UPON THEIR UNDERLYING COSTS, BST SHOULD BE ECONOMICALLY INDIFFERENT AS TO WHETHER IT ITSELF INCURS THE COST TO TERMINATE THE CALL ON ITS OWN NETWORK OR WHETHER IT INCURS THAT COST THROUGH A RECIPROCAL COMPENSATION RATE PAID TO ICG.

A. Assume that a BST customer calls another BST customer within the same local calling area. The path the call travels will be very similar to the path detailed earlier in Diagram 1, except that both end offices will now be owned by BST as shown in Exhibit MS-3.

In such a circumstance, BST incurs costs associated both with originating the call and terminating the call for which it is paid, by its originating customer, a local usage fee (either a flat fee per month or a per message or per minute charge). When compared to our original diagram, it is easy to see that the only difference between a call made between two BST local customers and the call made from a BST customer to an ICG customer is that ICG's central office serves the terminating switching function that was originally performed by the BST switch. In this way, BST avoids those terminating switching costs and ICG incurs them. Hence, if BST has accurately established its terminating reciprocal compensation rate based upon its own costs of terminating a call, it should be economically indifferent with respect to whether a call both originates or terminates on its own network or whether a call terminates on the ICG network. BST will either incur the terminating cost via its own switch or it will incur that cost via a cost based rate paid to ICG for

performing the termination function. Either way, the extent to which a particular call is directed to a residential or business customer, or an ISP provider is irrelevant to the economics of the call.

Q. WHY IS THIS POINT IMPORTANT TO UNDERSTAND IN TERMS OF THE DISPUTE REGARDING PAYMENT FOR ISP BOUND TRAFFIC AT ISSUE IN THIS PROCEEDING?

A. This point is important for two reasons. First, assume that neither ICG nor any other CLEC existed and that BST provides local services to 100% of the customer base. Assume further that ISP traffic is occurring at today's levels and has experienced significant growth over the past few years with future growth expected to be even greater. In such a circumstance, BST would be responsible not only for originating every call but also for terminating every call, including calls made to ISP providers. BST would undoubtedly need to reinforce its network to accommodate the additional capacity requirements associated with this increase in traffic and would undoubtedly be asking state commissions and the FCC for rate increases intended to recover those additional investment costs. It seems highly unlikely under such a circumstance that BST would be arguing that terminating traffic to an ISP provider should be done for free, indeed, it would be the only carrier to suffer. However, that is exactly what BST is asking this state commission to do in this case. The arbitration issue before the Commission in this case differs from our hypothetical above in that instead of only BST investing in its network to meet the capacity requirements of the traffic volume increases that have occurred over the past few years, new entrants have also invested capital and have deployed their own switching capacity to accommodate this growth. Likewise, as BST would have undoubtedly argued in our hypothetical above that it should be compensated for its additional investment to meet this growth, those carriers should also be compensated for terminating that traffic

such that their investments can be recovered.

The second reason is of paramount importance because it is at the heart of the dispute between the parties in this case. As I have shown above, BST should be indifferent as to whether it terminates the traffic or it avoids the costs of termination and pays someone else, namely a CLEC, to do so. Yet we know that BST is not indifferent because it has refused to agree to such a compensation framework. The question is: Why? The answer lies in one of two reasons. Either (1) BST's rate for call termination is not representative of its actual underlying costs and it realizes that paying an CLEC for terminating traffic actually makes it economically "worse off" than terminating the traffic itself, or (2) it has a competitive interest in not providing a cost recovery mechanism for its competitors regardless of the extent to which it is economically indifferent on any given call.

Q. DO YOU BELIEVE THAT EITHER OF YOUR CONTENTIONS ABOVE IS LIKELY TO BE AT THE ROOT OF BST'S REFUSAL TO PAY COMPENSATION FOR CALLS DIRECTED TO ISP PROVIDERS SERVED BY AN CLEC?

A. Obviously, I can't speak to what motivates BST's position in this respect. However, I can speak to the economic incentives that are at work in the local exchange marketplace and how participants within that marketplace react to them. And, in this case, BST has an incentive (though an incentive steeped in self-interest) to refuse payment for traffic directed to an ISP served by an CLEC for both of the reasons described above.

As I mentioned earlier, with respect to 99% of the services included in the interconnection agreement between BST and ICG, ICG will be required to pay BST for services rendered. Hence, BST has every incentive to overestimate its underlying costs associated with the services it provides to ICG. By doing so, it not only increases its revenues from providing these services, it also raises

the costs of its competitor thereby protecting its retail prices and slowing its competitor's entry into the marketplace. However, in the case of reciprocal compensation, it has come to BST's attention that it has become, in many cases, a net payor of termination charges because CLECs have been successful in attracting ISP providers and other technologically demanding customers. Hence, if indeed its rates for traffic transport and termination are overstated, it becomes the party most likely to be harmed. Given this scenario it has two basic options, either (1) reduce its charges to more appropriately cost based rates, or (2) remove from the equation the reason for its "net payor" status. It is apparent that BST has opted for the second option by refusing to pay reciprocal compensation for calls directed to ISP providers served by its CLEC competitors.

Likewise, even if BST's rates for transport and termination of traffic are in line with its actual costs, and it should be truly economically indifferent with respect to who terminates any given call, it still has an economic incentive to limit the amount of reciprocal compensation it pays to its competitors. By paying reciprocal compensation to its competitor, BST is in effect providing its competitor a revenue stream by which it can recover its investments and ultimately, extend its operation. Obviously, this is not in BST's self interest regardless of the extent to which those competitors reduce its own termination costs. Said another way, given the option of providing services more efficiently and at lower costs in a market full of competitors or providing higher cost services as a monopolist, it is easy to see which option most rational profiteers would chose.

Q. YOU MENTION ABOVE THAT CLECS LIKE ICG HAVE BEEN SUCCESSFUL IN ATTRACTING ISPS AND OTHER TECHNOLOGICALLY DEMANDING CUSTOMERS. WHAT DO YOU MEAN BY "OTHER TECHNOLOGICALLY DEMANDING CUSTOMERS?"

A. The New York Public Service Commission is currently in the midst of a proceeding to address the issue of whether ISP bound traffic should be subject to reciprocal compensation. One of the issues that has surfaced in that proceeding is that CLECs have been successful in attracting not only ISP providers, but more generally, customers that manage large call volumes (both inward and outward) and have unique or advanced technological needs. As I discussed earlier, that isn't surprising given that innovation, technological expertise and advanced service offerings are the strengths of many CLECs -ICG included. The fact that these types of customers have flocked to CLECs is simply the workings of a transitionally competitive marketplace matching supply and demand in the most efficient manner. However, the presence of these other large volume customers highlights the fact that ISPs are not alone in generating larger inbound than outbound traffic. A growing number of mail order companies, customer service centers and local chat lines are also relying upon the CLEC's ability to manage their complex telecommunications needs and provide the capacity they require at reasonable prices. A great number of these organizations also elicit disproportionate inbound calling volumes similar, if not more disproportionate, than ISP providers. Singling ISP providers out and holding that only the calls directed to them should be refused compensation would unfairly distinguish them not only from all other local exchange customers in general, but also from other local customers that have exactly the same calling characteristics. If we follow BST's logic is this regard far enough, we must eventually find payments for reciprocal compensation are available only for customers that have calling patterns wherein they receive no greater number of calls than they originate. This is obviously absurd.

Q. IF IT ISN'T FEASIBLE, OR ECONOMICALLY RATIONAL, TO ALLOW CARRIERS TO REFUSE PAYMENT FOR LOCAL CUSTOMERS THAT GENERATE

LARGER INBOUND CALLING VOLUMES THAN OUTBOUND CALLING VOLUMES, HOW CAN A CARRIER ENSURE THAT IT IS NOT A NET PAYOR OF RECIPROCAL COMPENSATION PAYMENTS?

A. I've described above, except for competitive concerns regarding the provision of funds to a competitor for recovery of its costs, a carrier should be economically indifferent with respect to whether it terminates a call or another carrier terminates the call on its behalf. However, even if this were not true, every carrier has the opportunity to compete for the business of customers that generate more inbound than outbound calling. Hence, any carrier can actively target ISPs, mail order companies, customer care centers or even pizza delivery stores that generate significant inbound calling. This is no different than the long distance marketplace where charges are generally assessed on outbound calls. Long distance companies for years have targeted large outbound calling users such as research firms, direct marketers and large businesses. The appropriate way for BST to mitigate its "net payor" status for reciprocal compensation is not to simply refuse to pay for its customers' use of the ICG network, but instead to follow the demands of the competitive marketplace just as ICG and the long distance companies have (*i.e.*, to actively compete for customers that use its own network and require other carriers to use it as well).

Q. IN COMMENTS TO THE FCC, AND A NUMBER OF OTHER DOCUMENTS, ILECS HAVE ARGUED THAT IT IS UNFAIR TO FORCE THEM TO PAY CLECS FOR TERMINATING TRAFFIC TO ISPS WHEN THEY ARE UNABLE TO RECOVER THOSE RECIPROCAL COMPENSATION PAYMENTS EITHER THROUGH ACCESS CHARGES ASSESSED ON THE ISP OR FOR USAGE CHARGES ASSESSED TO THEIR OWN LOCAL CUSTOMERS. DO YOU HAVE ANY COMMENTS REGARDING THIS ISSUE?

A. Yes, I do. First, I've already discussed the fact that calls to ISPs are really indistinguishable from calls to any other local customer. Hence, the fact that a call is directed to an ISP or to a local residential customer is really irrelevant to this argument. This argument does not support BST's position that it will pay termination charges for calls made to residential and business customers yet not for calls directed to an ISP provider.

Second, however, there seems to be some indication in this argument that CLECs are to blame for the increased costs the ILECs contend they are facing in meeting calling volume requirements associated with electronic communication and commerce. This simply isn't accurate. It is the public's seemingly unquenchable thirst for the internet and other electronic communications mediums that have caused the increased calling volumes which generate costs associated with carrying local traffic to the internet. And, it is important to note that companies like BST are on the front lines marketing these services to feed the public's demand. For example, BST aggressively markets its own internet product *BellSouth.net* by offering customers reduced rates when they purchase the company's internet services in combination with its local access line and vertical feature packages. Indeed, BellSouth.net provides an "unlimited usage" package to its customers at prices ($12.95 per month) far below its most notable competitor America Online (approximately $20.95).

To suggest that BST has no method by which to recover costs associated with increased internet traffic is also somewhat disingenuous. BST, more than any other ILEC in the nation, has been advantaged by the electronic communications revolution as it has significantly increased the demand for second access lines ordered and used by its local customers. According to a BST news release:

Second lines increased 21 percent, and accounted for nearly half of all new residential hook-ups in 1995. With 1.3 million second lines, BellSouth has the most of any telephone company in the U.S. BellSouth markets additional lines to satisfy the growing customer demand for access to the internet, telecommuting and home offices, in-home fax machines, and children's phones. (*BellSouth Reports Record Quarter, Year*, taken from http://www.bellsouthcorp.com/proactive/documents/render/10191.html)

Likewise, it appears that since 1995, second access line growth has increased at an ever more impressive pace according to BST's 1998 10K Report to the Securities and Exchange Commission:

Switched residence lines increased by 3.9% in the period ended December 31, 1998, compared to a growth rate of 4.6% in 1997. In addition to continued economic growth in the region, the growth rate reflects demand for additional lines related to home office purposes, access to on-line computer services and children's phones. The number of such additional lines increased by 375,000 (19.9%) to 2,259,000 and accounted for approximately 61% of the overall increase in switched residence lines since December 31, 1997. (Taken from page 27 of the electronic version of BellSouth Corporation's 10K Report filed with the Securities and Exchange Commission for operations in 1998.)

The suggestion that BST should be allowed to reap large windfalls for second lines and enjoy profitability from its own retail internet service offering while at the same time refusing to pay for the use of ICG's network for carrying traffic originating by its growing customer base to ICG's ISP providers is without merit and should be rejected by the Authority.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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Current Position

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Professional Experience

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Maryland Public Service Commission
Telecommunications Division
Director

Illinois Commerce Commission
Office of Policy and Planning
Senior Telecommunications Policy Analyst

Missouri Public Service Commission
Utility Operations Division
Telecommunications Department
Economist

Education

B.S. Economics / International Marketing
- Southwest Missouri State University, Springfield, Missouri
- *Cum Laude* Honor Graduate

Graduate Coursework, Finance
- Southwest Missouri State University, Springfield, Missouri
- Lincoln University, Jefferson City, Missouri

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Professional Activities

- Former member of the Missouri Public Service Commission's Task Force on FCC Docket Nos. 91-141 and 91-213 regarding expanded interconnection, collocation, and access transport restructure
- Former member of the AT&T / Missouri Commission Staff, *Total Quality Management Forum* responsible for improving and streamlining the regulatory process for competitive carriers
- Former member of the Missouri, Oklahoma, Kansas, Texas, and Arkansas five state Southwestern Bell Open Network Architecture (ONA) Oversight Conference
- Former delegate to the Illinois, Michigan, Indiana, Ohio, and Wisconsin Ameritech Regional Regulatory Conference (ARRC) charged with the responsibility of analyzing Ameritech's "Customers First" local exchange competitive framework for formulation of recommendations to the FCC and the U.S. Department of Justice
- Former member of both the Illinois and Maryland Local Number Portability Industry Consortiums responsible for developing and implementing a permanent data-base number portability solution

Testimony Profile and Experience

Before the Missouri Public Service Commission
Case No. TO-99-370
Petition of BroadSpan Communications, Inc. for Arbitration of Unresolved Interconnection Issues Regarding ADSL with Southwestern Bell Telephone Company
On behalf of BroadSpan Communications, Inc.

Before the Michigan Public Service Commission
Case No. U-11831
In the Matter of the Commission's own motion, to consider the total service long run incremental costs for all access, toll, and local exchange services provided by Ameritech Michigan.
On behalf of MCIWorldCom, Inc.

Before the Illinois Commerce Commission
Docket Nos. 98-0770, 98-0771 *cons.*
Proposed Modifications to Terms and Conditions Governing the Provision of Special Construction Arrangements and, *Investigation into Tariff Governing the Provision of Special Constructions Arrangements*
On behalf of AT&T Communications of Illinois, Inc.

Before the Michigan Public Service Commission
Case No. U-11735
In the matter of the complaint of BRE Communications, L.L.C., d/b/a PHONE MICHIGAN, against Michigan Bell Telephone Company, d/b/a AMERITECH MICHIGAN, for violations of the Michigan Telecommunications Act

Michael Starkey ***Quantitative Solutions, Inc.***

On behalf of BRE Communications, L.L.C.

Before the Indiana Utility Regulatory Commission
Cause No. 40830
In the Matter of the request of the Indiana Payphone Association for the Commission to Conduct an Investigation of Local Exchange Company Pay Telephone tariffs for Compliance with Federal Regulations, and to Hold Such Tariffs in Abeyance Pending Completion of Such Proceeding
On behalf of the Indiana Payphone Association

Before the Michigan Public Service Commission
Complaint Pursuant to Sections 203 and 318 of the Michigan Telecommunications Act to Compel Respondents to Comply with Section 276 of the Federal Telecommunications Act
On behalf of the Michigan Pay Telephone Association

Before the Missouri Public Service Commission
Case No. TO-98-278
In the Matter of the Petition of Birch Telecom of Missouri, Inc., for Arbitration of the Rates, Terms, Conditions, and Related Arrangements for Interconnection with Southwestern Bell Telephone Company
On behalf of Birch Telecom of Missouri, Inc.

Before the Public Service Commission of the Commonwealth of Kentucky
Administrative Case No. 361
Deregulation of Local Exchange Companies' Payphone Services
On behalf of the Kentucky Payphone Association

Before the Public Utilities Commission of Ohio
Case No. 96-899-TP-ALT
The Application of Cincinnati Bell Telephone Company for Approval of a Retail Pricing Plan Which May Result in Future Rate Increases
On behalf of the MCI Telecommunications Corporation

Before the Public Utilities Commission of the State of Hawaii
Docket No. 7702
Instituting a Proceeding on Communications, Including an Investigation of the Communications Infrastructure of the State of Hawaii
On behalf of GST Telecom Hawaii, Inc.

Before the Michigan Public Service Commission
Case No. U-11410
In the Matter of the Petition of the Michigan Pay Telephone Association to initiate an investigation to determine whether Michigan Bell Telephone Company d/b/a Ameritech Michigan and GTE North Incorporated are in compliance with the Michigan Telecommunications Act and Section 276 of The Communications Act of 1934, as amended
On behalf of the Michigan Pay Telephone Association

Before the Indiana Utility Regulatory Commission
Cause No. 40849

Michael Starkey ***Quantitative Solutions, Inc.***

In the matter of Petition of Indiana Bell Telephone Company, Incorporated d/b/a Ameritech Indiana for the Commission to Decline to Exercise in Whole or in Part its Jurisdiction Over, and to Utilize Alternative Regulatory Procedures For, Ameritech Indiana's Provision of Retail and Carrier Access Services Pursuant to I.C. 8-1-2.6 Et Seq.
On behalf of AT&T Communications of Indiana, Inc.

Before the Federal Communication Commission
C.C. Docket No. 97-137
In the Matter of Application by Ameritech Michigan for Authorization under Section 271 of the Communications Act to Provide In-Region, InterLATA Service in the State of Michigan.
On behalf of the AT&T Corporation

Before the Indiana Utility Regulatory Commission
Cause No. 40611
In the Matter of the Commission Investigation and Generic Proceeding on Ameritech Indiana's Rates for Interconnection, Service, Unbundled Elements and Transport and Termination under the Telecommunications Act of 1996 and Related Indiana Statutes
On behalf of the MCI Telecommunications Corporation

Before the Public Utility Commission of Ohio
Case No. 97-152-TP-ARB
In the matter of the petition of MCI Telecommunications Corporation for arbitration pursuant to section 252(b) of the Telecommunications Act of 1996 to establish an interconnection agreement with Cincinnati Bell Telephone Company
On behalf of the MCI Telecommunications Corporation

Before the Michigan Public Service Commission
Case No. U-11280
In the matter, on the Commission's own motion to consider the total service long run incremental costs and to determine the prices of unbundled network elements, interconnection services, and basic local exchange services for AMERITECH MICHIGAN
On behalf of the MCI Telecommunications Corporation

Before the Illinois Commerce Commission
Docket No. 96-0486
Investigation into forward looking cost studies and rates of Ameritech Illinois for interconnection, network elements, transport and termination of traffic
On behalf of the MCI Telecommunications Corporation

Before the Public Utility Commission of Ohio
Case No. 96-922-TP-UNC
In the Matter of the Review of Ameritech Ohio's Economic Costs for Interconnection, Unbundled Network Elements, and Reciprocal Compensation for Transport and Termination of Local Telecommunications Traffic
On behalf of the MCI Telecommunications Corporation

Before the New Jersey Board of Public Utilities

Michael Starkey ***Quantitative Solutions, Inc.***

Docket No. TX95120631
In the Matter of the Investigation Regarding Local Exchange Competition for Telecommunications Services
On behalf of the MCI Telecommunications Corporation

Before the Michigan Public Service Commission
Case No. U-11104
In the matter, on the Commission's Own Motion, to Consider Ameritech Michigan's Compliance With the Competitive Checklist in Section 271 of the Telecommunications Act of 1996
On behalf of AT&T Communications of Indiana, Inc.

Before the Public Utility Commission of Ohio
Case Nos. 96-702-TP-COI, 96-922-TP-UNC, 96-973-TP-ATA, 96-974-TP-ATA, Case No. 96-1057-TP-UNC
In the Matter of the Investigation Into Ameritech Ohio's Entry Into In-Region InterLATA Services Under Section 271 of the Telecommunications Act of 1996.
On behalf of AT&T Communications of Ohio, Inc.

Before the Illinois Commerce Commission
Docket No. 96-0404
Investigation Concerning Illinois Bell Telephone Company's Compliance With Section 271(c) of the Telecommunications Act of 1996
On behalf of AT&T Communications of Illinois, Inc.

Before the Commonwealth of Massachusetts Department of Public Utilities
In the Matter of: D.P.U. 96-73/74, D.P.U. 96-75, D.P.U. 96-80/81, D.P.U. 96-83, D.P.U. 96-94, NYNEX - Arbitrations
On behalf of the MCI Telecommunications Corporation

Before the Pennsylvania Public Utility Commission
Docket No. A-31023670002
In the Matter of the Application of MCI Metro Access Transmission Services, Inc. For a Certificate of Public Convenience and Necessity to Provide and Resell Local Exchange Telecommunications Services in Pennsylvania
On behalf of MCImetro Access and Transmission Services, Inc.

Before the New Jersey Board of Public Utilities
Docket No. TO96080621
In the Matter of MCI Telecommunications Corporation for Arbitration with Bell Atlantic-New Jersey, Inc. Pursuant to Section 252 of the Telecommunications Act of 1996
On behalf of the MCI Telecommunications Corporation

Before the Wisconsin Utility Regulatory Commission
Cause No. 40571-INT-01
Petition for Arbitration of Interconnection Rates, Terms and Conditions, and Related Arrangements with Wisconsin Bell Telephone Company d/b/a Ameritech Wisconsin

Michael Starkey ***Quantitative Solutions, Inc.***

On behalf of AT&T Communications of Wisconsin, Inc.

Before the Public Utility Commission of Ohio
Case No. 96-752-TP-ARB
Petition for Arbitration of Interconnection Rates, Terms and Conditions, and Related Arrangements with Ohio Bell Telephone Company d/b/a Ameritech Ohio
On behalf of AT&T Communications of Ohio, Inc.

Before the Illinois Commerce Commission
Docket No. 96-AB-003
Docket No. 96-AB-004 *Consol.*
Petition for Arbitration of Interconnection Rates, Terms and Conditions, and Related Arrangements with Illinois Bell Telephone Company d/b/a Ameritech Illinois
On behalf of AT&T Communications of Illinois, Inc.

Before the Michigan Public Service Commission
Case No. U-11151
Petition for Arbitration of Interconnection Rates, Terms and Conditions, and Related Arrangements with Michigan Bell Telephone Company d/b/a Ameritech Michigan
On behalf of AT&T Communications of Michigan, Inc.

Before the Indiana Utility Regulatory Commission
Cause No. 40571-INT-01
In the Matter of the Petition of AT&T Communications of Indiana, Inc. Requesting Arbitration of Certain Terms and Conditions and Prices for Interconnection and Related Arrangements from Indiana Bell Telephone Company, Incorporated d/b/a Ameritech Indiana Pursuant to Section 252 (b) of the Communications Act of 1934, as Amended by the Telecommunications Act of 1996.
On behalf of AT&T Communications of Indiana, Inc.

Before the Missouri Public Service Commission
Case No. TT-96-268
Application of Southwestern Bell Telephone Company, Inc. to Revise P.S.C. Mo.-No. 26, Long Distance Message Telecommunications Service Tariff to Introduce the Designated Number Optional Calling Plan
On behalf of the MCI Telecommunications Corporation

Before the Corporation Commission of the State of Oklahoma
Cause No. PUD 950000411
Application of Southwestern Bell Telephone Company for an Order Approving Proposed Revisions in Applicant's Long Distance Message Telecommunications Service Tariff
Southwestern Bell Telephone Company's Introduction of 1+ Saver Direct^{sm}
On behalf of the MCI Telecommunications Corporation

Before the Georgia Public Service Commission
Docket No. 6415-U and 6537-U *cons.*
Petition of MCImetro to Establish Nondiscriminatory Rates, Terms and Conditions for the Unbundling and Resale of Local Loops
On behalf of MCImetro Access Transmission Services

Michael Starkey ***Quantitative Solutions, Inc.***

Before the Public Service Commission of the State of Mississippi
Docket No. 95-UA-358
Regarding a Docket to Consider Competition in the Provision of Local Telephone Service
On behalf of the Mississippi Cable Television Association

Before the Maryland Public Service Commission
Docket No. 8705
In the Matter of the Inquiry Into the Merits of Alternative Plans for New Telephone Area Codes in Maryland
On behalf of the Staff of the Maryland Public Service Commission

Before the Maryland Public Service Commission
Docket No. 8584, Phase II
In the Matter of the Application of MFS Intelenet of Maryland, Inc. for Authority to Provide and Resell Local Exchange and Inter-Exchange Telephone Service; and Requesting the Establishment of Policies and Requirements for the Interconnection of Competing Local Exchange Networks

In the Matter of the Investigation of the Commission on its Own Motion Into Policies Regarding Competitive Local Exchange Telephone Service
On behalf of the Staff of the Maryland Public Service Commission

Before the Illinois Commerce Commission
Docket No. 94-0400
Application of MCImetro Access and Transmission Services, Inc. For a Certificate of Exchange Service Authority Allowing it to Provide Facilities-Based Local Service in the Chicago LATA
On behalf of the Office of Policy and Planning, Illinois Commerce Commission

Before the Illinois Commerce Commission
Docket No. 94-0315
Petition of Ameritech-Illinois for 708 NPA Relief by Establishing 630 Area Code
On behalf of the Office of Policy and Planning, Illinois Commerce Commission

Before the Illinois Commerce Commission
Docket No. 94-0422
Complaints of MFS, TC Systems, and MCI against Ameritech-Illinois Regarding Failure to Interconnect
On behalf of the Office of Policy and Planning, Illinois Commerce Commission

Before the Illinois Commerce Commission
Docket Nos. 94-0096, 94-0117, and 94-301
Proposed Introduction of a Trial of Ameritech's Customers First Plan in Illinois, et al.
On behalf of the Office of Policy and Planning, Illinois Commerce Commission

Before the Illinois Commerce Commission
Docket No. 94-0049
Rulemaking on Line-Side and Reciprocal Interconnection
On behalf of the Office of Policy and Planning, Illinois Commerce Commission

Before the Illinois Commerce Commission

Michael Starkey ***Quantitative Solutions, Inc.***

Docket No. 93-0409
MFS-Intelenet of Illinois, Inc. Application for an Amendment to its Certificate of Service Authority to Permit it to Operate as a Competitive Local Exchange Carrier of Business Services in Those Portions of MSA-1 Served by Illinois Bell Telephone and Central Telephone Company of Illinois
On behalf of the Office of Policy and Planning, Illinois Commerce Commission

Before the Illinois Commerce Commission
Docket No. 94-0042, 94-0043, 94-0045, and 94-0046
Illinois Commerce Commission on its own motion. Investigation Regarding the Access Transport Rate Elements for Illinois Consolidated Telephone Company (ICTC), Ameritech-Illinois, GTE North, GTE South, and Central Telephone Company (Centel)
On behalf of the Office of Policy and Planning, Illinois Commerce Commission

Before the Illinois Commerce Commission
Docket No. 93-0301 and 94-0041
GTE North Incorporated. Proposed Filing to Restructure and Consolidate the Local Exchange, Toll, and Access Tariffs with the Former Contel of Illinois, Inc.
On behalf of the Office of Policy and Planning, Illinois Commerce Commission

Before the Public Service Commission of the State of Missouri
Case No. TC-93-224 and TO-93-192
In the Matter of Proposals to Establish an Alternate Regulation Plan for Southwestern Bell Telephone Company
On behalf of the Telecommunications Department, Missouri Public Service Commission

Before the Public Service Commission of the State of Missouri
Case No. TO-93-116
In the Matter of Southwestern Bell Telephone Company's Application for Classification of Certain Services as Transitionally Competitive
On behalf of the Telecommunications Department, Missouri Public Service Commission

Selected Reports, Publications and Presentations

Telecommunications Pricing in Tomorrow's Competitive Local Market
Professional Pricing Societies 9th Annual Fall Conference
Pricing From A to Z
Chicago, Illinois, October 30, 1998

Recombining Unbundled Network Elements: An Alternative to Resale
ICM Conferences' Strategic Pricing Forum
January 27, 1998, New Orleans, Louisiana

MERGERS – Implications of Telecommunications Mergers for Local Subscribers
National Association of State Utility Consumer Advocates Mid-Year Meeting,
Chicago, Illinois, June 24 1996

Michael Starkey ***Quantitative Solutions, Inc.***

Unbundling, Costing and Pricing Network Elements in a Co-Carrier World
Telecommunications Reports' Rethinking Access Charges & Intercarrier Compensation
Washington, D.C., April 17, 1996

Key Local Competition Issues Part I (novice)
Key Local Competition Issues Part II (advanced)
with Mark Long
National Cable Television Associations' 1995 State Telecommunications Conference
Washington, D.C., November 2, 1995

Competition in the Local Loop
New York State Telephone Association and Telephone Association of New England Issues Forum
Springfield, Massachusetts, October 18, 1995

Compensation in a Competitive Local Exchange
National Association of Regulatory Utility Commissioner Subcommittee on Communications' Summer Meetings
San Francisco, California, July 21, 1995

Fundamentals of Local Competition and Potential Dangers for Interexchange Carriers
COMPTEL 1995 Summer Business Conference
Seattle, Washington, June 12, 1995

Diagram 1

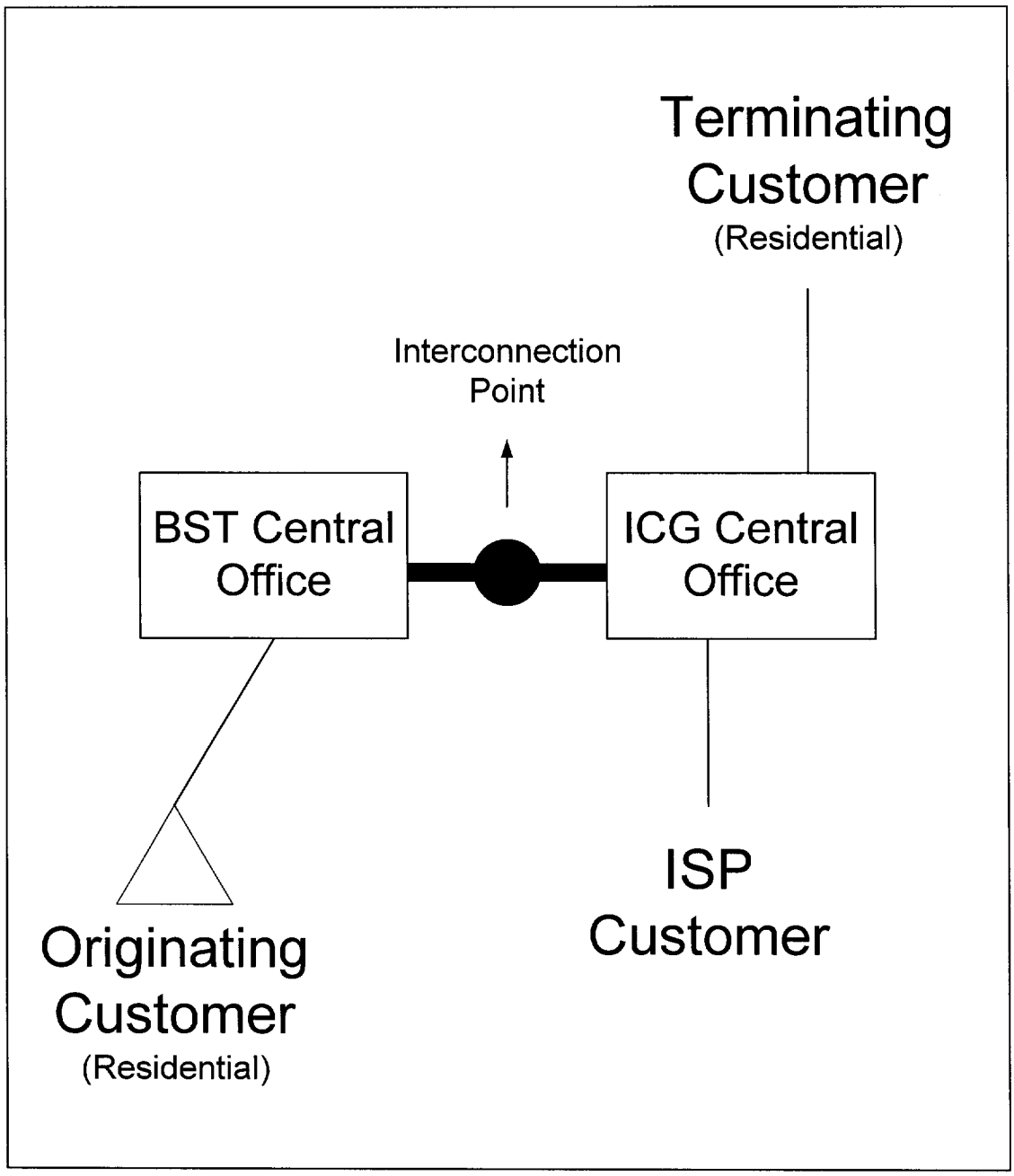
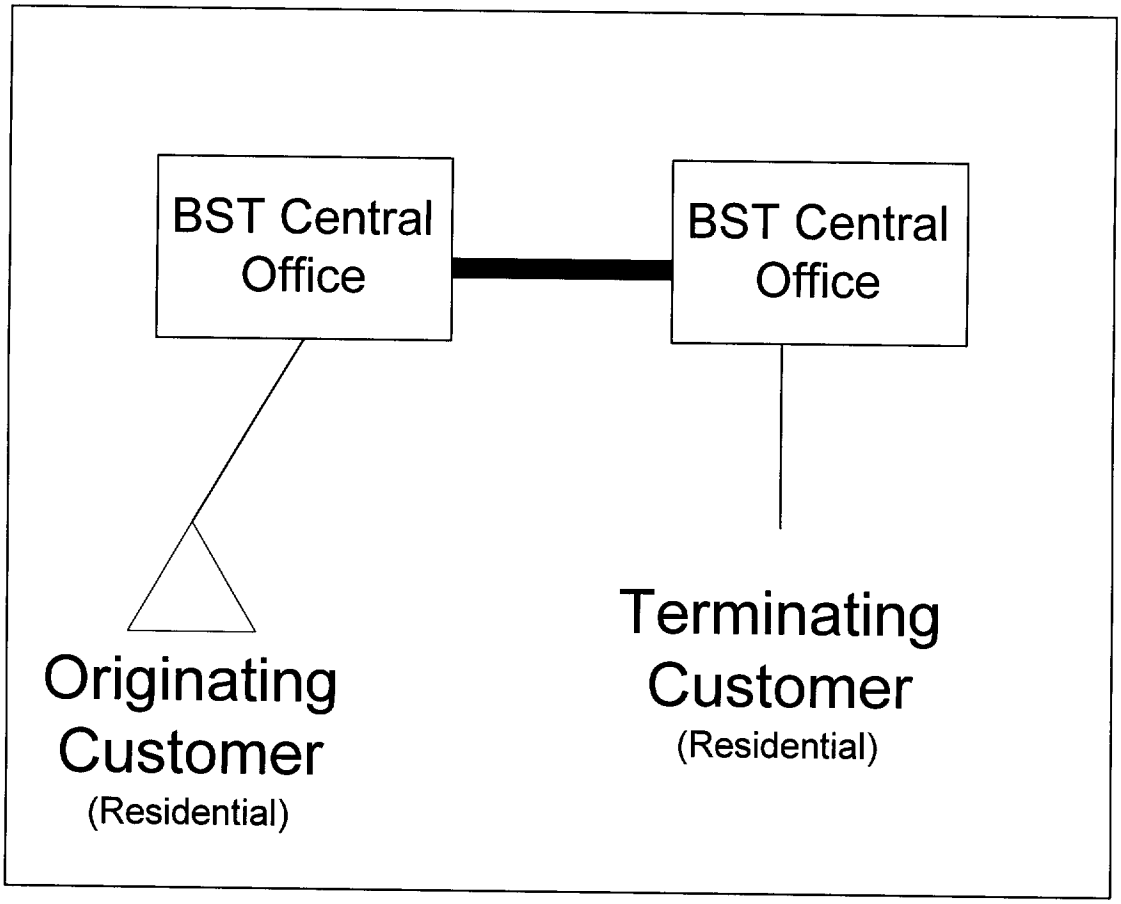

Terminating
Customer
(Residential)
Interconnection
Point
BST Central
Office
ICG Central
Office
ISP
Customer
Originating
Customer
(Residential)

Diagram 2


BST Central Office
BST Central Office
Originating Customer
(Residential)
Terminating Customer
(Residential)